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Preface and Acknowledgments

The theme of the 2008 AMA Winter Educators’ Conference is “Marketing the Organization and Its Products and Services.” There has been an explosion of research activity in marketing and other disciplines related to what individuals know about organizations and how they respond to this information. By studying topics such as corporate branding, consumer boycotting, consumer–company identification, corporate communication, cause-related marketing, corporate social responsibility, corporate brand personality, reputation/image, and corporate associations, researchers have brought more of the focus of scholarly attention in marketing to the organization or corporation in addition to the traditional focus on product- or service-level marketing. Many of the conference sessions reflect the state-of-the-art thinking on these topics.

Many people have been involved in the development and implementation of the conference. Most important, we appreciate the efforts of the fine scholars who have contributed the fruits of their intellectual curiosity and passion. There would be no conference without their stimulating input, whether in the form of papers, presentations, panel discussions, or other contributions.

The track chairs really made things happen. We challenged them to substantially increase participation in special sessions – and they exceeded our expectations, delivering well-rounded sets of special sessions and competitive paper sessions. The track chairs included are as follows:

Consumer Psychology and Behavior
Sankar Sen, Baruch College, CUNY
Thomas Kramer, Baruch College, CUNY

Branding and Marketing Communications
Tom Brown, Oklahoma State University
Guido Berens, Erasmus University Rotterdam
Cees van Riel, Erasmus University Rotterdam

Sales and Relationship Marketing
Jagdip Singh, Case Western Reserve University
Ravi Sohi, University of Nebraska – Lincoln

Global Marketing
Ahmet Kirca, Michigan State University
Aysegul Ozsomer, Koç University

Services Marketing and Management
Vikas Mittal, Rice University
Michael Walsh, West Virginia University

Marketing Research, Technology, and Innovation
Rajesh Chandy, University of Minnesota
Jaideep Prabhu, Imperial College London

Marketing Management, Strategy, and Channels
Aric Rindfleisch, University of Wisconsin – Madison
Kersi Antia, University of Wisconsin – Madison

Marketing and Society
Josh Wiener, Oklahoma State University
Debra Scammon, University of Utah
Deirdre Guion, Saint Joseph’s University

Special Interest Groups
Michael Kamins, Stony Brook University, SUNY

Reviewers also gave of their time and effort to evaluate the hundreds of papers and sessions submitted to the conference. Thanks to all who were willing and able to help (listed on page xv). We also thank the members of our “Blue Ribbon” Award Selection Committee who had the unenviable task of selecting a single paper to receive the “best of conference” award.

Because we were new to running a conference using an online conference management system, Rick Peacor with AllAcademic.com had to display extreme patience as he guided us through the process. We appreciate his efforts.

Finally, we thank the American Marketing Association staff and volunteers who have gone above and beyond to help us throughout this endeavor. Lynn Brown (program director), Daphanee Campbell, Francesca Cooley, Cher Doherty, and Pat Goodrich all did a terrific job keeping us pointed in the right direction. As usual, the SIG members and leaders came through with a great set of SIG special sessions. We also thank the members of the AMA Academic Council who offered this opportunity and helped in a variety of ways. Pam Ellen (Georgia State University), the current president of Academic Council, was always quick with the right answer when we needed it, which was often. Thanks, Pam.

Tom Brown
Oklahoma State University

Zeynep Gurhan-Canli
Koç University
Best Paper Awards

Best of Conference Award
“Change Strategies and Ambiguous Roles: Managing Frontline Performance and Psychological Well-Being in Fast Moving Service Organizations”

Jun Ye, University of Oregon
Detelina Marinova, University of Missouri – Columbia
Jagdip Singh, Case Western Reserve University

Marketing Management, Strategy, and Channels
“The Role of Strategic Flexibility on Knowledge Exploitation and Exploration”

Kevin Zhou, University of Hong Kong
Fang Wu, University of Texas at Dallas

Marketing and Society
“The Potential Effects of Corrective Advertising on Consumer Beliefs Mandated by U.S. vs. Philip Morris”

Andrea Heintz Tangari, University of Arkansas
Brooke Plack Adams, University of Arkansas
Scot Burton, University of Arkansas
J. Craig Andrews, Marquette University

Best Paper Awards by Track

Global Marketing
“Sources of Global E-Tail Advantage: Relationships Among Firm Orientations, Resources, and Performance”

Deborah Colton, Rochester Institute of Technology
Martin Roth, University of South Carolina
William Bearden, University of South Carolina

Consumer Psychology and Behavior
“Flow Experience: New Approaches for Conceptualization and Modeling of a Multifaceted Construct”

Jan Drengner, University of Technology
Pia Furchheim, University of Technology
Manuela Sachse, University of Technology

Services Marketing and Management
“Change Strategies and Ambiguous Roles: Managing Frontline Performance and Psychological Well-Being in Fast Moving Service Organizations”

Jun Ye, University of Oregon
Detelina Marinova, University of Missouri – Columbia
Jagdip Singh, Case Western Reserve University

Branding and Marketing Communication
“Mission Fulfillment and the Internal Audience: Psychological Job Outcomes”

Taewon Suh, Texas State University – San Marcos
Mark B. Houston, Texas Christian University
Stephen M. Barney, SSM Health Care
Ik-Whan G. Kwon, Saint Louis University

Marketing Research, Technology, and Innovation
“The Vital Few and the Useful Many: Using Support Vector Machines to Identify Future Best Customers”

Markus Wuebben, Technical University Munich
Florian Wangenheim, Technische Universitaet Muenchen

Sales and Relationship Marketing
“What Role Does Customer Relationship Management Play in Marketing Strategy?”

Martin Reimann, Stanford University
Oliver Schilke, Stanford University
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THE USE OF VISUAL METAPHORS IN ADS: INCONGRUITY, THE AHA EFFECT AND AFFECT

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ABSTRACT

Visual metaphors, used extensively in ads, make an analogical comparison between two terms. The homospatial existence of two distinct terms makes the visual metaphor incongruous. The incongruity in visual metaphors renders the advertisement incomprehensible at first glance. This provokes the viewer to resolve the conflict via metaphorical comprehension. The initial incomprehension followed by comprehension of the ad is called the “aha experience” that yields positive affect. Our study attempts to throw light on (a) the nature of relationship between incongruity of visual metaphors and affect (b) the mechanism by which incongruity in visual metaphors leads to positive affect.

INTRODUCTION

A recent ad for Microsoft Office shows a female standing in an office setting with the head of a dinosaur. The ad copy reads as “Microsoft Office has evolved have you?” This is an example of a visual metaphor, a type of rhetorical figure that is used extensively in advertising and communication (Phillips 2003). Visual metaphors present two ideas or terms in relationship to one another such that one (i.e., the source term, the dinosaur in the Microsoft Office ad) is used to organize or conceptualize the other (i.e., the target term, the female in the Microsoft Office ad) (Kittay 1987; Lakoff and Johnson 1980). A visual metaphor makes an analogical comparison between two terms, by stating that one term (e.g., the female) is figuratively like the other term (e.g., the dinosaur), even though the two are literally different (Stern 1990). The visual of a dinosaur’s head on a female’s body is incongruous, it does not make sense at a literal level. This incongruity in the visual makes the ad stimulating (McQuarrie and Mick 1996; McQuarrie and Mick 1999; Peracchio and Meyers-Levy 1994), elicits some level of exploratory behavior (Berlyne 1960) and subsequent resolution of incongruity with meaningful perceived comprehension of an initially incomprehensible text.

The phenomenon of incongruity-driven-pleasure or positive affect experienced by the audience (McQuarrie and Mick 2003; Peracchio and Meyers-Levy 1994) is a potent one both for the advertiser and the academic. Research suggests that pleasure experienced from the ad leads to positive attitude-toward-the-ad (McQuarrie and Mick 1999; Mick 1992) that in turn gets transferred as positive attitude-toward-the-brand (MacKenzie and Lutz 1989; MacKenzie et al. 1986). Also, cognitive effort to reconcile the incongruity and the generation of positive affect due to successful comprehension of the visual metaphor is an intriguing interplay of cognitions and emotions that should pique the interest of a theoretician. We embark on a journey to address two unanswered questions in advertising and marketing literature (i) What is the nature of relationship between incongruity in visual metaphors and affect? (ii) What is the mechanism by which incongruity in visual metaphors leads to positive affect?

What is apparent from prior studies is that incongruity plays an important role in “pleasure of the text” or positive affect. But there are boundary conditions for incongruity or deviation in visual metaphor to yield a quantum of pleasure. If deviation falls below a threshold level or is above an upper limit, pleasure may not be experienced. Therefore, if incongruity is too low then the visual metaphor becomes a degenerate literal statement and is too dull for attention (Tversky 1977). On the other hand, if the incongruity is too high, the metaphor becomes obscure and uninterpretable thus thwarting ad evaluations (Tourangeau and Sternberg 1981). Further, there is a mediatory phenomenon of incomprehension at initial perusal of the metaphor followed by subsequent comprehension, an “arousal – release” sequence (McQuarrie and Mick 2003) that seems to play a role in pleasure of the text. But there is lack of empirical validations of these theoretical propositions.

First, the relationship of incongruity in visual metaphors and positive affect has not been examined empirically in the marketing literature. Research has shown that rhetorical figures versus literal expressions have a significant positive effect on attitude-toward-the-ad. McQuarrie and Mick (1999) and Mothersbaugh et al. (2002) found the “figures effect”; rhetorical figures were perceived to be more artful/ clever or incongruous than literal expres-
In marketing academia, the seminal work by Scott (1994a, 1994b) exhorting a need for theory in visual rhetoric propelled some research on visual metaphors, but the phenomenon of visual metaphors still eludes us. In our study we make an effort to add to the body of research on advertising and communication by empirically studying the phenomenon of incongruity in visual metaphors and affect. Here I am presenting the conceptual part of our paper. In this conceptual paper, first I deliberate on the concept of incongruity in visual metaphors, after which I expand on a process model for the effect of incongruity in visual metaphors on affect and “pleasure of the text” and finish with the future research and conclusion section.

INCONGRUITY IN VISUAL METAPHORS

Extant research suggests that rhetorical figures can vary on the degree of deviation from expectation or incongruity. Metaphors belong to a class of rhetorical figures called tropes that are purported to be the most deviant of figures (McQuarrie and Mick 1996; Mothersbaugh et al. 2002). Tropes are deviations from ordinary semantic expectations because they are created by substituting or transferring one meaning with another. They also subsume deficiency of regularity and meaning uncertainty. That is tropes do not explicitly communicate the entire meaning and have to be resolved in order to fathom their meaning.

With an objective to acquire a thorough understanding of incongruity in visual metaphors we studied two theoretical paradigms. One is the schema incongruity theory (Mandler 1982) other is the theorizing by Berlyn (1971, 1960) on collative variables.

Schema theory and its extension as schema incongruity theory is very popular and “overly applied” in context of incongruity (Fiske and Taylor 1991; Mandler 1982; Meyers-Levy and Tybout 1989). In social cognition paradigm, schema is a cognitive structure that represents the knowledge and associations about a concept or idea (Fiske and Taylor 1991). It is a framework we use to understand, organize, and evaluate the incessant stream of stimuli. Schemas are therefore representations of experience that guide action, perception, and thought (Mandler 1982, p. 3). Schema incongruity occurs when a stimuli or event does not correspond to or match with the schematic representation occasioned by the stimuli or event at that point. The extent of correspondence between the actual stimuli that is experienced versus the expected or instantiated schematic representation is the basis of the degree of schematic incongruity.

Berlyn’s perspective of incongruity on the other hand is couched in the cognitive psychology paradigm. Incongruity belongs to the group of collative properties such as novelty, surprisingness, complexity, etc. (Berlyne 1971; Berlyne 1960). Collative properties in a stimulus engender some level of conflict among incompatible response tendencies of one kind or another. According to Berlyne (1960), incongruity exists when a stimulus induces an expectation which is disappointed by accompanying stimulus. It means that while some elements in a stimuli occasion certain responses and expectations, some other accompanying elements may induce responses that conflict with or contradict the expectation set by the previous set. Incongruity is caused by cohabitation of elements, certain elements that cause certain expectation and certain other elements that counter these. For example, in a visual metaphor of a female’s body with the head of a dinosaur, the female’s body generates an expectation of a female’s head, while the dinosaur’s head evokes the expectation of a dinosaur’s body. Both these conflicting reactions cause a perception of incongruity.

INCONGRUITY IN A VISUAL METAPHOR

We define, incongruity in a visual metaphor as the degree to which there is the lack of structural and semantic correspondence between the source and target elements in the visual metaphor in the presented context and the pre-existing knowledge structures associated with source and target elements in the given context. This definition of the incongruity is informed by both Berlyn’s conceptualization of incongruity (Berlyne 1971; Berlyne 1960) and the
schema incongruity theory (Fiske and Taylor 1991; Mandler 1982). Therefore, the incongruity in visual metaphors entails the interplay of the source and target elements ensconced in an individual’s existing structural and semantic schemas.

One of the explanations for incongruity in visual metaphors is that the source and target terms are from different domains and therefore when one tries to map the properties of the source onto the target it causes the problem of domain incongruence (Ortony 1979). The features and attributes that belong to the source domain are semantically and structurally remote from the target domain. Therefore, agility and speed of a Puma (animal) (the source term) is not identical to the agility and speed of a shoe (Puma brand) (the target term). Hence, the features or attributes of the source cannot be directly compared or transferred to the target because the attributes are associated with different domains. One can bring about a comparison only by metaphorically altering the attributes of the source to be meaningfully compatible with the source.

Carroll (1994, p. 198) posits that the consequence of two phenomenon simultaneously occupying the same space or homospatiality, is incongruity. Further, the two phenomena are incomposable. He is of the opinion that it is the combination of homospatiality and incomposibility that gives rise to the “apparent falsity” in metaphors. In context of metaphors, Burke (1954, p. 90) mentions the “perspective by incongruity,” a perspective that is gained by constant juxtaposition of incongruous terms that reveals “unsuspected connectives” and appeals to the audience by exemplifying relationship that conventional forms of communication had ignored. Koestler (1964, p. 35) speaks about metaphors as a part of a creative process of perceiving a situation or idea in two self-consistent but habitually incompatible frames of reference.

A PROCESS MODEL FOR AFFECT AND PLEASURE OF THE TEXT

Incongruity in a visual metaphor renders the ad, incomprehensible at first glance. This causes arousal and stimulates the audience, who makes an attempt to reconcile the uncertainty. Reconciliation of incongruity-induced-uncertainty is via metaphoric comprehension. The initial state of incomprehension followed by the subsequent comprehension of the visual metaphor is called the “aha experience.” The “aha experience” leads to “pleasure of the text” or positive affect. But comprehension of visual metaphor is not a given. Research suggests that comprehension of visual metaphor is a complex cognitive process brought about by cross-domain mapping. As incongruity increases beyond a level, it becomes difficult to apply cross-domain mapping and comprehension fails.

In such a scenario, incongruity in visual metaphor can lead to negative affect.

A PROCESS MODEL: EFFECT OF INCONGRUITY IN VISUAL METAPHORS ON AFFECT

There has been considerable theorizing on “collative motivation” or motivation dependent on collative properties such as novelty, surprisingness, complexity, and incongruity. The basic assumption here is that collative properties effect arousal or drive irrespective of context. This arousal would vary depending on the frequency of exposure and different levels of the collative property. Incongruity, which is a collative property, would cause an arousal that stems from the conflict and uncertainty evoked by visual stimulus.

Incongruity is a property of metaphors and there is theorizing to suggest metaphors elicit tension. Nilsen (1986) proposed that metaphorical process elicits linguistic, pragmatic or hermeneutic tension. In context of visual metaphors, linguistic tension is an outcome of relation to graphic conventions. Pragmatic tension is caused when the depiction of objects violates their usual form in reality. And hermeneutic tension is evoked when the ad’s depiction of the abstract qualities of the product poses a certain level of challenge one’s belief system (Kaplan 1992). The tension or arousal should increase as incongruity in a visual metaphor increases.

There are two routes that account for the effect of incongruity of visual metaphors on affective evaluations (Figure 1). One is the perceptual route and other is the comprehension route. The perceptual route can be understood in terms of arousal boost concept and comprehension route can be understood in terms of arousal lag concept introduced by Berlyn (1971, 1960) in context of collative variables. Berlyn (1960) purported that both arousal-increasing and arousal-mitigation systems can lead to positive hedonic value. If one is exposed to a visual metaphor for a very brief period so that semantic level processing is inhibited, the incongruity experienced would be at a perceptual level. If one could increase incongruity from low to high, beyond a threshold level, the hedonic value will increase and reach a peak when the arousal potential is at a moderate level. After which there is a decline in hedonic value and at high level of arousal potential, the hedonic value may become negative. Therefore, arousal-increasing system or arousal boost has a non-monotonic relationship with hedonic value.

Conflict and uncertainty are aversive states and an organism tries to reduce or alleviate an aversive state and get back to a more comfortable state. States of high
uncertainty and conflict are states of disequilibrium and are unstable. In fact there is research to suggest that incongruity evokes exploratory behavior so as to make up for the lack of information and reduce uncertainty. Subjects spend longer time perusing a stimulus high on incongruity versus low on incongruity (Berlyne 1963). The reduction of response uncertainty to below a threshold value is termed as conflict resolution. The removal or attenuation of the source of discomfort is supposed to be rewarding. This is the arousal jag or arousal-mitigating phase that also contributes to the positive hedonic value generated from a stimulus. In context of visual metaphor, the conflict resolution is brought about by the process of comprehension. Comprehension quenches the stimulation evoked by the incongruity in the visual metaphor.

The two routes can be reconciled to understand the overall effect of incongruity in an ad on advertising evaluations. As is evident from Table 1, low incongruity evokes mild stimulation. Because incongruity is low, comprehension of the visual metaphor will require little effort and hence the affect experienced post comprehension will also be mildly positive. Moderate level of incongruity in visual metaphors will elicit most pleasant level of arousal or stimulation. One would expect that in case of moderate level of incongruity, comprehension can be achieved with some effort. In effect conflict resolution in case of moderately incongruous visual metaphors post comprehension will lead to moderate positive affect. In case of high incongruity, the hedonic value due to arousal will be negative. The comprehension route can lead to two possible outcomes: one in which perceived comprehension takes place and other in which perceived comprehension does not take place. If the metaphor cannot be comprehended, it will lead to moderate to high negative affect due to frustration and disappointment. What one needs to appreciate in case of a highly incongruous metaphor, in which the terms of the metaphor cannot be

![FIGURE 1](image.png)

**TABLE 1**

<table>
<thead>
<tr>
<th>Relationship of Incongruity in a Visual Metaphor and Affect</th>
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</thead>
<tbody>
<tr>
<td><strong>Perceptual Route</strong></td>
</tr>
<tr>
<td>Low Incongruity</td>
</tr>
<tr>
<td>Moderate Incongruity</td>
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<tr>
<td>High Incongruity</td>
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</tbody>
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easily reconciled, is that even if comprehension takes place, an individual will be uncertain about the level of comprehension and hence the positive affect experienced will be compromised. Hence high incongruity in visual metaphors may lead to only mild to moderate positive affect. Overall, by reconciling the effect of the two routes, one can deduce that moderate level of incongruity should lead to more favorable evaluations than either high or low levels of incongruity.

**H1:** Incongruity in visual metaphors will have a non-linear relationship with affect. Moderate level of incongruity versus low or high level of incongruity in a visual metaphor will lead to higher positive affect.

### The Aha Experience and Pleasure of the Text

“Aha experience” is a transition from a state of incomprehension to that of comprehension of the stimulus. “Aha experience” represents the change from a state of incomprehension to a state of comprehension. Rhetorical figures are indirect form of communication. Hence the comprehension of rhetorical figures unlike literal comprehension is not clear at a glance. Metaphors, a type of trope are supposed to be the most deviant of rhetorical figures. Metaphors are undercoded and lack information and hence the reader gets motivated toward elaboration of the text so as to achieve closure. The cohabitation of two terms in a visual metaphor that are incompossible and inconsistent, renders the message incomprehensible to the audience at first instance. Hence the reader has to make an effort toward understanding the visual metaphor. The subsequent resolution of meaning of the metaphor elicits “pleasure of the text.”

The “aha experience” is marked by a pre-experience characterized by some factors connected with threat, discomfort, uncertainty, or arousal and a post-experience characterized by some factors that signify safety, readjustment, clarification, or release. In physiological sense a rewarding event such as comprehension after some effort, should produce a change in arousal level. Because an organism is active and disturbed before it receives the reward. The onset of a reward produces a change to quiescence and tranquility (Berlyne 1960). Therefore, “aha experience” would be the point at which there is a change in hedonic value. It can be understood as a point of inflection on a curve.

Because “aha experience” takes place only when the initial incomprehension is resolved, hence comprehension should occur for “aha experience” to take place (please refer to Figure 2). “Aha experience” can be thought of as the “click” of comprehension. So “aha experience” would depend on both the initial degree of incomprehension and the subsequent degree of comprehension of the visual metaphor. As incongruity increases from low to high, the initial perceived incomprehension should increase. Simultaneously as the incongruity increases, the likelihood for perceived comprehension to occur after some effort-after-comprehension should decrease. Moderate level of incongruity will yield the most favorable level of “aha experience.” Therefore, when incongruity is low, the incomprehension would be mild and comprehension should not be challenging and hence “aha experience” should be of low intensity. Moderate incongruity will lead to higher level of perceived incomprehension on first exposure to the visual metaphor. Comprehension should be possible after some effort and hence a reader should experience higher level of “aha experience.” But when the metaphor is highly incongruous, it becomes very difficult to accomplish cross-domain mapping and reconcile the meaning of the metaphor. In case of highly incongruous visual metaphors, even if one were able to accommodate or assimilate the visual metaphor, one may not be certain of one’s comprehension. Hence, “aha experience” should reduce in case of high or extreme incongruity in visual metaphors.

**H2:** Incongruity in a visual metaphor will have a non-linear relationship with the “aha experience”

The “aha experience” is one explanation for the “pleasure of the text.” *Pleasure of the text* is the positive affect that a reader experiences due to the reader’s perceived successful comprehension of an initially incomprehensible text. Metaphors and other rhetorical figures are deviations from expectation. The initial incongruity
FIGURE 3
Visual Metaphors Manipulated to Different Levels of Incongruity
leads to incomprehension, which is unsettling and ensuing comprehension and resolution of incongruity is rewarding. The “aha experience” contributes to the “pleasure of text.” Greater is the intensity of “aha experience” or click of comprehension, the greater should be the “pleasure of text” experienced. Pleasure relates to “safety, readjustment, clarification, or release” (Berlyne 1960, p. 258). It is the reward from getting over an aversive situation. It is the thrill one gets from solving a puzzle (Peracchio and Meyers-Levy 1994).

H3: The “aha experience” will mediate the relationship between incongruity of visual metaphor and pleasure experienced from a visual metaphor.

H4: The “aha experience” will have a linear relationship with pleasure experienced from a visual metaphor.

**FUTURE RESEARCH AND CONCLUSION**

To empirically study our research questions first, two sets of ads using visual metaphors were created with the help of a professional ad executive. In the choice of the products for the ads, two points were borne in mind. One, the products should be ones that most subjects should be familiar with, so that knowledge factors do not confound the study variables. Two, the products should be such that we can come up with different source terms that can be used to transfer a particular attribute to the product. After much cogitation, we converged on the idea of a plus-size line of shirts called Big John shirts and an energy drink called Z energy drink. For Big John shirts (please refer to Figure 3 on the previous page), the desired attribute to be mapped onto the shirt was “bigness.” We used “a giant,” “a whale,” “an elephant,” “a bus,” and “a mountain” as source terms for the target “Big John shirts.” In the Z energy drink ads, the desired attribute was “electrifying energy.” To transfer the association of electrifying energy, we used “a lightening,” “a plug point,” “electrons in an atomic model,” and “an electricity danger sign” as source terms for the target, i.e., Z energy drink. Therefore, we created five ads for Big John shirts and four ads for Z energy drinks.

A pre-test was conducted with the objective to calibrate the ad stimuli as low, moderate, and high incongruity visual metaphors. Due to constraints on availability of subjects, we used a within-subjects experimental design. Incongruity is reflected in perceived deviation from expectation and hence a within-subjects design could pose the problem of carry-over effects. Hence, we used a Latin-square design so that carry over effect of sequence of the ad exposure could be factored out. Subjects were randomly assigned to a within-subjects 4X4 Latin-square design, in case of Z energy drink and a within-subjects 5X5 Latin-square design, in case of Big John shirts.

Incongruity was measured by the “Very unexpected – Very expected” and “Very irrelevant – Very relevant” (Heckler and Childers 1992), 11-point semantic differential scales. Also we had items such as “Very similar to other ads in this product category – Very different from other ads in this product category,” “very novel – not at all novel,” “simple – complex”; all rated on 11-point semantic scales for manipulation check. Further, we measured the extent to which the visual aroused uncertainty and conflict (Berlyne 1960). The pretest showed significant mean differences on incongruity and comprehension measures between the desired pairs of stimuli.

After the pre-test, we have collected the data for the first study and analyses are currently underway. The study objective is to test the effects of low, moderate, and high levels of incongruity on ad evaluations. The key dependent variables are the “pleasure-arousal” scale by Mehrabian and Russell (1974); pleasantness scale (Berlyne 1963); attitude-toward-the-ad; attitude-toward-the-brand and an ad hoc measure for pleasure of the text. We measured the “pleasure of the text” with an 11-point Likert scale anchored with “strongly agree – strongly disagree.” The items in the scale are “I liked the process of going through the ad. The process of going through the ad gave me a pleasant feeling / I enjoyed the process of going through the ad.” After the main study, we propose to conduct a computer-based study, with a new set of ads to investigate the “aha experience.”

Visual metaphors are an extensively used phenomenon in advertising and brand communication (Phillips 2003). They are especially useful in transferring abstract properties to a brand. This paper proposes to make a few theoretical and practitioner related contributions in the area of advertising. First, we are making an attempt to empirically examine the relationship of incongruity in visual metaphors and affect. Second, we would like to fathom the process by which incongruity in visual metaphors leads to affect. Of particular interest to us is the mechanism that leads to positive affect and therefore positive attitude-toward-an-ad and brand. Our research underscores the role of comprehension as a mediating mechanism to positive ad evaluations. These are questions and issues that are still unanswered in the current marketing literature.

Notably, though the study focuses on visual metaphors, the findings from this study can be applied to visual rhetorics. Incongruity is a characteristic of rhetorical figures in general. Rhetorical figures are called artful deviations (Corbett and Connors 1999; McQuarrie and Mick 1996). Hence, the understanding drawn from the phenomenon of incongruity in visual metaphors and affect can be applied to other rhetorical figures. McQuarrie and Mick (1996) placed the various rhetorical figures...
along a gradient of incongruity and complexity. According to their framework, metaphors are most deviant of figures. Hence, one must bear their framework in mind, when applying the results of our study to other rhetorical figures. One must do so metaphorically!

ENDNOTES

1 Etymology of “rhetoric” is “words” or “speech.” A rhetorical figure also called figures of speech is a generic term for an artful deviation from ordinary mode of speaking or writing.

2 Text is a term derived from Semiotics that refers to a message or assemblage of signs that is physically independent of the sender or the receiver. It follows conventions associated with the genre and is relayed in a particular medium of communication.

3 Figures of speech or rhetorical figures can be divided into two broad classes called tropes and schemes. A trope such as metaphor, irony, etc. is a deviation related to semantics or meaning. Tropes manifest in some sort of irregularity that leads to undercoding.

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MEASURES OF EMOTIONAL RESPONSE TO TELEVISION ADVERTISING

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SUMMARY

Emotions, Feelings, and Advertising Research Measures

According to the dictionary definition, emotion is a mental state that arises spontaneously rather than through conscious effort and is often accompanied by physiological changes, while a feeling is an affective state of consciousness resulting from emotions. Taking a closer look at the consumer’s mind, neuroscientists and psychologists label that first emotional reaction as either “mental models” (Johnson-Laird 1981; LeDoux 1996) or “situation models” (Zwaan and Radvansky 1998; Zwaan 1999), terms used to describe the structures of meanings that exist within our brains. According to Wyer and Radvansky’s (1999) theory of social comprehension, people spontaneously construct a mental simulation in order to comprehend an event that involved a particular individual at a particular time and space. Such mental simulations are called event models and they impact affect (i.e., feelings) and cognition as well as judgments and decision making. Mental models in our brains are constantly updated with information we either learn or make up. We revisit existing meanings within our brains whenever certain triggers are present and there is no established general pattern for this constant maintenance of our knowledge structures (Zaltman 2003). Therefore, people do not react to the environment in a linear fashion (e.g., attention-interest-desire-action, think-feel-do). Each of our actions may be determined by a different set or pattern of thoughts and feelings, every time. In addition, the first reaction to any stimulus is an emotion, not necessarily one of which we are consciously aware, followed by a mesh of thoughts and feelings (LeDoux 1996).

Since our interest here is advertising research, we find that the new knowledge about the human brain relating to the primacy of emotions and the importance of the unconscious is pointing to an outdated paradigm because we are learning that consumers do not make decisions in a rational or linear fashion. Hence, in addition to traditional measures of consumer thought there is a need for information about consumer’s emotional and subconscious reactions. We differentiate between spontaneous and prompted thoughts and point to the pitfall of using verbal measures alone when researching responses to advertising.

Next, we present the findings from an exploratory study where five advertising research companies agreed to employ their individual methods for measuring emotional responses to the same television commercials.

FIGURE 1
Measurement Methods and the Types of Reactions They Measure
The Study

We sampled five advertising research companies in an effort to span methodologies from the three types of measures. The companies agreed to employ their individual methods to measure emotional responses to the same four beer television commercials. We included three physiological measures (SC, HRT, and facial EMG), symbolic measures (ZMET), and one of each category of self-report measures (verbal, visual, and moment-to-moment). We set out to explore differences among emotional reactions recorded using physiological and self-report (quantitative) methods and then relate our findings to the interpretations of advertisement meanings provided by the symbolic (qualitative) measure.

While broadly comparing the three measure types, the study’s exploratory findings warrant further investigation of the specific measures under each type in order to delineate the finer differences among them. For example, it is likely not all physiological measures may measure the exact same kind or level of emotional reaction. First, we looked at the trend lines of the physiological, visual, and moment-to-moment self report normalized responses to the four commercials. Second, we looked at the qualitative interpretations and representations of ad meaning that resulted from the ZMET technique.

Discussion

While self-report measures especially verbal self-report have been used commercially for a long time in advertising research, physiological and symbolic measures of advertising effectiveness are not employed on a large scale. It is possible the industry’s left-brain bias is inhibiting the intuitive and creative side of advertising and brand communication. Self-report measures shed light on the conscious interpretation of reactions to the commercials (i.e., what I think I felt during/after seeing the commercial). Self report measures based on subjective feelings may not always be able to capture lower-order emotions in an accurate way, although these lower-order emotions may have a substantial influence on consumer decisions. Whilst self-report measures are more likely to evaluate commercials on a pre-determined scale of descriptors, symbolic measures leave the door open for painting a picture of ad response from the variety of items automatically triggered in the brain by the exposure. Symbolic measures point to specific items from the inner workings of the brain that were triggered by the commercial. Physiological measures provide the confirmation of the initial emotional arousal and of the emotional peaks that are then reflected in both symbol generation and descriptor evaluations. The use of the various methods will probably differ depending on the information wanted, from looking to sketch a personality of a brand as presented in the commercial when consistent brand communication is desired, to identifying those frames of a commercial that definitely should not be cut when editing, to focusing on utilizing ad time most effectively to generate preferred patterns of emotional reactions. References are available upon request.

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Researchers have used a psycholinguistic framework to study the effects that linguistic factors of ad copies have on consumers’ memory and comprehension of the ads. However, absent in the literature is research that looks into the effects of varying the advertising claim structure (claim-evidence versus evidence-claim) on consumers’ memory for the ad. It appears that in print advertising a highly popular format of ad claims is the claim-evidence structure (e.g., “NO MORE LONG HOURS OF READING – the QUICK-LINK Pen® Elite allows you to immediately enter text and number into any applications: PC, PDA, or Smartphone”). However, it remains unclear whether this is the optimal format in terms of audience’s memory for the ad.

The effects of syntactic structure on readers’ memory and comprehension of texts have mostly been examined in education research. Researchers (e.g., Irwin 1980) found that an order reflecting the temporal order of the events (left-branching: Because X, Y, e.g., “Because the colonists didn’t like the laws, they didn’t help make them.”) was related to a higher level of comprehension than a reverse temporal order (right-branching: X, because Y, e.g., “The colonists didn’t like the laws, because they didn’t help make them.”). A common theoretical account for this effect is that in the left-branching format, the order in which the clauses are presented matches up with the general cause-before-effect ordering that most people prefer. However, Irwin and Pulver (1984) also found that for younger individuals (schoolchildren in 3rd and 5th grades) the left-branching structure (Because X, Y) was more difficult to comprehend than the right-branching structure (X, because Y). The authors suggested that this might be because when children read about a situation, they are more likely to ask themselves why it occurred than to ask themselves what it may have caused. Perhaps they expect the new information to be explained in more depth because it is temporarily the discourse topic in their working memory.

Overall, these studies suggest that for individuals with limited working memory capacity (e.g., young children), sentences with a right-branching structure result in better memory and comprehension than sentences with a left-branching structure. However, for people with normal working memory capacity, sentences with a left-branching structure (normal causal order) seem to be related to better comprehension and memory than sentences with a right-branching structure (reverse causal order), presumably because they tended to expect an effect to follow the event in working memory (Irwin and Pulver 1984).

In print advertising, the equivalent of a right-branching structure is the highly popular claim-evidence format (e.g., “ZIPCONNECT™ IS CONVENIENT – the spooled, retractable cable in ZipConnect™ modules extends up to 18 inches.”). In this example, an implicit connective (hyphen) replaces the explicit connective (“because”). If the ad claim is to be reformatted as a left-branching structure, it will read as follows: “The spooled, retractable cable in ZipConnect™ modules extends up to 18 inches – ZIPCONNECT™ IS CONVENIENT,” a reversal of the popular claim-evidence format. In accordance with findings in psycholinguistic research, we predict that ad claims with a left-branching structure will result in better recall and recognition than ad claims with a right-branching structure (H1). In addition to this main effect, it is likely that motivation to process the ad (ad involvement) moderates the effect of claim structure variation on memory. The Elaborative Likelihood Model (Petty and Cacioppo 1986) suggests that high involvement with the product, message, or purchase decision tends to lead to strong attention focused on central, product-related features and factual information, which results in conscious thoughts about product attributes and usage outcomes. On the other hand, low involvement leads to limited attention focused on peripheral, nonproduct features and feelings, which results in low or nonconscious information processing. In line with the ELM model, we predict that claim structure variation will be more strongly related to memory for consumers low in involvement than for those high in involvement (H2). Both hypotheses (H1 and H2) were supported in Study 1. We found that under low involvement, participants in the evidence-claim (left-branching) condition recalled more ad claim information than participants in the claim-evidence (right-branching) condition. They also had a higher recognition rate than participants in the claim-evidence condition. However, in the high involvement condition, this advantage of left-branching structure disappeared: the difference in terms of recall and recognition between left- and right-branching participants was insignificant, supporting H2.
Results from Study 1 suggest that contrary to the common practice in the advertising industry (claim-evidence format), advertising claims with left-branching structures (evidence-claim) result in better memory for the ad than those with right-branching structures. However, this advantage was eliminated when consumers were highly motivated to process the ad information. We wanted to confirm that this was caused by high involvement and not product unfamiliarity (because in Study 1, subjects were relatively unfamiliar with the stimulus product, which was a scanner/note taker). In Study 2 we created a high involvement condition with a familiar product (a Global Positioning System device or GPS). We found that under high involvement, claim structure variation had no effect on people’s memory for the ad and product familiarity did not have any significant effects on subjects’ memory. Taken together, these results show that when the motivation to process the information is high, familiarity with the product is not a moderating factor of the effects of claim structure variation on memory. The advantageous memory effect of a left-branching structure over a right-branching one was eliminated by high involvement rather than participants’ unfamiliarity with the stimulus. References are available upon request.

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SUMMARY

To survive and remain competitive, service organizations must respond with increasing speed and agility to fast-moving markets due to continuous changes in service economies. Developing effective change strategies in such an environment is fundamentally disruptive. To a large degree, effectiveness of change strategies in fast moving service organizations rests on understanding how frontline employees perceive and respond to change, and how their performance and well-being is affected as result. This is because a frontline employee is the last and crucial link to customers in the implementation of top-down change strategies.

Change strategies are especially challenging when they involve shifting between competing strategic emphases, such as from a dominant emphasis on cost containment to an overarching emphasis on revenue enhancement or vice-versa (Rust, Moorman, and Dickson 2002). Managing such change necessitates disruption of established organizational practices and frontline roles. Across a range of service industries, charting a course between revenue and cost emphasis is a critical implementation challenge for market driven organizations.

Juxtaposing the crucial role of the frontline employee (FLE) in change implementation with shifts between cost and revenue strategic emphasis, we designed this study to examine: (1) the impact of cost- and revenue-dominant strategies on FLE’s change perception, (2) the disruptive role of FLE’s change perception in fostering role ambiguity, and (3) its implications for FLE performance and psychological well-being. Drawing from role stress theory, we isolate the negative effect of change from its functional effects by including mediation mechanisms governed by role ambiguity (see Figure 1).

The conceptual framework was empirically tested using survey data from 843 RNs and LPNs in five hospitals in the Northeastern United States. After measurement purification and confirmation, the model was tested using structural equation modeling. In estimating the hypothesized coefficients, we modeled common method bias following procedures outlined by Lindell and Whitney (2001) and Podsakoff et al. (2003). Specially, we estimated a common method factor in which each manifest item was hypothesized to have an equal loading on the method factor. We also included the estimated common method factor in each of the structural equations.

The empirical results support all of our hypotheses. Specially, our findings indicate that a cost emphasis strategy induces a FLE’s change perception, while a revenue enhancement strategy curbs FLE’s change perception. FLE’s change perception significantly increases
his/her role ambiguity, which negatively affects FLE’s service performance and psychological well-being. We also found out that FLE’s perception of change has a positive direct effect on his/her service performance after the negative effect of role ambiguity is controlled.

Overall, we have reasonable evidence to conclude that an organization’s pursuit of market driven strategies activates change processes which include both positive and negative pathways that are substantively distinct and differentially maintained. These pathways also act simultaneously to counter each other and are consequential for FLE performance and psychological well-being. The positive, functional mechanism is captured by the direct effect of change perceptions on service performance, and the negative, dysfunctional mechanism is captured by the mediated effect of role ambiguity. Isolating the positive and negative mechanisms holds the potential to point to richer insights and relevant managerial action.

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EVALUATING THE EMPLOYEE’S PERSPECTIVE OF CUSTOMER DELIGHT

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SUMMARY

Recently there has been a push to move customers to a more extreme state of satisfaction, referred to as delight. The reason for this is the realization that merely satisfied customers may not be especially loyal (Reichheld 1996). Thus, to ensure loyalty firms should aim to delight. Although the relationship between delight and loyalty seems intuitive, when evaluated across different studies, the results remain ambiguous. Arnold et al. (2005) found customers now expect to be delighted, implying companies must delight their customers in order to meet customer expectations and ensure satisfaction. Whereas, other researchers suggest caution in accepting the value of delighting the customer (Rust and Oliver 2000).

What seems apparent from previous research is that the field is not currently sure how delight should fit into a firm’s strategy. Further exacerbating this situation is the fact that major gaps exist regarding key aspects of delight that might clarify the costs/benefits of delighting the customer. For example, literature does not exist that critically evaluates how employees view the concept of delight. This seems surprising as previous literature has highlighted the fact that the front-level employee is intertwined in the implementation of a successful service encounter (i.e., Bitner, Booms, and Mohr 1994). In the hopes of filling this gap, the following research evaluates the employee’s perspective of delight.

Research Method

Data were collected using the critical incident technique (CIT) (Flanagan 1950) which has a rich history in services marketing literature (i.e., Bitner et al. 1994). The concept of delight is still relatively young and no research has evaluated delight from the employee’s perspective, thus CIT appears to be an ideal method. The sample consisted of 124 non-student service workers recruited by 31 students. Respondents were asked to complete a standardized form consisting of four open-ended questions regarding a recent experience in which they felt they had delighted the customer.

Results

Employee Generated Examples of Delightful Incidents. The first question on the survey addressed instances in which employees felt they had delighted the customer. From the respondent recollections five categories emerged as reasons for the delightful encounter: accurate service performance (51%), employee effort (27%), complimentary offering (11%), benevolence (8%), and service failure recovery (2%).

Categories of Employee Affect When Providing Delight. Research has evaluated how employee mood effects service performance evaluation (Kelley and Hoffman 1997), but does not exist that evaluates how employees feel when they provide higher levels of service. From this research, four categories surface: delight contagion whereby a ripple effect of positive emotions flow from the customer to the employee (57%); a sense of accomplishment for the employee (33%); indifference toward positive or negative outcomes (6%); and excitement over the possibility of future benefits (4%).

Potential Problems with Providing Delight to the Customer. Leading scholars in the services field have warned businesses of the potential problems associated with attempting to delight the customer. These include increased expectations (Rust and Oliver 2000), decreasing returns to the service firm (Ngobo 1999), and high costs (Berman 2005). Although similar concerns were voiced by the employees in this sample, the largest category represented the belief that no problems existed with delighting the customer (39%). The remaining categories included employee concerns of the possibility: of elevated expectations for the customer (23%); too much effort being required (20%); of encouraging negative customer actions (12%); that the only way to delight was to engage in negative employee actions (3%); of a strained relationship between the employee and the customer (2%).

Reward Employee Received for Delighting the Customer. The goal of the last question was to discover how employees are rewarded after they provide delight. The question was purposely ambiguous so that employees could state either monetary or non-monetary rewards. In support of previous management findings whereby intangible rewards are especially meaningful, a non-monetary reward was the most cited reward (39%). Future benefits (22%), and explicit monetary reward (20%) accounted for a majority of the remaining incidents. While praise (8%), none (7%), and improved relationships (5%) completed the categories.
Conclusion

In recent years, reasonable arguments have been made by leading scholars against providing delight for a number of reasons which include: costs and decreasing marginal returns. However, there continues to be a growing contingent of scholars and practitioners who see value in providing extreme forms of satisfaction to the customer.

From examining delight from the employee perspective, four themes have emerged when considering delight as a service strategy. First, a disconnect may exist between what employees and consumers perceive as delight. The fact that 51 percent of the incidents in this research can be characterized as “regular service performance” illustrates this fact. Thus, firms need to train and educate their employees as to what constitutes delight. Second, employees connect their self-concept to the services they provide and the environment in which they function. This results in a desire to provide delight to the consumer thereby maximizing the employee’s “appearance.” Third, employees have some concerns regarding the potential negative reactions from providing delight. This is related to the second theme, in that employees do not want to risk lowering their “appearance” in the servicescape. Fourth, is a phenomenon whereby a two-way delight contagion exists between the employee and the customer. Previously shown as a one-way relationship, this finding seems to explain why certain employees can continually maintain high levels of service. This phenomenon also represents a factor which is difficult to quantify or model. Because of this difficulty, it is not clear if previous models have included this variable.

With increasing competition, it has become increasingly important to provide elevated levels of satisfaction to encourage consumer loyalty. However, recent research has challenged the benefits of setting delight as a strategic goal. In the current research, there have been several benefits to this strategy that may not have been elucidated in previous research models, and thus must be accounted for before delighting as a strategy is eliminated.

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THE INFLUENCE OF SERVICE CLIMATE AND PERSONALITY ON NURSE CUSTOMER ORIENTATION

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ABSTRACT

The purpose of this study is to examine the antecedents of nurse’s customer orientation in terms of service climate and their personality traits, using data from nurses of a university hospital. The results indicate that (1) conscientiousness, agreeability, stability, openness to experience is positively related to customer orientation, (2) customer orientation partially mediates the relationship between personality traits and performance, and (3) personality traits accounted more variance for customer orientation than service climate. The author discusses the results and their implications for service marketing researchers and managers.

INTRODUCTION

Considerable number of researches indicates that market oriented firms tend to achieve superior performance (e.g., Jaworski and Kohli 1993; Im and Workman 2004; Kirca et al. 2005; Narver and Slater 1990). Because the implementation of the marketing concept is accomplished through individual service employees (Donavan et al. 2004; Saxe and Weitz 1982), it is critical for firms to enhance customer orientation (CO) of individual service employees in facilitating the firm level market orientation. Thus, clarifying the antecedents of CO is viewed as critical for building theories on customer oriented management.

Antecedents of individual CO have been examined from various viewpoints including personality traits (Brown, Mowen, Donavan, and Licata 2002; Licta, Mowen, Harris, and Brown 2004), goal orientations (Harris et al. 2005), adaptive selling behavior (Franke and Park 2006), incentives (Widmier 2002), coworker support (Susskind et al. 2003), service climate (Kelley 1992), and work environment (Boles et al. 2001). These factors can be divided into personal factors (e.g., goal orientations, personality traits, and adaptive selling behavior) and situational factors (e.g., coworker support, service climate, and work environment). Although research consistently suggests that behavior is a function of the interaction between personal characteristics and situational influences (Kenrick and Funder 1988), little is known about the competing effect of both factors on individual level CO. In order to investigate the competing effect of personal and situational factors on CO, the present research focuses on the role of personality traits and service climate.

A primary goal of this study is to clarify the relative strengths of personality traits and service climate on CO of service workers using data from nurses of a university hospital. By examining the competing effects of personality traits and service climate on CO, we can obtain theoretical implication on the antecedents of CO. Results also may provide service managers with practical implications on whether they should give high priority to recruiting appropriate employees or changing service climates in the workplace.

Second purpose of this study is to examine the mediating role of CO in the relationship between personality, service climate, and performance. There are three possibilities on the mediating role of CO (Brown et al. 2002). First is the no mediation model in which personality and service climate influence performance without mediation by CO. Second is the full mediation model in which personality and service climate affect performance only through CO. Third model is the partial mediation model in which personality and service climate have not only direct path but also indirect path through CO on performance.

The article is organized along the following lines. First, literature on CO, service climate, and personality traits are reviewed. The research models and hypotheses are then presented. Next, research methods are presented. Finally, data from a survey is examined using structural equation modeling, followed by a discussion and suggestions for future research.

BACKGROUND AND HYPOTHESES

CO and Performance

Saxe and Weitz (1982) was the first study to measure CO at the individual level. They viewed customer-oriented selling as the practice of the marketing concept at the level of the individual salesperson and customer, and developed a 24-item scale, or SOCO scale (The selling orientation – customer orientation scale) to measure the extent to which a salesperson seeks to increase long-term customer satisfaction. CO is associated with high concern for others, low pressure selling, and need satisfaction/problem solution selling approaches (Saxe and Weitz 1982).

On the other hand, Brown et al. (2002) defined CO as an “employee’s tendency or predisposition to meet customer needs in an on-the-job context,” and developed a
12-item scale with two dimensions: the needs dimension and enjoyment dimension. It should be noted that Brown et al. (2002) treat CO as a surface-level personality trait, while Saxe and Weitz (1982) conceptualizes CO as a behavioral concept. However, the distinction between dispositional CO and behavioral CO is not significant, because many personality traits are measured by means of items stressing behavioral tendencies (Donavan et al. 2004).

Previous empirical studies have reported that CO positively influenced job satisfaction, organizational commitment, organizational citizenship behaviors, and performance (Boles et al. 2001; Brown et al. 2002; Donavan et al. 2004; Franke and Park 2006; Harris, Mowen, and Brown 2005). Therefore, the following hypothesis is proposed.

H1: Customer orientation is positively related to salespersons' performance.

Personality Traits and CO

The importance of personality in services marketing can be seen in terms of the hierarchical model of personality (Mowen and Spears 1999). Brown et al. (2002) distinguished basic personality, or underlying predispositions of individuals arising from genetics and their early learning history, and surface traits, or dispositions to act within specific situational contexts. In this view, CO is treated as a surface personality trait influenced by basic personality.

In research on the relationship between personality traits and employees’ performance, the Big-Five factor model of personality (Digman 1990) has been adopted. The dimensions of the Big-Five factor model are commonly labeled: (1) extraversion (or introversion), representing the degree to which a person is outgoing or shy, (2) emotional stability, which represents the anxiousness, hostility, and steadiness, (3) agreeability (or agreeableness), or general warmth of feelings toward others such as trusting, cooperative, and good-naturedness, (4) conscientiousness, or the degree of orderliness, organization, and precision; and (5) openness to experience (or creativity), which captures the person’s degree of imagination or originality (Brown et al. 2002; Frei and McDaniel 1998).

Table 1 summarizes the past studies examining the effect of basic personality traits on CO. Although the results vary among studies, agreeability seems to be a common personality trait for customer-oriented employees across studies. This may be because agreeability is characterized by altruism, nurturance, and caring (Bakker et al. 2006). There are similarities between agreeability and CO in terms of high concern for others (Saxe and Weitz 1982). Therefore, the following hypotheses are proposed.

H2: Agreeability is positively associated with customer orientation.

Because the effects of personality traits on CO vary among studies except for agreeability, it is difficult to predict how the other personality traits (Intraversion, Openness

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<td>Previous Studies on the Relationship Between Personality Traits and CO</td>
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<td>Industry</td>
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<td>Personality Traits</td>
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Note: * means the significant positive relationship with CO.
emotional stability, conscientiousness, and openness to experience) influence CO. Thus, the hypotheses regarding other personality traits are not proposed here.

Service Climate and CO

Service climate is generally defined as employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality (Schneider, White, and Paul 1998). Service climate is a specific application of organizational climate (Dietz, Pugh, and Wiley 2004), and it is built in the light of organizational practices focused on customer service (Lytle et al. 1988; Salanova et al. 2005).

Past empirical research repeatedly has shown the positive effect of employees’ service climate perception on customer perceptions of service quality, customer satisfaction, and customer loyalty (Dietz et al. 2004; Johnson 1996; Jong et al. 2004; Salanova et al. 2005; Schneider et al. 1998; Schneider and White 2004). This sort of research has come to be called “linkage research” (Wiley 1996). Several studies reported that organizational citizenship behaviors (OCB), job satisfaction, and organizational commitment mediated between service climate and customer satisfaction (Paulin et al. 2006; Schneider et al. 2005).

The present research focuses on the relationship between service climate and employees’ CO. Since previous work (Boles et al. 2001; Kelley 1992) reported the positive relationship between service climate or work environments and CO, the following hypothesis is proposed.

H3: Service climate positively influences customer orientation.

Mediating Models

Considering a hierarchical personality model (Mowen and Spears 1999), it can be predicted that CO will mediate the relationship between personality traits, service climate, and performance. In this study, the following hypotheses are proposed.

H4: Customer orientation mediates the relationship between personality traits and performance.

H5: Customer orientation mediates the relationship between personality traits and performance.

There are three possible models regarding service climate, personality, customer satisfaction, and performance: no mediation model, full mediation model, and partial mediation model shown in Figure 1. Model 1, no mediation model, assumes that there are only direct effects of personality traits and service climate on performance. Model 2, full mediation model, assumes that the effects of personality traits and service climate on performance are mediated through customer orientation. Model 3, partial mediation model, allows both direct and indirect effects (mediated through customer orientation) of the personality traits and service climate on performance. Based on the hierarchical personality model, it is likely that full mediation or partial mediation model fit the data better than no mediation model.

METHODS

Data was collected from nurses of a university hospital located in Northern Japan. Questionnaires were distributed to all 639 nurses by nurse managers. They were assured that their individual answers would be held in confidence. To maximize privacy and minimize bias, respondents completed surveys in sealed envelopes that were gathered and returned to a research assistant.

Four hundred thirty-nine completed surveys were returned for a response rate of 68.7 percent. Of these, 45 were unusable because of missing data, which left 396 cases for analysis (final response rate is 61.9%). The average nurse experience in my sample was 13.42 years and the average tenure at the hospital was 5.55 years. Furthermore, 98.2 percent were women, 100 percent were full-time employees.

Same scales were used to measure personality traits, customer orientation, and service climate. A factor analysis with oblique rotation of the 20 items indicated a five-factor solution (introversion, conscientiousness, instability, openness, and agreeability). Internal consistencies (Cronbach’s alphas) for the introversion, conscientiousness, instability, openness, and agreeability were .84, .80, .82, .89, and .81, respectively. As is the Study 1, index scores (i.e., mean across items) for each construct were used as single-item indicators in structural equation models.

Factor analysis with oblique rotation revealed a three-factor solution. Factors were named “need to deliver,” “need to read customer’ needs,” and “need for personal relationship.” Factor structure is almost identical to that of Study 2 except for “need to build relationship,” which refers employees’ desire to contact and connect customers on a personal level Internal consistencies (Cronbach’s alphas) for the need to read customer’s needs (four items), the need to deliver superior service (seven items), and the need for personal relationship (two items) were .83, .88,
and .68, respectively. The need for personal relationship dimension was eliminated because its Cronbach’s alphas were below .70. Index scores for each dimension were used as observable variables for customer orientation in structural equation models.

Internal consistencies (Cronbach’s alphas) for Schneider et al.’s (1998) scale and Jong et al.’s (2004) scales were .84 and .86, respectively. Index scores for each construct were used as observable variables for service climate in structural equation models.
Because nursing service is not selling activity, their performance was measured by the following three items; “nursing technique,” “nursing assessment,” and “communication with patients” using the seven-point scale (1 = “among the worst in the company” and 7 = “among the best in the company”). Performance was based on self-rating. Internal consistencies (Cronbach’s alphas) for the scale were .90. The three items were used as observable variables for performance in structural equation models.

Questionnaires were presented to the participants in Japanese. Scales originally in English were translated into Japanese using the back-translation procedure.

RESULTS

Table 2 provides descriptive statistics and pair wise correlations between variables. In the following analyses, H1–H3 are tested after examining H4 and H5, because it is necessary to decide the model which is fitted to the data.

To test the mediating role of CO, the fitness of the three models were examined. Table 3 indicates that partial mediation model ($\chi^2 = 128.7$, d.f. = 36, GFI = .95, AGFI = .89, CFI = .94, RMSEA = .08) provides better fit for the data than no mediation model ($\chi^2 = 249.32$, d.f. = 42, GFI = .90, AGFI = .82, CFI = .87, RMSEA = .11) and full mediation model ($\chi^2 = 173.7$, d.f. = 42, GFI = .93, AGFI = .87, CFI = .91, RMSEA = .08). Thus, H4 and H5 are supported.

The standardized path coefficients of partial mediation model suggest that the direct paths from some personality traits to performance are significant while the direct path from service climate to performance is not significant. This indicates that CO fully mediates the service climate – performance relationship, while CO partially mediates the personality – performance relationship.

To test hypotheses 1–3, structural paths of partial mediation model were examined. Hypothesis 1 predicted a positive influence of CO on performance, and this hypothesis was supported (standardized path coefficient = .36; t = 5.37, p < .01). Hypothesis 2 predicted a positive influence of agreeability on CO was supported (standardized path coefficient = .23; t = 4.93, p < .01). Hypothesis 3 predicted a positive influence of service climate on customer orientation, and this hypothesis was supported (standardized path coefficient = .17; t = 3.25, p < .01).

To examine research question that pertains to the competing effect of personality traits and service climate on performance, variance accounted for CO by both factors was calculated. Personality accounted 16.4 percent of variance, while climate accounted only 2.8 percent. This means that personality traits explain more variance for CO than service climate.

DISCUSSION

The primary goal of this study was to investigate the antecedents of CO by examining the competing effects of service climate and personality traits on CO using data from data nurses of a university hospital. The present study found that (1) conscientiousness, agreeability, stability, openness to experience is positively related to customer orientation, (2) customer orientation partially mediates the relationship between personality traits and performance, and (3) personality traits accounted more variance for customer orientation than service climate.

| Variable (1) | Number of Items | Coefficient Alpha | Mean | Standard Deviation (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|-------------|----------------|-------------------|------|------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| (1) Introvers | 3              | .84               | 3.90 | 1.37                   | 1.00|     |     |     |     |     |     |     |     |     |     |     |
| (2) Conscientiousness | 4     | .80               | 4.38 | 1.09                   | -.02| 1.00|     |     |     |     |     |     |     |     |     |
| (3) Instability | 5      | .82               | 3.54 | 1.09                   | .16 | -.06| 1.00|     |     |     |     |     |     |     |     |
| (4) Openness  | 5      | .89               | 3.50 | 1.13                   | -.23 | .22 | -.02 | 1.00|     |     |     |     |     |     |     |
| (5) Agreeability | 3     | .81               | 4.92 | .97                    | -.13 | .25 | -.12 | .27 | 1.00|     |     |     |     |     |     |
| (6) CO1(needs) | 6      | .83               | 4.39 | .93                    | -.13 | .30 | -.15 | .37 | .38 | 1.00|     |     |     |     |     |
| (7) CO2(deliver) | 7     | .88               | 4.66 | .95                    | -.10 | .22 | -.15 | .18 | .38 | .63 | 1.00|     |     |     |     |
| (8) SC1      | 7      | .84               | 3.37 | .61                    | -.02 | .06 | .07 | .09 | .22 | -.21 | .22 | 1.00|     |     |
| (9) SC2      | 6      | .60               | 3.65 | .58                    | -.03 | .00 | .09 | .22 | -.21 | .24 | .65 | 1.00|     |     |
| (10) PERI(technique) | 1     | N.A.              | 4.14 | 1.20                   | -.14 | .25 | -.07 | .29 | .14 | .41 | .15 | .08 | .06 | 1.00|     |
| (11) PERI(assessment) | 1    | N.A.              | 3.96 | 1.19                   | -.18 | -.32 | -.13 | -.33 | .15 | .41 | -.18 | .12 | .07 | .80 | 1.00|
| (12) PER2(communication) | 1 | N.A.              | 3.34 | 1.14                   | -.24 | -.26 | -.14 | .38 | .27 | .50 | .23 | .07 | .07 | .73 | .71 | 1.00 |
The results indicate how customer oriented behavior is determined by personal and situational factors in service organizations. The theoretical implications of the results can be summarized as follows.

First, the importance of agreeability in enhancing CO corresponds to previous studies (Brown et al. 2002; Frei and McDaniel 1998; Hurley 1998; Licata et al. 2003). This suggests that agreeability characterized by kind, sympathetic, and tender hearted with others is a core personality trait for customer oriented service employees regardless of service type and national culture. As high customer orientation is closely associated with high concern for others (Saxe and Weitz 1982), agreeability is required for customer oriented service providers.

Second, nurse’s CO is supported by various personality traits. This suggests that nurses are required complex tasks involving medical assessment, medical treatment, and communication of patients, and they have heavier responsibility in their tasks compared with other service workers in banks or restaurants. We could say that the more complex the task is, the more personality traits are associated with CO.

Third, CO is influenced more strongly by personal disposition (personality traits) than situational factors (service climate). Personality accounted personality accounted 16.4 percent of variance, while climate accounted only 2.8 percent. This suggests that dispositional factor is more important determinant of customer orientation than service climate.

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<td>Customer orientation → performance</td>
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**TABLE 3**

Results of Structural Equations Analyses

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<th>Path</th>
<th>Standardized Path Coefficient</th>
<th>t-Value</th>
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**Notes:** n = 396. GFI - goodness of fit index. AGFI - adjusted goodness fit index. CFI - comparative fit index. RMSEA - root mean square error of approximation.

* p < .05 ** p < .01
situational factors. The finding indicates that CO should be treated as surface personality traits influenced by basic personality traits, and supports the validity of the hierarchical model of personality proposed by Mowen and Spears (1999).

Finally, CO partially mediates the relationship between personality traits and performance. That is, personality traits have not only indirect impact on performance through CO but also direct impact on performance. The results correspond to Brown et al. (2002), which supported the partial mediation model allowing the direct impact of personality traits on performance ratings. This may be because performance was measured by process (or behavior) based scales not output based scales such as sales volume or profits.

There are several practical implications derived from the present study. First, recruitment of employees with appropriate personality traits is extremely important in facilitating CO of service workers. In selecting nurses, manager should especially pay attentions to candidate’s agreeableness, open to experience (creativity), and conscientiousness.

Second, nurse managers should understand that service climate has limited power in enhancing CO of service workers compared with the influence of personality traits of workers. However, it is possible that service climate enhances performance mediated through other factors such as job satisfaction, organizational commitment, and motivation of workers.

The limitations of this study should be acknowledged. First, this study may be limited by the sample. Additional studies might investigate a more diverse workforce and different industries to ensure the findings of this study. Second, this study did not investigate the effect between service climate, personality traits, and CO on perceived service quality and customer satisfaction. Linkage research between intra-organizational factors and customer evaluation is needed to clarify the role of CO in future research. Finally, it is necessary to examine the boundary conditions in which service climate and personality traits are relevant for excellent performance or service quality as suggested by Dietz et al. (2004). The characteristic of service task should be specified and incorporated into the research model.

Despite these limitations, the empirical evidence reported here will stimulate research on service climate and customer orientation. Continued research on the mechanism should advance our understanding of a customer-oriented organization.

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CAN COMPANIES PROFIT FROM BUILDING A VIRTUAL BRAND COMMUNITY?

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Vivian Hartleb, University of Münster, Germany

SUMMARY

The majority of brand community literature deals with the exploration of the nature of brand communities and the measurement of community effects. However, existing literature on how to implement and to manage company-run brand communities is rare. From a managerial point of view, companies are confronted with the rise of the popularity of (virtual) brand communities, so that both the management of a brand community implemented by the consumers and the implementation of a brand community by the company itself gets more and more important. It seems, up to now, the impact of brand communities is underestimated in practice. Companies neglect the chance of getting closer to their consumers and, as a consequence, increase customer loyalty. In the present paper, we (a) conceptualize drivers of loyalty with a football brand community initiated by a company and (b) analyze the influence of loyalty on the brand image of that company. We empirically test our model with a dataset of 1,025 members of that particular virtual brand community.

Theoretical Background

Based on Social Identity Theory (SIT), identification with the online community results in the intention to stay a loyal member of the community. The consequence of self-categorization to a particular virtual brand community is a positive distinction of the community’s values, norms and behaviors toward other communities and thereby an increase of group members’ self esteem (Turner 1987). Moreover, the link between loyalty and the brand image of a community presenter is likely to be stronger in the case of high social identification. People that indicate a high level of identification with the community will tend to evaluate the community presenter as a member of the in-group, and, as a result, rate the brand image more favorably. A second important driver of brand community loyalty is satisfaction with the community. Satisfaction results as a consequence of a comparison between expectancy and experience of functions offered and attributes that are connected with the virtual community. Based on the theory of cognitive dissonance (Festinger 1957), satisfied community members will strive for cognitive consonance by their intention to continue their membership, and not risk possible dissonance by switching to another community. The third important element that contributes to community loyalty is the interaction between the members of the community itself. The foundation for the continuity of a virtual community is the interaction and participation behavior. According to SIT, interaction with other members leads to a strengthening of in-group consciousness. Therefore, we propose that interaction intensity has a positive effect on the loyalty intention of community members. Loyalty to the brand community is supposed to influence the brand image of the presenter of the virtual brand community. The brand community presenter – similar to advertising – is directed to respondents in a situation where they pay low attention to the stimulus (e.g., because of concentrating on the community functions). Therefore, it has to be repeated several times in order to attract the attention of a respondent’s mind (Baker 1999). Following balance theory (Heider 1946, 1958), we propose that loyalty to the brand community will lead to a positive evaluation of the presenter’s brand image. People that identify the presenter to be associated with the community will evaluate the brand more positively. We propose this direction of causality, assuming that the attitude of the community members toward their community is relatively stronger than their attitude toward the presenter in the first place.

Methodology

We tested our hypotheses in an online study using a web survey design. At the time when the survey was started, a total number of 8,361 users were registered. Twenty-one point seven (78.3) percent of the users are male. Registered members are on average 26.32 years old (Std. Dev. = 11.42) and members since 4.66 months (SD = 2.94). A total of 1,025 members participated in the survey, equaling a response rate of 12.26 percent. Twenty-four point one (75.9) percent of the participants are female (male). The respondents are on average 26.03 years old (Std. Dev. = 11.84) and members since 4.72 months (SD = 3.24). According to the descriptive statistics above, the sample is comparable to the population of all registered members. We measured attitude-related variables with multi-item scales. Brand image is measured by items that are regularly used in the literature (e.g., Keller 1993; Mitchell 1986) Brand community loyalty is operationalized as membership continuance intention and measured using a scale from Algesheimer, Dholakia, und Herrmann (2005). Interaction intensity, identification and satisfaction with the virtual community are measured by scales adapted from Löwenfeld (2006).
Results

We used structural equation modeling to test the hypothesized direct and moderating effects. Results indicate that identification, satisfaction, and interaction intensity explains most of the variance of community loyalty. Moreover, a positive influence of loyalty intention on the brand image of the community sponsor can be confirmed. A chi-square difference test was conducted for possible moderating effects, comparing a restricted and a non-restricted model. Results show a stronger link of membership continuance intention on brand image for respondents with high identification.

Implications

Marketing management has to keep in mind to contribute positively to satisfaction, interaction intensity and identification when new features for the community are developed. In our empirical example, a look at the factor means of the three drivers to community loyalty shows room for improvement. Second, our results demonstrate that loyal members of the community tend to evaluate to community presenter’s brand image more favorably. This fact should provide an incentive to marketing managers to invest in a virtual community. References are available upon request.

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DOES MARKETING COMMUNICATION SUFFER WHEN SERVICE CUSTOMERS CRY FOUL?

Gavin L. Fox, Valdosta State University
J. Joseph Cronin, Florida State University

SUMMARY

Introduction and Background

Complaints can be key sources of information and managers in service industries need to understand how complaints impact profitability. From a competitive perspective, there is no currently suggested means for comparing complaint and complaint handling impacts across firms. Limitations expressed by Nyer and Gopinath (2005) indicate that it is difficult to examine real-life dissatisfaction due to the difficulty in gathering together enough firms with dissatisfied customers that will share customer information with the researcher. Consumers frequently complain to third parties when dissatisfied with responsiveness at the firm level. This research utilizes easily accessible third-party complaint information from the Better Business Bureau to overcome this hurdle and provide a source of strategic marketing information.

Advertising represents a primary mean through which companies disperse marketing communications and build new customer bases. Some firms benefit more from marketing messages than others and a great deal of literature suggests that this is primarily due to quality and branding differences (Keller 2001). Consumers typically are less satisfied with what they perceive to be of lower quality and complain more when they are less satisfied (Voorhees and Brady 2005), especially to third parties (Singh and Pandya 1991). Lower quality firms are thus expected to draw more third party complaints, be worse at responding to third party complaints, and ultimately have lower satisfaction. Lower quality firms are also suggested to spend more on advertising than higher quality firms (Zhao 2000). Transposing quality and complaining therefore suggests that third party complaints should positively relate to advertising expense. Hence, we suggest the following hypothesis:

\[ H_1: \text{There is a positive association between the number of complaints to third parties and advertising expenditures.} \]

Responsiveness exists to negate, or at least minimize, the fallout from product failures (Smith and Bolton 1998) and has been shown to positively impact satisfaction (Fornell and Wernerfelt 1987) and quality perceptions (Smith and Bolton 1998) following a failure. Firms with higher perceived quality require fewer advertising dollars in comparison to firms of lower perceived quality (Kihlstrom and Riordan 1984). Transposing quality and responsiveness in this case suggests that good responsiveness should lead to lower advertising expense. We therefore propose the following hypothesis:

\[ H_2: \text{There is a negative association between complaint responsiveness and advertising expenditures.} \]

Advertising intensity (Advertising/Sales) is a measure of how effective advertising is at generating sales (Farris and Buzzell 1979). In other words, it is an indicator of how well advertising dollars are being spent. High values represent relatively low effectiveness, while low values represent relatively high effectiveness. Complaints suggest lower quality, which in turn should lead to decreased sales and negative word-of-mouth (Curren and Folkes 1987). More advertising is necessary then to combat the negative word-of-mouth (Kihlstrom and Riordan 1984). Low quality also damages customer loyalty, which creates customer churn and the subsequent need to replace lost customers (Jones and Sasser 1995). Hence, higher quality firms should exhibit lower advertising intensity. Therefore, we suggest the following hypothesis:

\[ H_3: \text{There is a positive association between the number of complaints about a firm and advertising intensity.} \]

Advertising intensity is the ratio of sales to advertising expense. Hence, any change in advertising expense will change the intensity ratio. The previous discussion on responsiveness suggests that advertising expense decreases as a function of responsiveness. Responsiveness also helps retain customers and thus maintain or even increase sales (Smith and Bolton 1998). We therefore suggest the following hypothesis:

\[ H_4: \text{There is a negative association between complaint responsiveness and advertising intensity.} \]

Methods

Advertising expense, total assets, and sales for each company were generated from COMPUSTAT. Number of complaints and number of responses to complaints were generated from the Better Business Bureau database. The final sample represented the firms that could be matched between the two systems during the 2003–2005
Values were standardized by industry to remove industry specific variance that could confound the results. Firms that could not be matched exactly between the databases were excluded from further analysis. This resulted in a final usable sample of 237 observations.

**Results and Discussion**

The objective of this research was to understand if and how complaints to third parties and responsiveness to complaints to third parties impacts service firm advertising efforts. The results suggest that complaints, but not responsiveness, at the third party stage is positively related to advertising expense and advertising intensity. Complaints exhibited exceptional explanatory power above and beyond firm size, especially when determining advertising intensity. As a result, firms should focus on preventing failures (Choong 2001) or at least keeping failure fallout within the firm and away from third parties to alleviate advertising strain.

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This paper contrasts dual attitude theory (Wilson et al. 2000) with “cognitive” and “implicit” hierarchy of effects models by examining effects of ad attention on multiple advertising outcomes. The study also addresses a research gap regarding optimal Web advertising (Dahlen, Rasch, and Rosengren 2003) and potential interrelationships between explicit and implicit processes (Cohen and Reed 2006; Stijn et al. 2005; Wilson et al. 2000).

Attention was manipulated using different banner ad stimuli, after which an online questionnaire measured aided recall, brand attitude and purchase intention. Attention was directly measured online via attention tracking, which provides a valid and reliable measure of visuo-spatial attention (Scheier 2006). Brand attitude was measured with multi-item scales (Janiszewski 1988), purchase intention with a single item scale (Morrison 1979) and aided recall with a dichotomous variable (Unnava and Burnkrandt 1991). Hypotheses were tested using regression, logistic regression, and ANOVA adaptations of mediation analysis (Baron and Kenny 1986; Campbell and Keller 2003; Grewal et al. 1998; Hastak and Olson 1989; Kumar and Krishnan 2004). The results indicate that attention has a significant positive effect on aided recall (Wald statistic = 8.23, df = 1, p < .01) and a negative effect on attitude F(1, 882) = 4.53, p < .05), supporting predictions, but an unexpected positive direct effect (F(1, 882) = 8.67, p < .01) on purchase intention. Furthermore aided recall unexpectedly did not predict purchase intention, F(1, 882) = .365, p > .10) and attitude is negatively related to purchase intention (t (1, 881) = 14.88, p < .001), opposite from predictions. When attention was split into two dichotomous groups, attitude was negatively related to intention for both the high attention group (F(1, 525) = 150.09, p < .001) and the low attention group (F(1, 353) = 75.48, p < .001), suggesting “override” of even more highly-at tended ads and little “carry-through” of implicit attitudinal effects onto purchase intention.

The results of this paper suggest that (1) there is an inverse relationship between attention and attitudes, supporting prior mere exposure research, but that (2) attention is positively related to aided recall and purchase intention, supporting more “cognitive” effects. According to dual attitude theory (Wilson et al. 2000), explicit factors (e.g., strong brand, positive valence, purchase intention question’s “cognitive trigger”) can “override” implicit ad-related effects on purchase intention. However, effects of both lower-attended and more highly-attended online ads appeared to be “overridden.” Are there better competing explanations for these results? A pure cognitive approach (e.g., attention-recognition-intention; Stigler 1961; Telser 1964) was not supported, since there was no significant recall-to-intention relationship. Likewise, a cognitive hierarchy of effects model (attention-recognition-attitude-intention; ELM; Petty, Cacioppo, and Schumann 1983; anchoring and adjustment; Lynch, Marmorstein, and Weigold 1988; MPAA; Cohen and Reed 2006) was not supported because aided recall was unrelated to either attitude or intention, and there was a negative relationship between attention and
attitude (consistent with mere exposure theory). A pure affective model (e.g., low attention-implicit attitudes-intention), with consumer liking preferences (e.g., from “mere exposure”) affecting purchase intention, was not supported because there was a negative relationship between attitudes and purchase intention. Thus, none of these prior models were fully supported by the results.

One conclusion from the data is that a clear hierarchy of advertising effects is elusive. Some researchers argue that there is little support for any advertising effects hierarchy, and that advertising effects should be studied in a space, with affect, cognition, and experience as three dimensions (Vakratsas and Ambler 1999). It is possible, for example, that purchase intention (e.g., goals, experience) had a reverse-causal effect on attention (Glasman and Albarracin 2006). Although neuromarketing is still struggling with reliability and validity issues (Plassmann et al. 2007), it may ultimately hold the key to accurately mapping advertising effects.
THE EFFECT OF SPONSORSHIP ON BRAND IMAGE: A LONGITUDINAL ANALYSIS IN THE AIRLINE INDUSTRY

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David M. Woisetschläger, University of Dortmund, Germany

SUMMARY

The present paper contributes to the literature by developing a dynamical perspective of sponsorship effects on brand image based on learning-theory and by investigating the proposed effects based on a panel survey conducted before and after the 2006 FIFA World Cup™. The empirical study focuses on the change of brand image between the two measurement points and assesses whether the “fit” between the event image of the FIFA World Cup™ and the brand image of the sponsor plays a critical role in the process of image transfer.

Theoretical Background and Hypotheses Development

In existing research, which often focuses on the assessment of sponsorship effects at one point in time, explanations of effects are often based on learning- and consistency-theories (Cornwell, Weeks, and Roy 2005; Dean 2002; Olson and Thjømøe 2003). In a similar manner to advertising, sponsorship often targets consumers in a situation, wherein they pay relatively low attention to the stimulus (e.g., because of concentration on the sports event itself). Therefore, repetition of the stimulus is mandatory in order to attract the respondent’s attention (Baker 1999). Therefore, we propose that the recall of a sponsor results in a more favorable evaluation of the sponsor’s brand image (H1). More precisely, the degree of change in brand image is expected to be stronger for those individuals who learn that the brand is linked to sponsorship of the event in the second survey, in comparison to those individuals who recall the brand as a sponsor in both surveys (H2). In the latter group, respondents have already learned that the brand is connected to the event before the first measurement point. However, whether a change in brand image occurs, and the direction in which it changes, also depends on the image of the sponsored object (i.e., event image). Many authors claim that a “fit” between the sponsored event and the sponsoring brand is essential in order to realize an image transfer (e.g., Cornwell, Weeks, and Roy 2005; Dean 2002; Haste 1980). However, learning is less likely if individuals perceive the sponsor and the sponsored event as congruent. Following balance theory (Heider 1946, 1958), a positive – and therefore incongruent – evaluation of the event relative to the brand in t = 1 leads to a more favorable evaluation of the brand image in t = 2. People who identify a sponsor’s association with an event and have a relatively negative opinion about the sponsoring brand in comparison to the sponsored event will evaluate the brand more positively over time in order to restore congruence (H3a). A poorer evaluation of brand image should occur if the brand image is evaluated as stronger than the event image in t = 1, using the same explanation as above (H3b).

Methodology

The airline brand Emirates, the official airline sponsor of the 2006 FIFA World Cup™, is the object of analysis in this study. Data for the empirical study derive from a series of two online studies using a web survey design. A total of 433 respondents answered the first survey in June 2006, 254 of them also participated in the second survey in August 2006, equaling a response rate of 21.7 percent (58.7 %). Individuals were not notified that they would be contacted a second time. About 60 percent of the 254 respondents were male, with an average age of 29.2 (s = 8.3).

Results

Conducting ANOVAS for the two measuring points tests the effect of sponsorship recall on brand image. The difference between those consumers who recalled the sponsor and those who did not before (recallt=1: m = 3.1, s = 1.00; no recall t=1: m = 3.8, s = 1.38; Brown-Forsythe = 17.3, p < .01) and after the event (recall t=2: m = 3.1, s = 1.05; no recall t=2: m = 4.0, s = 1.43; Brown-Forsythe = 24.8, p < .01) is significant (H1). Moreover, the relations between recall and brand image are even stronger after the event (η²t=1 = 5.5 %; η²t=2 = 10.4 %). Furthermore, brand image is more stable in the group that recalls the sponsor twice (Δbrand image = .02, ns.), in comparison to the group that recalls the sponsor only in the second survey (Δbrand image = .43, p < .001) giving support for H2. Additionally, the group that evaluates Emirates as relatively worse compared to the FIFA World Cup™ (i.e., group with positive distance, b = 0.39, p < .001) in the first place evaluates the brand image of Emirates significantly better over time, giving support for hypothesis H3a. The event image also shows a marginally significant influence on the change of brand image in the fit-group (b = 0.3, p < .1). However, the change in brand image over time is not significant in this group (Δbrand image = .09, ns.). Furthermore, the findings lead to a rejection of H3b be-
cause both the change of brand image ($\Delta$ brand image = .09, ns.) and the regression of distance ($b = -.29$, ns.) on the change of brand image are not significant in the group with a negative difference.

Discussion

These findings provide the basis for several implications for practice and theory. The use of longitudinal data is adequate to analyze sponsorship effects. Linking recall and change of brand image over time is important for a reliable assessment of marketing communications. Sponsorship recall impacts brand image, which is in line with the literature. Moreover, the change of brand image over time depends on the relative evaluation of event image versus brand image. This result is in accordance with balance theory and attribution-contrast-theory, but contradicts other empirical findings (e.g., Speed and Thompson 2000; Dean 2002). References are available upon request.

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SUMMARY

Achieving mutual trusting relations is an important goal for customer relationship management in services marketing as it has been shown to positively affect relevant customer behavior such as customer loyalty or commitment in different service contexts. Today more and more service firms operate on a global level and provide their services to customers in different cultures. This would provide a challenge for these firms if the central antecedents of trust were different across cultures. Evidence for such differences exists. However, these studies are either theoretical contributions, based on qualitative data or concentrate only on the effects of single trust-building processes, e.g., the importance of personal relations. Furthermore, these studies mainly apply secondary data on cultural dimensions on the country level, which do not allow analyzing the actual influence of the single cultural dimensions on the development of trust. Hence, up to now, services marketing research cannot sufficiently answer the question of whether people in different cultures differ in their development of trust.

Therefore, the purpose of this paper is to provide an empirical analysis of differences in the trust-building processes across cultures. In order to be able to deduce valid propositions for services marketing, we will focus on a specific target group in two different countries (Germany and China) and take an individual-level approach to assessing differences in cultural values. We derive and test six research hypotheses on differences in the trust-building processes. Managerial implications are derived and directions for further research are proposed.

Theoretical Basis

Based on Doney et al. (1997), Mayer et al. (1995) and McKnight et al. (2002) we propose six different cognitive trust-building processes that have been shown to influence the development of trust, i.e., the capability process, the transference process, the intentionality process, the prediction process, the calculative process as well as the moral evaluation process. While prior research has repeatedly shown that trust is well explained by these six processes, we assume in accordance with Doney, Cannon, and Mullen that the strength of the effect of each of these cognitive trust-building processes is moderated by cultural values. Cross-cultural value differences should therefore account for differences in the development of trust.

Method

Survey data from 652 business students in China and Germany were collected, because major cultural differences could be expected between both countries. Banking services were chosen as a setting as they are high credence services and relatively comparable across countries. The surveys were conducted in German and Chinese. The measurement instruments were adapted from the relevant trust literature and showed satisfying reliability scores. In a first step, differences in the cultural values of both cultural groups were compared based on individual cultural values of both groups (Yoo, Donthu, and Lenartowicz 2001). Different from the usually applied Hofstede scores, the Chinese and German students only differed with regard to their uncertainty avoidance, where the Chinese students scored significantly higher than their German counterparts. Based on these results and building on the work by Doney, Cannon, and Mullen (1998) hypotheses were derived on differences in the cognitive trust-building processes of Chinese and German business students. The Chinese were expected to build trust more based on a capability, transference, intentionality, and prediction process, while the Germans were believed to build trust more via the calculation and moral evaluation process.

Results

The hypotheses were tested with a regression model that included the main effect terms for the trust-building processes as well as the interaction effects between culture and the respective trust-building processes. The results basically confirmed the hypotheses. All differences in the interaction effects were in the expected direction. However, significant differences could only be found for the transference, the prediction, the calculation as well as for the moral evaluation process.

Discussion

The results are noteworthy and relevant for marketing research and practice in at least three ways. First, we...
were able to support our hypotheses that trust is being built based on different cognitive processes in different cultures and that these differences can be explained by differences in individual cultural values. Second, our results once more show that secondary data do not reflect the value system of a given target group very well. The fact that both groups differ from the secondary data on cultural values in both countries supports the experience of cross-cultural marketing research that secondary data does not necessarily reflect the cultural values of a specific target group. Finally, we believe these results can be transferred to other marketing and organizational contexts. Although the data were collected from business students in the context of banking services, they are on the level of very fundamental cognitive processes and cultural values. Therefore, they should not be restricted to a specific context and provide useful guidelines as to how to build and develop trust within and across international organizations. References are available upon request.

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SUMMARY

Customer satisfaction with marketers has been declining over the years and service failures are commonplace, in spite of the increased focus on consumer satisfaction (Lovelock and Wirtz 2004). Customer response choices to service failures range from no action to direct complaints to the marketers or even third parties (Singh 1990). At times, customers have gone to the internet with their complaints and received worldwide attention (Zeithaml et al. 2006, p. 216). An intriguing research question arising out of the service failure-customer complaining behavior domain concerns the nature of appropriate consumer response. Should the customer complain actively and publicly, or, take no action whatsoever? Even more interestingly, which of these behaviors should be considered “ideal” from the perspective of customer-business organization relationships? From the point of view of the service provider, “Ideal” consumer behaviors are proposed in the present research, as the best, wished for responses of consumers in case of service failures.

Results from the TARP (Technical Assistance Research Program) studies indicate that only a small percentage of unhappy customers choose to complain (Goodman and Newman 2003) and the available evidence suggests that demographic and psychological characteristics of customers play a role in determining their response (Singh 1990; McAlister and Erffmeyer 2003; Lovelock and Wirtz 2004; Zeithaml et al. 2006, p. 218). The influence of cultural differences on customer complaining behavior has been examined in recent research (Liu et al. 2001; Mattila 1999; Mattila and Patterson 2004). The purpose of this study is the systematic examination of consumer responses to service failures across cultural contexts.

On the basis of a review of consumer complaining behavior (CCB) literature including the recent work examining the influence of cultural forces on personal characteristics and the service expectations of customers (Mattila 1999; Ferrer et al. 2000), hypotheses linking consumer’s aggressiveness and individualism as well as country/culture differences and the type of service to voice and exit responses of consumers have been presented in this paper.

A survey of consumers in two distinct cultures, namely, U.S., and Singapore, was conducted for testing these hypotheses. A survey instrument has been developed on the basis of prior literature and pre-tested. Apart from items measuring cultural and personal characteristics, the questionnaire presented two scenarios involving service lapses in the context of retail service and healthcare and asked the respondent to indicate how an “ideal consumer” would respond in each scenario. Following Singh’s (1991) approach, the selection of the service settings was purposive. The retail and medical care scenarios are roughly equivalent to the settings employed by Singh (1991). Data collection (n = 110 for the U.S. and 201 for Singapore, out of which 110 and 193 responses were usable) was done by university students as part of their coursework.

Cronbach’s alpha was computed to assess the reliability of each variable. The values of the coefficients range from 0.72 to 0.77. Variable scores were computed by summing across the items measuring each variable. Prior to the summing, responses to any negatively worded items were reversed. The summed scores were used in the statistical analyses undertaken for the purpose of hypothesis testing. Multivariate Analysis of Variance was considered the appropriate statistical technique. Given that the study employed both a between-subjects factor, namely country and a within-subjects factor (service type) with repeated measurements from the same subjects, a doubly multivariate repeated measures model (Hair et al. 1998) was employed for testing the hypotheses developed earlier. Univariate tests were run for the purpose of gaining additional insights into consumer responses. All statistical analyses were conducted using SPSSX 13.0.

The results from the statistical analyses provide partial support for our hypotheses. Collectively, the individual/personality variables considered here, fail to show consistent effects on consumer responses. A majority of hypotheses focusing on these effects have been rejected. The structural factors included in this study – country and service type variables, exhibit more consistent effects. The hypotheses concerning the effects of the country variable on voice and exit responses find strong support from our data. As predicted, the level of voice response is lower and the level of exit response is higher among the Singaporean consumers. Singaporean consumers are more likely to exit the relationship than their American counterparts and the responses are at a higher level for the medical care scenario for both sets of consumers. American consumers are much more likely to exercise the exit option when service failure occurs in a medical care setting than they are in a retail setting.
While the hypotheses developed here received substantial support from the empirical study, future research is needed to confirm these results and to further explore the notion of an “Ideal” consumer from dual perspectives – those of the service providers and consumers. References are available upon request.

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OFFSHORING CUSTOMER SERVICE: COMMUNICATING ACROSS THE CULTURAL DIVIDE

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ABSTRACT

This paper examines how offshore customer service affects communication between service representatives and their customers, resulting in perceptions of inferior customer service. The aim is to provide a framework to allow managers’ to weigh the pros and cons of offshore customer service and to provide guidance in selecting offshore service locations.

INTRODUCTION

Competitive pressures are increasingly causing firms to cut operating costs by sending customer support work offshore. Unfortunately offshoring the customer service function is more complex than offshoring manufacturing. Since customers interact directly with service representatives at the foreign site, cultural differences are more of an issue than would be the case with products manufactured offshore (Mattila 1999). One unintended consequence of offshoring services is customer perceptions of reduced service quality. Poor customer service is a problem for three main reasons. First, it leads to customer defections (Smith and Bolton 1998). Second, customers tell others about their poor experience (Anderson 1998; Mahajan, Muller, and Kerin 1984), leading to a further loss of customers. Finally, customers experiencing poor service tend to reduce their amount of business with the firm (Bayon et al. 2004).

A recent survey of over 9,000 customers in nine countries found that over three quarters of English-speaking customers in the USA, U.K., Canada, and Australia, prefer to obtain customer service by phone, as opposed to via e-mail, chat-room, or regular mail (Stone and Liyanearachchi 2006). The results also showed that when these customers called in to contact centers, their most common frustration was with accents that made it difficult for them to understand the service representatives. Another customer survey reported that 63 percent of those polled had switched their business to other firms at least partly because of poor customer service (Genesys 2007). This echoes a previous finding that 65 percent of American consumers reportedly would change their buying behavior if they even heard that a company was using an offshore contact center (McCafferty 2004). This is consistent with a previous finding that tolerance for poor service is lower when the customer believes that the firm has control over the cause (Bitner 1990). The message from this research by practitioners is clear and consistent: Customers want to obtain service by phone, they don’t want to have to communicate with agents who are difficult to understand, and, if their communication needs aren’t met, many of them are prepared to take their business elsewhere.

According to Call Center magazine, “The chief issue impacting off-shoring is poor cultural affinity between offshore agents and American customers, which risks customer satisfaction and retention problems” (Read 2004, p. 30). Firms’ recent actions suggest that managers are concerned about these negative outcomes. For example, in 2003, Dell moved its corporate customer support function from Bangalore, India back to the United States (Castro 2003), Lehman Brothers moved back a twenty-person help desk to the U.S. (Stone 2004). Continuing this trend, Lloyd’s Bank recently announced its intention to move its customer contact center back to the U.K. (By the Numbers 2007). Despite this recognition in the practitioner community of the serious repercussions of offshore customer service on customer attrition, there is surprisingly little academic research on contact centers in general, and on offshore contact centers in particular. An exception to this is a recent paper (Thelen, Magnini, and Thelen 2006) which views offshoring through an ethnocentrism lens. What has not yet been investigated is the precise mechanism by which offshoring adversely affects customer service. Understanding this mechanism would allow managers to minimize negative effects on revenues while retaining the cost advantages inherent in low-wage countries.

This research seeks to address this important issue by investigating the effect of offshore contact center service encounters on customer outcomes. Since not all customers withdraw their business after contact with an accented service representative, we seek to uncover the factors that affect customer sensitivity to foreign accents, and the factors that affect the linkage between exposure to a foreign accent and customer attrition. A better understanding of these relationships would not only contribute to marketing theory, it would also enable managers to make informed decisions about the cost-benefit relationships of serving particular groups of customers from offshore contact centers.

In the next section, we review extant literature in the marketing and services fields. We then draw on findings from the linguistics and cross-cultural studies literatures to develop a conceptual model that links aspects of the
provision of customer service by foreign contact center representatives to the quality of customer service. The paper concludes with a discussion of the theoretical and managerial implications of testing these propositions.

**CONCEPTUAL MODEL OVERVIEW**

The conceptual framework developed in this research is presented in Figure 1. Providing customer service from an offshore location affects three dimensions of service provider-customer communication. The dimensions are speech intelligibility, identity incongruence, and communication style incongruence. This degradation of communication quality, in turn, affects customer perceptions of three dimensions of service quality. The dimensions of service quality are outcome, efficiency, and interaction. Customer attributes (consumer ethnocentrism/antagonism and demographics) and service factors (complexity and urgency) moderate the relationships between communication and service quality.

**CUSTOMER SERVICE OUTCOMES**

Researchers have identified a number of desirable customer service outcomes. For example, the SERVQUAL measure of service quality consists of five dimensions, reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman, Zeithaml, and Berry 1988). However, loadings have not been consistent in research using this scale (e.g., Cronin and Taylor 1994, p. 128) and a different set of factors emerged in a study undertaken in a voice-to-voice service context (Burgers et al. 2000), suggesting that the dimensions may differ for call centers. The dimensions we investigate in this research are the quality of the outcome, service efficiency, and the quality of the interaction experience. Each dimension is briefly described below.

**Service Outcome**

Customers utilize contact centers to make purchases, to obtain information, or to solve problems. For many firms, customers do not use contact centers unless something goes wrong. For example, a customer might call in because they are unable to get a recently-purchased software package to run on their computer. Typically the most important driver of customer satisfaction with a contact center service encounter is the service outcome (Feinberg and Xu 2004).

**Service Efficiency**

Faster service is usually evaluated more highly by customers (Mattila and Enz 2002). A recent study found that American customers were more willing to pay extra for expedited delivery than were Singapore customers (Chen, Ng, and Rao 2004), supporting the conventional wisdom that “time is money” for the American consumer. Clearly efficiency is important.

**Quality of Interaction**

The interaction between service provider and customer is a further important determinant of the customer’s satisfaction with service encounters in general (Solomon et al. 1985). As Reich (1991) described service workers: “They must also have a pleasant demeanor. . . . They must be pleasant and helpful, even to the most obnoxious of patrons. . . . Above all they must make others feel happy and at ease” (p. 176). Consistent with these beliefs, social interaction skills are a fundamental component for contact center workers (Batt, Hunter, and Wilk 2002).

**COMMUNICATION IN OFFSHORE SERVICE ENCOUNTERS**

The primary task of a contact center representative is communication with customers. According to communication theorists, interpersonal communication consists of (1) the meaning of the message itself, referred to as the propositional content and (2) the more abstract meaning conveyed by the manner in which the message is delivered, referred to as the pragmatic message (Soldow and Thomas 1984; Thomas 1992). How a message is communicated may be just as important as what is communicated (Mehrabian 1971; Peterson, Cannito, and Brown 1995). This research explores how offshoring affects both these vital dimensions of communication.

In a customer service encounter with an offshore service representative, the reception of the propositional content of the message is threatened by a lack of intelligibility due to the use of foreign-accented English. Contact center operators recognize this problem and have instituted accent modification training systems to address it (e.g., Stitt 2002). The reception of the pragmatic content is threatened by the foreign context of the message. The foreign context includes the identification of the service representative as being of a different nationality and the representative’s use of an unfamiliar communication style. Each of these is discussed below.

**Speech Intelligibility**

Practitioner surveys have found that about 50 percent of the respondents reporting problems with offshore service reported difficulty understanding the agent’s accent (Kontzer 2004) and that 12 percent of those who would change their purchasing behavior as a result of offshore service attributed this intention to poor intelligibility of foreign customer service representatives (Anton and Set-ting 2004). Next we consider how three dimensions of non-native speech, accent, speaking rate, and lack of fluency, affect service quality.
FIGURE 1
A Model of Customer Perceptions of Offshore Contact Centers

Offshore Communication

Speech Intelligibility

Identity Incongruence

Communication Style Incongruence

Customer Demographics

Service Complexity

Service Urgency

Customer Ethnocentrism

Customer Animosity

Quality of Outcome

Efficiency

Quality of Interaction

Perception of Service Outcome

P7 → P1

P8 → P1

P10 → P2

P6 → P3

P11 → P5
Intelligibility and Service Outcome. The fact that the representative is not a native English speaker affects information transmission in both directions. First, the customer may not understand the service representative, and, second, the service representative may not understand the customer. This lack of understanding is particularly serious in a telephone conversation, since the telephone channel relies only on the voice modality, with no possibility for the use of visual cues. Research has linked accent strength with decreased comprehensibility (Burda 2003), which suggests that the stronger the agent’s accent, the less likely is the customer to receive a satisfactory outcome to his or her service encounter.

Another Component of Speech Intelligibility Is Speaking Rate. In general, the faster the speaking rate, the lower the listeners’ comprehension (Llunda 2000). Research has also shown that Americans find non-native English speakers more difficult to comprehend as their speaking rate increases (Anderson-Hsieh and Koehler 1988; Munro and Derwing 1998). This discussion leads to the following research propositions:

P1a: There is a negative relationship between a service representative’s strength of accent and quality of service outcome.

P1b: There is a negative relationship between a service representative’s speaking rate and the quality of the service outcome.

Intelligibility and Efficiency. Accented speech takes longer to process than unaccented speech (Munro and Derwing 1995). In addition, its lower comprehensibility may cause a need for message repetition, thus slowing down the rate of information transmission. This is supported by evidence that calls to Indian contact centers take an average of 20 percent longer than those to U.K. contact centers (Wilson and Nair 2005). We therefore propose that accented speech decreases service efficiency, both due to accent strength and speaking rate.

P2a: There is a negative relationship between a service representative’s strength of accent and service efficiency.

P2b: There is a negative relationship between a service representative’s speaking rate and service efficiency.

Intelligibility and Quality of Interaction. Research has shown that speakers of accented English are viewed as less competent than standard speakers (Giles 1972; Ryan, Giles, and Sebastian 1982) and of lower status (Brennan and Brennan 1981). Interaction with accented speakers is also associated with irritation on the part of the listener (Fayer and Krasinski 1987). In addition, fluent speakers are regarded as more credible (Erickson et al. 1978), suggesting another perception problem for second-language service representatives. The foregoing discussion suggests the following propositions:

P3a: There is a negative relationship between a service representative’s strength of accent and perceived quality of the service interaction.

P3b: There is a negative relationship between a service representative’s language disfluency and perceived quality of the service interaction.

Identity Incongruence

The similarity attraction paradigm (Bryne 1971) and social identity theory (Ashforth and Mael 1989; Tajfel and Turner 1979) suggest that people prefer to interact with others with whom they share a common identity. Out-groups are generally perceived as negative (Hewstone, Jaspers, and Laljee 1982) and in-group members may be liked, despite their perceived negative attributes, simply because of the perceived common identity (Dion 1973). Supporting this in a marketing context, research has found that customer perceptions of salesperson similarity in appearance, lifestyle, and socioeconomic status, play an important role in salesperson effectiveness (Crosby, Evans, and Cowles 1990). In a voice contact situation, the only clue available about the other person is their speech pattern.

Communications researchers have observed negative emotional reactions to foreign-accented speech. English speakers perceived to be of Korean, Arabic, and Chinese origin aroused negative feelings in listeners (Llunda 2000), as did speakers of Japanese origin (Cargile and Giles 1996). The reported levels of displeasure were unaffected by the strength of the speaker’s foreign accent, nor by the disfluency of his speech. A further study, involving Chinese accented participants (Bresnahan et al. 2002), found the effect to occur even with speakers who rated high on intelligibility. Not all accents are believed to cause these negative emotional effects. Cargile and Giles (1996) also reported on a prior study (Brennan and Brennan 1981) in which speakers with Mexican Spanish accents aroused no negative feelings. For example, people with British, other European, and Australian accents are believed not to be discriminated against (Ramirez 2003).

P4: The identity incongruence of the offshore service representative affects the perceived quality of the service interaction.

Communication Styles Incongruence

In addition to language issues, the topic of cultural affinity has recently also been cited as an essential com-
ponent of customer satisfaction with offshore contact centers (Hill 2004; Read 2004). In service encounters in general, the greater the mutual understanding between the service provider and the customer, the higher the customer satisfaction with the encounter (Mohr and Bitner 1991). A number of issues that affect mutual understanding are discussed below.

**Display of Emotions.** As in any other social interaction, emotions play an important role in service encounters. Research in paralinguistics has shown that listeners are able to detect the emotions expressed in a message solely by the tone of voice (Argyle et al. 1970), suggesting that emotions are on display even in voice-only service encounters. Display rules (Rafaeli and Sutton 1989) specify appropriate emotions for service representatives to display during service encounters. For example, flight attendants are expected to appear cheerful and friendly, while funeral directors appear somber (Ashforth and Humphrey 1993). However, display rules depend on cultural norms. For example, the antecedents of customer satisfaction with a service encounter in Japan differ considerably from those in the United States (Winsted 1997, 1999), with formality being much more important in Japan than in the United States. This suggests that incongruity in emotion display norms between representative and customer will tend to reduce the perceived quality of the service interaction.

**P5a:** Service encounters with representatives with incongruent emotional display norms are negatively associated with the quality of service interaction.

**Communication Directness.** American communication styles are regarded as blunt, direct, and self-assertive (Pornpitakpan 2000). Other countries, such as Japan, prize harmony and use an indirect communication style that avoids confrontation. In the West, the communicator bears the responsibility for making the information clear to the listener. In Eastern societies, the listener assumes the responsibility of understanding what he/she is told (Nisbett 2003). These differences may cause Americans to feel, for example, that Asians are hiding information from them.

**P5b:** Service encounters with representatives with incongruent communication directness are negatively associated with the quality of service interaction.

**CUSTOMER AND SITUATIONAL FACTORS THAT AFFECT CUSTOMER SERVICE**

Factors may moderate some of the proposed relationships are broadly categorized as customer factors or as situational factors. We consider their effects below.

**Customer Factors**

**Consumer Ethnocentrism and Animosity.** A survey of consumer attitudes to offshore customer service found that 48 percent of those who would change their purchasing behavior attributed this intention to feelings of nationalism (Anton and Setting 2004). Closely related to nationalism are the constructs of consumer ethnocentrism and consumer antagonism. Consumer ethnocentrism encompasses consumer beliefs about the appropriateness or morality of purchasing foreign-made products (Shimp and Sharma 1987), leading to reduced preferences for foreign versus domestic products (Papadopoulos and Heslop 1993; Hong and Wyer 1989). Research has found that ethnocentrism carries over to communication preference, with people exhibiting strong ethnic identity exhibiting a preference for American English, while people with weak ethnic identity are more accepting of foreign accents (Bresnahan 2002). Extending this to the offshore service context results in the following propositions.

**P6a:** Ethnocentrism amplifies the negative effect of identity incongruence on quality of service interaction.

**Customer Animosity is anger related to previous or ongoing political, military, economic, or diplomatic events in a particular foreign country (Klein, Ettenson, and Morris 1998). Customer animosity was related to Chinese consumers’ preference for South Korean cars over Japanese cars (Klein 2002). This result illustrates that animosity is country specific. For example, television and movies often portray the “bad guy” as being from particular foreign countries (Lippi-Green 1997). In a contact center context, callers routed to a less-developed country may resent having to deal with someone who, on the basis of accent, is judged to be evil, socially backward, or filling a job that rightful belongs at home.

**P6b:** Consumer animosity amplifies the negative effect of identity incongruence on quality of service interaction.

**Customer Demographics.** Two demographic factors that may moderate the relationship between offshore communication and service quality are customer age and geographic region.

Communication research has found that adults (sixty and older) have significantly greater difficulty in understanding accented speech than younger age groups (Burda et al. 2003). It may therefore be expected that older Americans will be less likely to experience a high quality service outcome when interacting with an offshore contact center.

**P6c:** Age reduces the perceived quality of the service interaction.

**P6d:** Geographic region reduces the perceived quality of the service interaction.
P7a: The relationship between service providers’ accent strength and quality of service outcome is moderated by customer age.

Research in linguistics has found that listeners’ familiarity with accented speech also influences its intelligibility (Gass and Varonis 1984; Wingstedt and Schulman 1987), suggesting that customers living in ethnically homogeneous areas, where they are not normally exposed to a variety of accents, might have more difficulty understanding foreign accents. In a contact center context, there is anecdotal evidence that “people on the U.S. east and west coasts don’t mind the sound of a foreign voice, but other parts of the country are less tolerant,” (Knowledge at Wharton 2002). Thus, the following proposition:

P7b: The relationship between service providers’ accent strength and quality of service outcome is moderated by the customer’s geographic region.

Situational Factors

We consider the impact of service complexity and service urgency on the relationship between offshore communications and service quality.

Service Complexity. The complexity of a service is the number and intricacy of the steps required to perform it (Shostack 1987). Customer satisfaction with contact center service is known to vary by industry, with 83 percent of callers to government contact centers reporting “top box” satisfaction, as compared with only 30 percent for computer software contact centers (Feinberg et al. 2002). Since calls regarding computer software may be more complex than questions calls to government offices, this suggests a negative relationship between call complexity and customer satisfaction.

P8: Service complexity amplifies the negative effect of poor speech intelligibility on quality of outcome.

Service Urgency. Just as remote service encounters vary in complexity, so too do they vary in urgency. For example, a customer who has just had their credit card stolen has an urgent need to freeze the account, and may perceive any delay due to poor understanding as longer than it really is, suggesting the following research proposition:

P9: Service urgency amplifies the negative effect of poor speech intelligibility on service efficiency.

Individuals vary in their self-disclosure behavior according to whether their interaction partners are from within or outside their own culture (Kim 1991), suggesting that it is easier to establish rapport with a person who is perceived to be similar to oneself. In urgent situations, there may be more desire to work with a service representative who is perceived as being similar to oneself, and more emotional distress if faced with incongruent communication styles.

P10: Service urgency amplifies the negative effect of identity incongruence on quality of service interaction.

P11: Service urgency amplifies the negative effect of communication style incongruence on quality of service interaction.

DISCUSSION

To summarize, the objective of this research was to investigate the drivers of customer resistance to offshore customer service, with the ultimate aim of enabling firms to make informed choices about offshore customer service. In the process, we also hoped to advance theory in the field of cross-cultural communications. The conceptual framework presented is but the first step in this process, providing as it does a framework around which to organize future empirical research.

A Research Agenda

Besides the need for empirical verification of the propositions developed in this paper, there are several avenues for further research. One important area is to investigate the acceptability of specific non-native English accents to customers in English-speaking countries. Anecdotal evidence exists suggests, for example, that Filipino accents may be more acceptable to American than East Indian accents (Read 2004); however, what is needed is a systematic investigation of accent acceptability. This will allow managers to balance customer satisfaction against costs when evaluating offshore locations.

Another issue of vital importance to practitioners is the relative role of speech intelligibility versus accent identification in creating customer dissatisfaction with offshore customer service. One potential difficulty in teasing apart these effects is that a negative attitude toward the speaker of a particular variety of English tends to decrease intelligibility, despite the listener’s familiarity with the accent (Eisenstein and Verdi 1985). The answer to the intelligibility versus identity question has clear implications for the lucrative accent modification industry. While anecdotal evidence exists for the ability of accent neutralization to improve intelligibility (Whitney and Wilson 2007), it appears unlikely that this training is able to completely disguise a customer service representative’s national identity. If accent identity plays an important role in customer dissatisfaction, then accent modification may be shown to be less effective for representatives interacting with highly ethnocentric customers.
A related issue is the issue of cultural compatibility. As proposed in our model, compatible communication styles may be particularly important in complex and/or urgent service encounters, where emotional issues come to the fore. The concept of interaction distance (Stringfellow, Teagarden, and Nie 2007), which was conceptualized in the context of globally-distributed service work, may prove useful here. The cultural dimension of interaction distance is grounded in the cultural clusters that emerged from Hofstede’s seminal work (1980) and have been recently built upon in the GLOBE study (House et al. 2004). If there is a need for emotional rapport, then locating an offshore contact center in a similar cultural cluster may provide an advantage.

One important aspect of national culture is the extent to which countries are oriented toward customer service. In the aggregate, United States customers have higher overall service quality expectations than many other national groups (Donthu and Yoo 1998; Sultan and Simpson 2000). In less-developed countries, such as India, where demand for goods and services has typically exceeded supply, there has been less incentive to provide high-quality customer service. A recent survey ranked India 48th out of 104 countries on degree of customer orientation, while the U.S. ranked third, after Japan and Egypt (Porter et al. 2004). The customer orientation of a country could serve as a valuable proxy for the availability of workers with a service mindset, and may therefore aid in deciding on offshore locations.

The United States possesses a strong national identity (Keillor, Erffmeyer, and Babkus 1996), as opposed to Japan, Hong Kong, and Mexico, which possess intermediate national identity, or Sweden, which possesses a weak national identity (Keillor and Hult 1999). This suggests that resistance to offshore contact centers may be less of an issue in countries other than the United States. There is evidence that dislike of foreign accents in contact center is highest in English-speaking countries (Stone and Liyanearachchi 2006); however, this result may simply reflect the fact that most offshored calls are conducted in English.

Consumer ethnocentrism varies with demographics, with ethnocentric United States consumers more likely to be older, Caucasian, female, employed in blue-collar occupations (Han and Terpstra 1988), and to belong to less educated, lower income groups (Lee, Hong, and Lee 2003; Sharma et al. 1995; Wall and Heslop 1986). Consumer animosity also varies with age and gender (Klein, Ettenson, and Morris 1998). If ethnocentrism and/or animosity has a detrimental effect on customer satisfaction, it may, therefore, be feasible to identify the customer segments most likely to object to offshore customer service and to selectively route them to onshore service representatives.

CONCLUSION

In this paper we present a conceptual model that links attributes of offshore contact center service to customer satisfaction. Motivating this effort is an observed growth in new offshore customer contact centers, while at the same time, a growing number of firms are bringing their customer service back onshore. This suggests that there are countervailing forces at play—the savings in operating costs do not always outweigh the costs in customer attrition. By combining the results of research conducted by contact center practitioners with insights from the communications literature, this research provides the basis for further theory-based empirical investigation. As such, it provides an entry point to a new research domain that holds great potential, both for academic researchers and for customer service practitioners.

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BRAND EFFICIENCY AND BRAND RELEVANCE: INTRODUCING AND LINKING BOTH CONCEPTS

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ABSTRACT

Brand managers are under increased pressure to illustrate the performance of their multimillion dollar expenditures. This paper provides three contributions in the context of brand management. First, we introduce the concept of brand efficiency as a measure for the performance of the brand management process. Second, we develop a measure for the industry-specific brand relevance (influence of branding on purchase decisions). Third, we link these concepts and examine if brand management efficiency in an industry is influenced by brand relevance.

INTRODUCTION

Several authors stress that most of existing brand equity approaches are developed ad hoc and are used in an isolated way (Ambler and Barwise 1998; Chumpitaz, Kerstens, and Paparoidamis 2006; Luo and Donthu 2006). They note that a variety of “stand alone” brand equity concepts exists, providing only fragmented insights rather than a holistic perspective on brand performance. Thus, the authors call for a stronger integration of the different outcome variables. Moreover, most approaches do not relate brand outcomes to brand investments which were employed to create the outcomes. The first contribution of our paper is to address these issues by introducing the concept of brand efficiency as a broader, more integrated measure of brand performance. To the best of our knowledge, no study has examined the efficiency of brand management so far or has provided a methodologically and theoretically sound measure for the efficiency of the brand management process. The advantages of the brand efficiency concept are that we consider both the input and the output side simultaneously (resulting in a measure for the “return on brand investment”) and conceptualize both sides multi-dimensionally. By measuring efficiency as a ratio of multiple outputs to multiple inputs we embed the multitude of brand equity measures in an economic framework. This allows identifying overspendings and therefore helps to avoid misallocations of brand management resources. In doing so, we answer Rust and colleagues’ (2004, p. 83) call for new methodologies to measure marketing productivity all the way from tactical actions to financial impact or firm value."

We propose that firms are not equally successful in achieving high efficiency of their brand management process because they do not align their brand investments to the influence of brands on consumers buying decisions (brand relevance). The long-term success of a brand depends on the sustainable influence brands have toward the buying decision in a specific product category. If the influence of the brand on the buying decisions of consumers is low, a brand management that invests heavily to create a strong brand (in terms of customer-based outcome) is assumably inefficient as the brand investments will not lead to a high financial outcome. As a second contribution we therefore develop a multi-item measure for the brand relevance in an industry or a product market in terms of the “brand driveness” of purchase decisions in that industry (Riesenbeck and Perrey 2006). To our knowledge, this is the first academic study addressing this issue.

After introducing the two concepts of brand efficiency and brand relevance our third contribution is to link these two concepts to investigate whether different levels of brand relevance across industries can explain differences in brand management efficiency. We argue that creating high brand efficiency depends on the alignment of brand investments with the level of brand relevance. To test this hypothesis we conduct two studies using brand related data from five industries or product categories, respectively (automotive, desktop computers, casual clothing, financial services, banks). Our findings answer the question under what circumstances the focus of marketing should be on brand building or on other decisions criteria such as price or customer service. In other words, we analyze when the focus of marketing investments should be on maximizing brand equity and when it should be on creating customer equity in the respective industry.

CONCEPTUAL FRAMEWORK

Brand Efficiency

We use the concept of brand efficiency as a measure of brand performance. Brand efficiency or brand management efficiency is to be understood as a ratio of multiple brand outputs to multiple brand inputs. It reflects whether
brand management achieves the best transformation of deployed brand investments (e.g., advertising spendings) into brand outcomes (consumer based and financial brand success). Due to the multitude of branding instruments (inputs) and brand-related success measures (outputs), brand efficiency has to be conceptualized multi-dimensionally (Staat and Hammerschmidt 2005). Then a simultaneous analysis of different investments and outcome factors is possible. The target is to gain insights into how brand management can transform deployed inputs (advertising, distribution, quality management) into outputs aligned to the steps of the brand management process. In order to conceptualize this brand management process we refer to the brand value chain proposed by Keller and Lehmann (2006).

Keller and Lehmann (2006) provide a conceptual framework for the creation of brand value and propose that brand equity is built and should therefore also be measured along the “brand value chain” (Figure 1). In the first step of the chain brand investments are considered which directly affect both the cognitive and affective dimension of customer based brand equity. These two dimensions are captured appropriately by brand awareness and brand image respectively as recent studies show (Keller 1993; Kapferer 2004). According to empirical results they are mainly driven by investments in communication, distribution, and product quality (Johnson, Herrmann, and Huber 2006; Yoo, Donthu, and Lee 2000; Rossiter and Percy 1997).

In the second step, brand image and brand awareness lead to financial outcomes (financial brand success). Here, we distinguish between product market performance represented by brand revenue or brand profitability and stock market performance represented by stock price, P/E-ratio or market capitalization. This follows the logic that from the marketing perspective consumers are the major constituency driving brand revenue, while shareholders constitute the central stakeholder from a financial perspective driving stock price. Recently, brand managers are seen as accountable not only for the success of the individual brand but for creating shareholder value in order to strengthen marketing’s credibility (Madden, Fehle, and Fournier 2006). Instead of capturing stock market performance by the company’s market capitalization as done in several publications (e.g., Rust, Lemon, and Zeithaml 2004) we believe that from a financial market perspective the stock price relative to the earnings (Price/Earnings-ratio) should be used as an outcome of brand investments. Both the company earnings (E) and the willingness of investors to pay for it (measured by the P/E-ratio) are the drivers of market capitalization (MV).

\[ MV_i = E_i \times \left( \frac{P}{E} \right) \]

Furthermore research findings in Finance show that the P/E-ratio (willingness to pay) is positively influenced by the liquidity and breadth of a stock. According to Grullan, Kanatas, and Weston (2004) brand investments are a key driver of liquidity and breadth of a stock because stocks of strong brands are heavily traded. Additionally, investors view a strong brand as an indicator for the company’s ability to create and to ensure future cash flows (Madden, Fehle, and Fournier 2006). As a result, the P/E-ratio is a more comprehensive indicator for the stock market performance. Figure 1 summarizes our conceptual framework.

This paper investigates how efficient brand investments are transformed into customer-based outcomes (step 1) and, subsequently, how efficient this customer-based brand impact is transformed into financial outcomes (step 2). We propose that the efficiency of the transformation of customer-based outcomes into “hard” financial results (step 2) highly depends on the degree on which the decision criterion “brand” influences purchase decisions (i.e., the level of brand relevance).

**Brand Relevance**

Building strong brands is not a promising strategy for any industry. This is because brands are not equally important to purchasing decisions in every market. Brand relevance is defined as the degree to which the brand plays a key role in consumers’ choice process for a product in a given product category. The stronger the role of the brand against other purchasing decision criteria, such as price, customer service, or product quality, the more relevant the brand appears (Perrey et al. 2003).

Brand relevance is an often-used phrase, but it generally has not been well defined or explained. In literature, definitions exist that differ from our understanding of brand relevance. Aaker (2004) regards a specific brand as relevant if three conditions are met: (1) a product or service category or subcategory – defined by some combination of attributes, applications, user groups, or other distinguishing characteristics – exists or emerges. (2) There is a perceived need or desire on the part of a customer segment for the category or subcategory. (3) The brand is part of the evoked set of brands that a segment considers as being material to the product category or subcategory. Brand relevance involves two stages of the customer-brand interaction: First, when the customer selects a product category or subcategory perceived to be relevant to the problem or opportunity (e.g., he or she may decide to buy a luxury sports sedan rather than a compact or an SUV). Second, the customer determines which brands to consider (in this case the choice might include Audi, BMW, Lexus, and Cadillac). A specific brand’s relevance depends on both stages. Although preference
based on a differentiated offering and a positive usage experience can help to enhance a brand's relevance, if the need or category association is missing, the brand lacks relevance, and no differentiation, attitude, or relationship will help. In other words, according to Aaker (2004) a brand (e.g., Cadillac) is relevant if it is associated with a product category or subcategory (e.g., SUV). In order to be relevant, a brand should at least be recalled without aid.

Kapferer and Laurent (1992) present another approach called “sensibilité aux marques” (brand sensitivity). They define brand sensitivity as the influence of a brand on the buying decision of a specific consumer. Brand sensitivity exists if the consumer takes the brand into consideration for his buying decision as a matter of principle.

Obviously, existing approaches relate brand relevance to specific brands (Aaker 2004) or to specific individuals (Kapferer and Laurent 1992). Our understanding of brand relevance is related to the relevance of the decision criterion “brand” in general to an average consumer in a market (Perrey et al. 2003). It is the average brand sensitivity in an industry. Here, we follow Kotler’s (2003, p. 442) definition of a brand as a “name, sign, symbol or design which identifies the goods and services of one seller and differentiates them from those of competitors.” Hence, with the term brand we consider consumers’ associations and feelings related to a brand name (Aaker 1991).

To our knowledge, McKinsey & Company conducted the only empirical studies on brand relevance so far (Perrey et al. 2003; Riesenbeck and Perrey 2006). A crucial shortcoming of these studies is that brand relevance is operationalized as a single-item, global measure only not capturing the different facets of the construct. Therefore, we introduce a multi-item measure of brand relevance. Based on a review of existing literature (Riesenbeck and Perrey 2006; Perrey et al. 2003; Kapferer and Laurent 1992) we generated five items that capture our understanding of brand relevance. We reveal the influence of the buying decision criterion “brand” in an industry by asking consumers if in industry X (1) the brand plays an important role compared to other decision criteria (e.g., price); (2) the brand is a very important decision criterion; (3) it is important for them to buy branded products; (4) they would buy a branded product even if they would have to incur extra efforts; (5) the brand is very important for the purchase decision. Using this measurement model researches can classify existing product categories or industries according to their level of brand relevance (e.g., industries with high, medium, or low brand relevance).

Linking Brand Efficiency and Brand Relevance

We suggest that the efficiency of the first step transformation (creating superior awareness and image through branding instruments) depends mainly on factors that are under control of brand management e.g., managerial skills and competencies (Murthi, Srinivasan, and Kalyanaram 1996). Recent literature proposes an increasing standardization and homogenization of brand strategies and policies across firms (cervino and Cubillo 2004; Teece, Pisano, and Shuen 1997). At the same time the number of mergers and acquisitions as means to capture marketing resources has grown significantly (capron and Hulland 1999). In
line with these developments it can be assumed that even invisible brandind assets become more and more mobilized making an easy and efficient transfer of branding skills between companies possible (Itami and Roehl 1991). This leads us to conclude that in the first step, high efficiency can be achieved in every industry irrespective of brand relevance. Thus, we propose \( H_1 \): In the first step of the brand value chain brand efficiency does not differ significantly between product markets with high vs. medium or low brand relevance. In contrast, for efficiently transforming consumer-based outputs into financial outcomes in the second step of the brand value chain, brand relevance is a crucial prerequisite. As explained above, brand relevance can be seen as a market characteristic which is exogenously given and cannot be controlled by brand management, at least not within a short and medium term horizon (Smith 1992). Presumably, only if brands have a significant impact on the buying decision of consumers (i.e., the level of brand relevance is high), high expenditures to build up strong brands will translate into high financial success. Thus, we formulate \( H_2 \): In the second step of the brand value chain, brand efficiency is significantly higher in product markets with high brand relevance than in product markets with medium or low brand relevance.

RESEARCH SETTING AND METHODOLOGY

Research Setting

To test our hypotheses we follow a three-stage approach: First, we measure brand relevance in different product categories and rank them according to their level of brand relevance. Second, we choose three industries with significantly different levels of brand relevance (high, medium, and low) and measure the efficiency of brands in each industry using Data Envelopment Analysis (DEA). Third, we compare the average efficiency between the industries for step 1 \( (H_1) \) and step 2 \( (H_2) \) of the brand value chain to analyze differences between product categories with different levels of brand relevance.

Stage 2 and 3 are conducted twice. In study 1 we use “mono-brand” manufacturers that are publicly traded. Therefore, as the financial output for step 2 we use a stock market related metric (price/earnings ratio). To test for the robustness and generalizability of the findings we conduct a second study now including brands that don’t have an own stock price either because the manufacturer is not publicly traded at all or is a “multi-brand” publicly traded firm (i.e., only the parent brand is listed). As stock market related metrics become inappropriate in those cases we use earnings before interest, taxes, depreciation, and amortization (EBITDA) to capture the profitability of these brands. We believe that examining one sample without stock metrics is important as several studies emphasize that stock returns may be driven simply by the fact that investors and analysts observe high brand investments. This may lead to the fact that they expect higher appreciation potential although the long run sales or profitability remains unaffected, resulting in a pure “investor response effect” (Joshi and Hanssens 2004; Mizik and Jacobson 2005). Joshi and Hanssens (2004) show, that high advertising has a direct effect on valuation, i.e., an effect independent of its indirect effect via revenue and profit response. Frieder and Subrahmanyam (2005) find that investors favor stocks with strong brand names, even though these powerful brands did not generate superior returns. Thus, even if sales response to branding activities is demonstrably weak, investors are willing to pay a premium for aggressive brand management initiatives. Therefore, one could argue that the high brand efficiency scores and the close relationship between brand relevance and brand efficiency occurred due to the use of a stock market performance metric instead of a conventional profit measure like EBITDA.

Measurement of Brand Relevance

In order to get a brand relevance ranking of product categories, we randomly selected 26 business-to-consumer (B2C) product categories from the Consumer Price Index (CPI) market basket. The five statements introduced above were transferred to an online questionnaire using a seven-point Likert-scale ranging from “absolutely do not agree” to “absolutely agree.” To ensure that respondents only answered questions about product categories they are familiar with, we first asked them for their purchase experience in the 26 categories within the last 12 months. Among these “familiar” product categories seven were randomly selected and respondents answered the five relevant questions per category and several questions regarding socio-economic characteristics. Brand relevance is measured as an index of the five items for which the average values of all respondents within an industry were taken.

Measurement of Brand Efficiency

To capture the two steps of the brand value chain we use a two-step Data Envelopment Analysis (DEA) model. DEA is a nonparametric tool that can deal with multiple inputs and outputs when measuring inefficiency. It estimates an efficient frontier by maximizing the weighted output/input ratio of each brand, thus producing a single measure of overall efficiency (Charnes, Cooper, and Rhodes 1978). Efficient brands (best practices) are those for which no other brand or linear combination of brands can generate as much as or more of the output given the input levels. Because the weights for input and output variables of a brand are computed in order to maximize the ratio and then compared to similar ratios of best-perform-
ing units, the measured value is also referred to as relative efficiency (Seiford 1996). The efficiency results given by DEA will provide firms valuable information for assessing the adequacy of their spending.

According to the brand value chain the influence of the resources consumed by brand management instruments on financial performance is indirect, utilizing psychographic outputs as intermediate factors to generate financial outputs (Keh and Chu 2003). Thus, we recast the brand value chain as a chain of two DEA models. In the first step DEA model we examine the influence of brand investments on the psychographic variables awareness and image covering the cognitive and affective dimension of customer-based brand equity. Subsequently, in the second step DEA model it is investigated whether psychographic variables are translated successfully into “hard” economic facts. Such a multi-stage model allows insights into the sources of overall brand (in)efficiency. Not decomposing the overall efficiency score would mask whether inefficiency arises from internal, operational aspects (conversion of resources in superior awareness and image) or from market-related aspects (capitalizing on awareness and image). We argue that the success in the first step mainly depends on the skills of the brand managers (H1) while success in the second step depends on brand relevance as a key market characteristic (H2).

**DATA AND SAMPLE**

**Data and Sample for the Brand Relevance Ranking**

Three hundred fifty respondents answered the online questionnaire. As every respondent rated seven industries we obtained more than 2,500 evaluations in total, i.e., 100 evaluations per industry. The sample’s socio-economic characteristics are representative for the Central Europe population. We conducted exploratory and confirmatory factor analysis indicating excellent fit measures (Cronbach’s alpha: 0.95, Variance Extracted: 83%, $\chi^2$/df: 2.95, RMSEA: 0.03, NNFI: 0.99, CFI: 0.99; RFI: 0.99; SRMR: 0.015). As a result we obtained the brand relevance ranking of the 26 industries shown in Table 1.

**Data and Sample for the Measurement of Brand Efficiency**

In order to examine the differences in brand efficiency between industries and the moderating role of brand relevance we first selected the following product categories (brand relevance score in parentheses): Study 1: automotive (high brand relevance: 5.1), desktop computers (medium: 3.8) and financial services (low: 2.5); Study 2: automotive (high: 5.1), casual clothing (medium: 4.4) and banks (low: 2.2). The differences in brand relevance are highly significant at $p < 0.01$.

**TABLE 1**

**Brand Relevance Ranking of Industries**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry</th>
<th>Brand Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consumer Electronics</td>
<td>5.16</td>
</tr>
<tr>
<td>2</td>
<td>Automotive</td>
<td>5.10</td>
</tr>
<tr>
<td>3</td>
<td>Cigarettes</td>
<td>5.08</td>
</tr>
<tr>
<td>4</td>
<td>Sports Shoes</td>
<td>5.04</td>
</tr>
<tr>
<td>5</td>
<td>Cosmetics</td>
<td>5.00</td>
</tr>
<tr>
<td>6</td>
<td>Business Clothing</td>
<td>4.91</td>
</tr>
<tr>
<td>7</td>
<td>Beer</td>
<td>4.90</td>
</tr>
<tr>
<td>8</td>
<td>Laptop Computers</td>
<td>4.79</td>
</tr>
<tr>
<td>9</td>
<td>Television</td>
<td>6.63</td>
</tr>
<tr>
<td>10</td>
<td>Casual Clothing</td>
<td>4.48</td>
</tr>
<tr>
<td>11</td>
<td>Sparkling Wines</td>
<td>4.46</td>
</tr>
<tr>
<td>12</td>
<td>Power Tools</td>
<td>4.01</td>
</tr>
<tr>
<td>13</td>
<td>Insurances</td>
<td>3.90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry</th>
<th>Brand Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Desktop Computers</td>
<td>3.80</td>
</tr>
<tr>
<td>15</td>
<td>Soft Drinks</td>
<td>3.73</td>
</tr>
<tr>
<td>16</td>
<td>Convenience Food</td>
<td>3.68</td>
</tr>
<tr>
<td>17</td>
<td>Cellular Phone Networks</td>
<td>3.52</td>
</tr>
<tr>
<td>18</td>
<td>Shower Gel</td>
<td>3.43</td>
</tr>
<tr>
<td>19</td>
<td>Sunglasses</td>
<td>3.35</td>
</tr>
<tr>
<td>20</td>
<td>Fixed Line Networks</td>
<td>2.91</td>
</tr>
<tr>
<td>21</td>
<td>Furniture</td>
<td>2.74</td>
</tr>
<tr>
<td>22</td>
<td>Mineral Water</td>
<td>2.61</td>
</tr>
<tr>
<td>23</td>
<td>Financial Services</td>
<td>2.52</td>
</tr>
<tr>
<td>24</td>
<td>Banks</td>
<td>2.23</td>
</tr>
<tr>
<td>25</td>
<td>Electricity</td>
<td>2.07</td>
</tr>
<tr>
<td>26</td>
<td>Toilet Paper</td>
<td>1.60</td>
</tr>
</tbody>
</table>
Second, to analyze brand efficiency we chose 16 brands per industry in Study 1 and 20 brands per industry in Study 2. For each industry the brands cover at least 60 percent of the market volume. Thus, no major brand is missing in our data set. Note that the number of brands was limited as data for all steps and variables of the brand value chain had to be available. To get the input and output data we collected secondary data for the period 2005. Communication investments were taken from Nielsen Media Research including expenditures for print (newspaper, magazines), broadcast (television, radio) and outdoor (expenditures in more than 300 outdoor plant operator markets). To control for lagged and carryover effects of advertising we used a function of previous period (2004) and current period (2005) expenditures as the communication input (Charnes et al. 1997). As most studies on advertising response modeling found that 90 percent of all advertising effects dissipate after 15 months at latest (see the review in Vakratsas and Ambler 1999) this time span seems adequate. For quality costs we used costs of goods sold as this metric represents all resources that go into the product and thus determine its quality (e.g., labor, material). Distribution costs refer to the costs for making the product available in a great number of stores in order to offer the brand where and when consumers want it and thus reducing the time consumers must spend searching, providing convenience in purchasing, and making it easier to get services related to the product. Hence, distribution costs encompass costs for outlets, sales force, and trade marketing (Smith 1992; Yoo, Donthu, and Lee 2000).

Both quality and distribution costs were taken from COMPUSTAT. Image (as an index of 13 indicators like innovativeness, design, and prestige evaluated on a 7-point scale) and awareness (measured as aided recall) are obtained from a cross-industry brand survey. It is one of the most comprehensive and widely circulated surveys based on over 10,000 consumer interviews that are representative for 50.3 million people. Data on brand specific revenue, EBITDA, and P/E ratio were obtained from COMPUSTAT database. Note that DEA estimates the efficiency without a priori information on tradeoffs among inputs and outputs (Chen and Agha 2004; Luo and Donthu 2006). Thus, this method is advantageous for our study as we have no prior knowledge about which part of the brand expenditures produces which part of the outputs.

Regarding the sample size of DEA studies necessary for meaningful results, the literature commonly suggests that the amount of observed units (in our case brands) has to be larger than double the amount of the product of the number of inputs and number of outputs. This test is regarded as valid for assessing the appropriateness of datasets for DEA (Dyson et al. 2001; Vassiloglou and Giokas 1990). For both steps of the model this condition is fulfilled. To check for potential outliers which is crucial due to high error sensitivity of DEA results, we conducted super-efficiency analysis. Brands with abnormal super-efficiency scores extremely push out the frontier leading to biased efficiency evaluations. As all brands’ super-efficiency scores are below the suggested screen level of 1.2 (Banker and Chang 2006) there is no need for removing brands from the dataset. In summary, the DEA results can be expected to be robust and without systematic errors (Doyle and Green 1995).

RESULTS

Study 1

Comparison of First Step Results Between the Industries (Test of H). On the first step of the brand value chain (see Table 2) the fraction of efficient brands is very similar (automobile and financial services: 50%; computers: 40%). Using the nonparametric Mann-Whitney rank statistic we find that the differences in first step efficiency scores between the three industries are non-significant. This test avoids the hazard of making assumptions about the distribution of DEA efficiency scores. In contrast to parametric techniques, non-parametric rank procedures can be used for any sample size; studies have shown that the asymptotic normal approximation used here only requires \( n_1, n_2 > 10 \) (Brockett and Golany 1996). The results confirm \( H_1 \) implying that in the first step of the brand value chain operational management capabilities drive branding success. As expected, in average the branding competence – which can be learned internally or externally acquired in any industry – is quite similar across the industries.

Even in the industry with lowest brand relevance there is little room for improvements in the first step. The average efficiency score in the financial industry indicates that the mean brand could have reduced spending by 13 percent \((1 - 0.87)\) while holding the level of outputs (image, awareness) constant.

Comparison of Second Step Results Between the Industries (Test of \( H \)). The results for the second step model are totally different. The Mann-Whitney test indicates that both the difference in average efficiency between automotive and computers \((0.94 - 0.72 = 0.22)\) and the difference between computers and financial services \((0.72 - 0.63 = 0.09)\) are significant. Moreover, while within the automobile industry (high brand relevance) 40 percent of brands are efficient, this fraction declines to 25 percent in the financial services industry (low brand relevance). These results confirm \( H_2 \) showing that the efficiency of the transformations in the second step of the brand value chain is influenced by brand relevance because the initial situation for all branches was comparable: For example the 2005 brand advertising expenditures in the automotive industry \((1.39 \text{ billion euros})\) and in the financial service industry \((1.22 \text{ billion euros})\) are very close (Nielsen Media Research 2007). They also reach nearly the same efficiency scores in step 1, but as the brand
is not the key driver of buying decisions in markets with low brand relevance. Well-known brands with a positive image do not translate into economic performance. As the efficiency score for the financial service industry (0.63) indicates, for the mean brand almost 40 percent of the current values of awareness and image are not capitalized, i.e., are wasted. In contrast, for automotives investments in awareness and image are nearly fully reflected in the bottom line.

Comparison of Overall Results Between the Industries. The overall efficiency score shows the efficiency that is reached by the brands in the entire brand management process; it is calculated by multiplying the efficiency scores of both steps (Golany and Storbeck 1999). The overall efficiency is also significantly higher for the automotive brands (0.86) than in the other industries (0.67 and 0.53). As the results show, the high overall inefficiency in the computer and financial services industry is predominantly caused by inefficiencies in the second step of the brand management process. Obviously, there exist two possibilities to increase the overall efficiency: (1) through creating higher revenue and stock value by realigning brand resources to other more brand driven product markets; (2) through reducing wasted brand expenditures (thereby improving brand efficiency) and reassigning them to the actual drivers of buying decision such as price or service quality. These results confirm our suggestion that low brand investments should be employed in industries with low brand relevance. Thus, it is not adequate that the brand advertising expenditures of the automotive industry, even within the inefficient units. This provides further support for H2. Our model can confirm the assumption that brand relevance is a good indicator for the optimum level of brand investment since it shows a high predictive validity for brand management efficiency.

Study 2

In order to ensure the robustness of our findings we repeated the analysis for a new data set modifying several aspects of the first study. In Study 2 we focused on non-publicly traded brands, in order to check whether our implications are robust when using conventional profitability measures instead of stock market performance. Thus, in step 2 of the DEA model we substituted the output price/earnings-ratio by EBITDA (earnings before interest, taxes, depreciation, and amortization). Again we used the automotive industry to represent high brand relevance. As the industry for the medium brand relevance level we now used casual clothing manufacturers instead of desktop computers; for low brand relevance we more specifically used banks instead of financial services providers in general. Moreover, in Study 2 we used data for 20 brands for each industry (instead of 16 in Study 1). The inputs and outputs of the first step DEA were the same as in Study 1. Results for Study 2 are shown in the following Table and can be interpreted analogously to Study 1.

As the results of Study 2 show, the ranking of the three industries with respect to second step brand efficiency (from high to low efficiency) exactly corresponds with the brand relevance ranking of the industries (from high to low brand relevance). This holds true for all three efficiency indicators, i.e., fraction of efficient brands, average efficiency score across all brands and average efficiency score across inefficient brands. Thus, the results of both studies are highly consistent indicating that our results are robust with respect to industry type, types of financial output measures and number of observations (brands) included in the DEA model.
DISCUSSION

Brand managers are accountable for the task of getting the most out of company resources such as communication, distribution, and quality investments. Brand investments become increasingly threatened since they entail a large part of the overall marketing costs. Thus, it becomes important for brand managers to show the productivity of their multimillion dollar spending (Rust, Lemon, and Zeithaml 2004). A methodologically sound measure of brand performance is challenging because firms often target their expenditures to promote multiple outcomes simultaneously, such as both visible sales and stock performance and invisible brand image and awareness.

Theoretical Contribution

First, we provide a model to measure the efficiency of both steps of the brand management process with efficiency being defined as a multiple-output to multiple-input ratio. In the first step we examined the transformation of brand investments into customer-based metrics (brand awareness and brand image). The first step model represents the cognitive and affective aspect of brand equity. Subsequently, in the second step model it has been investigated whether customer metrics have been translated successfully into “hard” financial metrics. As a second theoretical contribution we developed a multi-item measure to assess brand relevance in an industry. This allows researchers to analyze if brands have an impact on consumers’ purchase decisions.

Managerial Contribution

By analyzing five industries differing significantly in their level of brand relevance we revealed a significant influence of brand relevance on brand management efficiency. As the results show, firms are equally successful in creating consumer-based outputs but differ significantly in creating brand related financial success along the level of brand relevance in the product market they are operating in. This is because brand relevance, in contrast to the consumer-based outputs, cannot be influenced by brand managers in the short run. Thus, brand relevance should be seen as a solid metric for determining the optimal extent and allocation of brand investments. The findings show that high brand investments in markets with high brand relevance are justified while the enormous costs to build up well known brands in markets with low brand relevance have to be scrutinized. In such markets other criteria than brands seem to be the key drivers of consumers buying decisions.

An understanding of brand relevance provides companies with a more solid basis for determining how much to spend on communication. High communication intensity can only be justified if brand relevance is high. If brand relevance is low, such investments should, at the very least, be carefully scrutinized. Our findings highlight the key issue in any marketing decision: Whether it is pricing, distribution, or brand, the marketing lever that is used must be effective enough to justify the investment. For example, in the financial service sector brand investments are highly inefficient due to the low significance of brands in this market. Consequently, the use of other marketing tools would be more beneficial. The low importance of the brand as a purchase criterion in the financial services sector is consistent with the discussion that the personal relationship with customers is the key success factor in that industry. Therefore, when it comes to the decision which metrics should be used for resource allocation the customer equity concept may be more appropriate. Our findings do question the recent discussion whether customer equity and brand equity should necessarily be integrated (Leone et al. 2006; Ambler et al. 2002). Instead, we propose that this integrated approach is only appropriate in industries with high brand relevance. From a financial perspective companies in industries with low brand relevance should concentrate on customer equity only.

TABLE 3
DEA Results for Brand Management Efficiency in Study 2

<table>
<thead>
<tr>
<th></th>
<th>Automotive</th>
<th>Casual Clothing</th>
<th>Bank</th>
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</thead>
<tbody>
<tr>
<td></td>
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<td>(Medium Brand Relevance)</td>
<td>(Low Brand Relevance)</td>
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<tr>
<td></td>
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<td>Step 2</td>
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<tr>
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WHEN COMPANIES GO TOO FAR . . . AND GET IT RIGHT: EXPLORING LOW-FIT BRAND EXTENSION SUCCESS

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SUMMARY

In the last ten years, consumers have witnessed the introduction of many brand extensions including Panasonic bicycles, Teflon apparel, Ferrari laptops, and Virgin bridal boutiques. Many of these efforts have thrived, a result that is surprising given that they mesh poorly with or even contradict the notion of fit with parent brand. Klink and Smith (2001) touched on this issue in their review of threats to the external validity of existing brand extension research. They noted that research has identified fit as one of the most powerful predictors of brand extension success yet examples such as those provided earlier appear to contradict this phenomenon. Seemingly incongruent brand extensions highlight that fit may be more flexible than is reflected in current research or that there are additional factors at play.

The purpose of this study is to explore the conditions under which a low-fit brand extension can succeed. Specifically, we examine what effect consumers’ strong relationships with an existing brand have on the success of low fitting extensions. Generally, a person with a strong and positive relationship with a partner will be more accommodating and tolerant (Rusbult et al. 1991), rate alternatives less favorably (Johnson and Rusbult 1990), and perceive their partner more positively (Murray, Holmes, and Griffin 2003). In this study, we propose that strong relationships will predict positive evaluations of low fit extensions due to perceptions of (1) innovativeness and (2) fit. That is, as the strength of consumer-brand relationship increases, consumers are more likely to perceive the brand extension as innovative and as a not terrible fit with the parent brand, explaining their improved perceptions of the extension as a whole.

We administered a survey to a sample of 200 adults who were recruited online using Study Response in exchange for being entered into a random draw of six prizes of $50. Eighty-four respondents were able to identify what they thought were successful low fit extensions. Examples of low fit extensions provided by respondents were Hanes perfume, Adidas cologne, Honda TV, Elders ISP, and Vera Wang beds. Several covariates were also assessed to address alternative explanations and included mood, attitude toward the parent brand, breadth of offering of the parent brand, and manufacturing difficulty of both the parent brand and extension. Only Mood and Manufacturing Difficulty predicted consumers’ evaluations.

Results generally support our thinking and suggest that consumers who have a strong relationship with a particular brand evaluate low fit extensions positively because they view such extensions as more innovative and better fitting than consumers with weaker relationships. That is, even though the respondents in our study rated the extensions as low fitting (M = 3.5/7), fit still had a positive effect on evaluations of extensions. While research on biased partner perceptions suggests individuals in a strong relationship tend to view their partner in a positive light (Murray, Holmes, and Griffin 2003), our results likewise point to some combination of forgiveness and rationalizing by consumers.

Further, based on our data, it is apparent that if a company launches a low-fitting brand extension, the consumer with a strong brand relationship will pick out and make evaluations based on characteristics of the extension that are superior, unique, or innovative. These unique and innovative characteristics, whether real or imagined, would allow the consumer to re-affirm their relationship with the brand.

Our findings confirm the importance of building strong relationships between brands and consumers. Strong relationships provide protection from branding mistakes that could otherwise damage brand equity and ensure greater flexibility for their business in the future. References are available upon request.
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COMPLETENESS AS A PRODUCT POSITIONING STRATEGY

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Daniel Sheinin, University of Rhode Island, Kingston

SUMMARY

Marketers often try to differentiate their products by introducing additional product capabilities. In some product categories, introducing all possible product features in a single product may be positioned as “complete product” by the marketer to increase perceived compatibility of the product with consumers’ needs and wants. Such complete positioning has been introduced in a range of products, including toothpaste (e.g., Colgate Total – complete 12 hour protection), multivitamins (e.g., Centrum – from A to Zinc), online retailers (e.g., eBay – whatever you’re looking for you can get it on eBay), personal care products (e.g., Braun – 360° Complete Shaver), and software programs (e.g., McAfee Total Protection). A crucial research question, therefore, centers on the impact of perceived completeness of product features on consumer judgment and choice.

The objective of this study is to understand the influence of completeness as a positioning strategy on product beliefs, evaluations and purchase intentions. We propose that complete positioned products have more positive product beliefs, better evaluations, and higher levels of purchase intentions compared to the same product without such positioning. It is also proposed that information load as a result of decision complexity and product complexity, and price will moderate the impact of completeness. Specifically, it is proposed that higher levels of information load and price will have a positive effect on preference for complete products.

Theoretical Background

Merriam Webster’s collegiate dictionary (1995) defines completeness as “having all necessary parts, elements, or steps.” Complete products, by definition, should include all attributes, additional features and options that are offered in that particular product category with its current technology. In a choice context where consumer needs to choose between a specialized versus complete positioned product, the concept of compensation may explain the potential outcome. Within the choice context, compensatory decision strategy implies that a superior feature of a product can compensate for poor value on it’s another feature, while noncompensatory strategy implies that a superior performance of one attribute cannot compensate for a poor value on another. The central research question is, therefore, whether consumers use compensatory or noncompensatory decision strategies when comparing complete and specialized alternatives.

Zero-risk bias, in other terms certainty effect, suggests that individuals favor small benefits which are definite to larger benefits that are indefinite. For example, individuals are more likely to assign a higher value on decreasing the possibility of a negative outcome from five percent to zero percent than decreasing the possibility of another, possibly more severe, risk from 30 percent to 20 percent (see Baron 1994 and Gowda 1999 for a discussion). In terms of possessing attributes, complete positioning would imply reducing the potential risk to zero with the choice since it would suggest that the product has all potential attributes. While specialized positioning may suggest that the product is excelled in one or more attributes, it does not suggest a definitive benefit in terms of having all attributes. Hence, zero-risk bias should operate in favor of complete positioned alternative over specialized alternative. Another cognitive process that could influence the evaluation between complete positioned and specialized product is availability heuristic. The availability heuristic states that “people assess the frequency of a class or the probability of an event by the ease with which instances or occurrences can be brought to mind” (Tversky and Kahneman 1974, p. 1127). Complete positioning should evoke availability heuristic by stating all possible attributes that alternative should offer. Therefore, availability heuristic should favor complete positioned alternative especially when choice context involves both specialized and complete positioned alternatives.

While we propose that complete positioned products will have more positive product beliefs, better evaluations, and higher levels of purchase intentions, we also posit that there are some moderating variables that influence this relationship. First, information load that is caused by decision complexity (number of products in the choice set) and product complexity should moderate the impact of completeness. Another variable that is proposed to impact the effect of completeness is price of the focal product. When price of complete positioned product is lower than specialized alternatives, consumers are expected to be more skeptical about the effectiveness of the product. Therefore, we propose that when price of the complete positioned product is higher than other alternatives, product beliefs, evaluations, and purchase intentions for complete positioned product increase.
Experiment and Discussion

The participants, 133 undergraduate students (48.1% females) in a northeastern university, were recruited to participate in a study that investigates consumer-decision making by evaluating hypothetical choice alternatives. They were given extra credit for participating in this experiment. A 2 (completeness) x 2 (decision complexity) x 2 (price) between-subjects design was employed to investigate research hypotheses. Product complexity was the within subjects-factor.

Results indicate that complete products have higher preferences compared to specialized products in both high and low complex product groups. Even at the individual attribute beliefs, our results demonstrate that complete positioned products are more likely to be evaluated more positively. Our results also indicate that price is not the main moderator of the completeness-product preferences relationship. Our results show that rather than price, information overload with decision and product complexities moderates complete product preferences. Specifically, our results show that completeness as a positioning strategy significantly elevates product evaluations, beliefs, and purchase intentions when product is highly complex and there are many alternatives in the choice set. References are available upon request.

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THE IMPORTANCE OF THE RETAIL MARKETING INSTRUMENTS AND OF THEIR PERCEIVED CONCEPTUAL COHERENCE IN BUILDING A STRONG RETAIL BRAND

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SUMMARY

With the growing realization that brands are one of a firm’s most valuable resources (Srivastava, Fahey, and Christensen 2001), branding has emerged as a top management priority in the past decade. Establishing strong, conceptually coherent and consistent/durable brands tends to be one of the main goals that managers strive to achieve (Aaker 1996; Kay 2006). Given its highly competitive nature, branding can be especially important in the retailing industry in influencing customer perceptions, and in motivating store choice and loyalty (Ailawadi and Keller 2004, p. 331; Hartman and Spiro 2005). Thus, the rise of the retailer as a brand is one of the most important trends in retailing (Grewal, Levy, and Lehmann 2004).

This article addresses how retailer attributes and their perceived conceptual coherence affect customer-based retail brand equity when considering retailers as brands. It investigates the antecedents of a strong retail brand. Unlike other investigations, a model is applied to five retail sectors so that some generally applicable and also some sector-specific conclusions can be drawn. We apply a broad catalogue of retailer attributes in order to detect varying relevance depending on the sector concerned. In store image research, retailer attributes were usually investigated in isolation only, without looking at whether these attributes matched one another. In other areas, however, this aspect plays a major role, which is why we have integrated it into our study and thus comply with the request made by Marks (1976), who pointed out that the individual attributes should not only be regarded in isolation because they interact with one another in the mind of the consumer. Human cognition and perception is an integrated process, which means that perception is not an isolated process of specific senses, but an integrated assimilation of stimuli (Gerrig and Zimbardo 2004). Perception psychology research, particularly with regard to dissonance theory (Festingher 1957), speaks of convergence and divergence, which refer to the customer’s cognition being matched or contradicted. In our context this means that marketing instruments either fit one another or do not. The match of integrated instruments in the cognition of the customer can be labeled perceived conceptual coherence (Murphy and Medin 1985). So the retailer attributes and their conceptual coherence, are processed internally in the consumer’s mind. The short-term perception is the ground on which the consumer-based retail brand equity (the long-term attitudes toward the retailer) is formed. This then influences actual shopping behavior (Steenkamp and Wedel 1991; Hanna and Wozniak 2001; Burnkrant and Page 1982).

The empirical study is based on 3,026 face-to-face interviews (conducting quota sampling by sex and age) spread over the grocery, textiles, DIY, electronic, and furniture retailing sectors. Structural equation modeling is used to illustrate the impact of central dimensions of the perception of retailer attributes and their perceived conceptual coherence on customer-based retail brand equity.

First of all, a model with excelled overall fit measures is presented which analyses the impact of the retailer attributes and their perceived conceptual coherence on the retail brand equity examining the total sample, i.e., all five retailing sectors simultaneously in order to reveal effects that occur across the retail industry. Intersectorally the considerable relevance of all five single dimensions and the perceived conceptual coherence of the retailer attributes is revealed. Perceived conceptual coherence is shown to be important on the one hand, and on the other hand in a comparison of the individual perception dimensions, service is the dimension that stands out.

The next step was to compare their influence within the five specific sectors forming a strong retail brand. AMOS, based on a multiple-group analysis, was used to review the sectors individually. The overall fit measures indicate that this model can be applied to each single retail sector and substantiate the proposition that the five intersectoral dimensions of the retailer attributes and their coherence can be applied both intersectorally and specifically to an individual retail sector. The individual dimensions show different levels of influence in the individual retail sector. Nevertheless, the perceived conceptual coherence of the retailer attributes has very high and constant influence compared to the individual dimensions. When comparing only the individual dimensions, the service dimension is also highly relevant in each specific retail sector. In four out of five sectors analyzed, it is the dimension with the strongest influence on retail brand equity.
The study demonstrates the impact of retailer attributes in building a strong retail brand in general, as well as highlighting some differences that are very much specific to the individual retail sector concerned. The results sensitize the reader to the fact that building a positive retail brand must take account of special features specific to the retail sector in question. In general, we point out the importance of the perceived conceptual coherence of the retailer attributes. As a retailer it is important to follow one distinct strategy that defines each single retail marketing instrument with the aim that the consumer’s perception of the retailer is consistent. The consumer must obtain a clear image of the retailer that remains stable over the course of time. References are available upon request.

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ABSTRACT

In this paper, we explore how the nature of currency used in a decision making situation can influence a decision maker’s susceptibility to using heuristics. Prior research reveals that when information such as magnitude of risk, prior investments, or time delay is processed by individuals in the context of time versus money, there are quantitative differences in how this information is utilized to arrive at judgments and decisions. We contribute to this stream of research by demonstrating that a qualitatively different form of decision making – making decisions based on quick and easy heuristics rather than an analysis of the available information – gains prominence when one works with time rather than money. We also offer evidence for the heuristic process via response time measures, and by showing how this difference between time and money can be eliminated.

INTRODUCTION

Consider a mom trying to find the right university for her promising high-school child. She could search for information about universities by spending time (e.g., scouring the Internet), money (e.g., buying relevant magazines), or both (e.g., traveling to different universities). More searches will possibly increase the payoffs (i.e., finding suitable universities) but will also increase costs (i.e., time or money expenditures). Therefore, she might make an a priori decision regarding how much to search. For instance, she might decide on the number of universities to visit so that she can accordingly budget for the required travel time (e.g., by applying for leave from work) and money (e.g., by saving on other expenses).

As illustrated above, consumers frequently search the environment in order to resolve uncertainties (Moorthy, Ratchford, and Talukdar 1997; Punj and Staelin 1983). Literature on search suggests that, given a potential payoff, the extent to which people search is dictated by the costs of search (Stigler 1961). In this paper, we explore how the willingness to search could be driven by heuristics that are completely unrelated to search costs and payoffs. For instance, the mom trying to decide on the number of universities to visit could rely on heuristics evoked by prior experience (“I always check 3 options before making a decision; let me visit 3”) or by the context (“Out of my three friends, one visited 2 universities, one visited 5, and one visited 8; let me take the middle option and visit 5”). We find that the propensity to use heuristics is higher when search involves spending time rather than money. This finding provides new insights into how decision making in time is different than that in money. It also adds to our understanding of the search process by showing how it differs with the currency in which it is conducted. Finally, our results are of relevance to consumers trying to budget time and money, and to marketers trying to stay in the consideration set of consumers searching for products and services.

CONCEPTUAL BACKGROUND

A search decision is akin to solving an optimization-under-constraints problem in which costs are traded against payoffs (Stigler 1961). In line with this, experimental economists have demonstrated that, given no change in payoffs, search behavior increases with a decrease in the relevant search costs (Kogut 1992; Schotter and Braunstein 1981; see Davis and Holt 1993 for a review). Consumer researchers, however, have long argued that decisions can be based not only on a careful analysis of relevant information but also on simple thumb rules, or heuristics (Payne, Bettman, and Johnson 1993). Could search decisions also be driven by heuristics that are actually unrelated to search costs and payoffs? Furthermore, could heuristics have a differential effect depending on whether search is conducted by spending time or by spending money? Examining this time-money difference in the context of search is interesting for three reasons.

First, apart from rare exceptions involving time (Rosen and Olshavsky 1987; Smith, Venkatraman, and Dholakia 1999), search experiments rely overwhelmingly on the currency of money. This is true for experimental economics research (Cox and Oaxaca 1989; Kogut 1992; Schotter and Braunstein 1981) as well as experimental consumer research (Diehl 2005; Srivastava and Lurie 2001; Urbany 1986; Zwick et al. 2003). The use of money is appropriate because it enables easy quantification of search costs as researchers focus on the phenomena of interest. However, introspection reveals that in conventional markets (e.g., physical stores) as well as electronic ones (e.g., websites), time is very frequently spent in order to search. This is also evident from field research that assumes time as a primary currency when studying search behavior in real-life settings. Search costs are measured by directly assessing respondents’ own valuation of the time required to search (Moorthy et al. 1997; Srinivasan and Ratchford 1991) or indirectly assessing their opportunity costs of time from other indicators (Punj and Staelin 1983).
Second, as discussed above, the theoretical prediction of search costs affecting search behavior has been supported in many experiments. However, few field studies (Moorthy et al. 1997) show this effect. In other field research, the effect of search cost has been found to be either marginally significant (Punj and Staelin 1983) or completely non-significant (Srinivasan and Ratchford 1991). We recognize that this discrepancy between experimental and field results may be driven by the numerous other differences between the two settings. However, these results do underscore the importance of isolating the effect of currency on search decisions.

Finally, time and money are inherently interesting because despite being economically equivalent consumption resources (Becker 1965), they differ in terms of their risk aversion (Leclerc, Schmitt, and Dube 1995; Okada and Hoch 2004), consideration of sunk costs (Soman 2001), and discounting (Soman 1998; Zauberman and Lynch 2005). The crux of these papers is that when consumers are faced with a decision problem, they analyze the relevant information in a different manner if the information pertains to time than to money. What this stream does not tell us, however, is whether a qualitatively different form of decision making – making decisions based on heuristics – gains prominence when one works with one currency rather than the other. This question can be well studied in the context of search not only because search decisions are an integral part of the consumption experience but also because unlike purchase situations, in which money is the dominant currency, search situations do frequently involve time as well.

THEORETICAL DEVELOPMENT

Both theory (Stigler 1961) and monetary experiments (Kogut 1992; Schotter and Braunstein 1981) suggest analytic decision making in which people carefully consider the trade-off between costs and payoffs. Although this decision making is consistent with the economists’ view of a rational choice theory, the information-processing approach (Bettman 1979) suggests that such a theory is incomplete; decision makers often do not process information methodically because they are limited in their capacity to do so (Simon 1955). Prior work suggests that when the currency is that of time rather than money, people are indeed less able to process information.

Soman (2001) does find that time-money differences disappear when the accounting of time is facilitated by various means: providing a wage rate, increasing salience of opportunity costs, and educating about economic approaches to time. Inability to account for time could also arise because unlike money which is unambiguous – a dollar is a dollar in all circumstances – time cannot be precisely assessed because its use may vary from one situation to another; the value of a temporal expense is not concrete but open to interpretation (Okada and Hoch 2004). That time is hard to account for is also evident from the fact that people are not adept at judging extended experiences based on their duration. Apart from some situations, such as when individuals can easily compare durations (Ariely and Loewenstein 2000), people show a duration neglect (Varey and Kahneman 1992). These findings suggest that it is indeed harder to work with time than with money.

If people are limited in their capacity to scrutinize the information provided, they are less likely to be able to identify and process the relevant and important pieces (Alba and Hutchinson 1987) and less likely to analyze the information in order to arrive at a judgment (Ratneshwar and Chaiken 1991). What they might do instead, is to rely on simple thumb rules that they find easier to work with (Payne, Bettman, and Johnson 1993). This idea of relying on cognitive short-cuts instead of a careful analysis of relevant information is also integral to many dual-process models (see Chaiken and Trope 1999 for a review). For instance, in the heuristic-systematic model (Chen and Chaiken 1999), people make judgments based on simple cues or thumb rules if they are limited in their cognitive ability or capacity to scrutinize judgment-relevant information. Taken together, the above discussion suggests that when individuals work with temporal search costs, their search decisions will be driven by heuristics because time is not easy to work with. When individuals work with monetary search costs, however, they are less likely to rely on unrelated heuristics because they are quite adept at accounting for expenditures of money.

We next present four non-sequential-search experiments. In such settings, the search decision is taken prior to doing any search (Burdett and Judd 1983). For example, one can decide on the number of universities to visit before actually starting travel. Similarly, a consumer trying to buy a book at the lowest price could make an a priori decision about the total number of bookstores to visit in order to check prices. Experiment 1 shows that people use self-generated heuristics more often when the currency is time rather than money. Experiment 2 shows that when a heuristic strategy is made available – the option to choose the middle of three options – people use that strategy more for time than for money. Experiment 3 shows a similar effect for the anchoring heuristic. Exper-
EXPERIMENT 1

Overview

This experiment was a preliminary test of our prediction. Participants considered searching for a moving company. If one chose to search more (i.e., invite more moving companies for estimates), the likelihood of a desirable payoff (i.e., finding the cheapest moving company) increased but so did the search costs (i.e., cost of inviting the moving companies).

Design

A between-subjects design was used in which currency of search (time vs. money) was manipulated. Our main dependent variable was the extent to which a heuristic strategy was mentioned in the verbal protocol that the respondents wrote.

Procedure

Forty-three undergraduate students participated in this experiment in exchange for partial course credit. In the following paragraph, underlining highlights the two conditions, to which the participants were randomly assigned. As is clear from the scenario, we considered $5 to be roughly equivalent to 30 minutes. This wage rate is based on our pretests and is close to recent work that has employed a wage rate of $12.50 per hour (Okada and Hoch 2004). However, it needs to be noted that an exact equivalence between the two is not critical to our experiment.

Imagine that you are moving to a different location and have decided to hire a moving company. Because you have never tried movers before, you ask a knowledgeable friend for help. He picks up the Yellow Pages and tells you the names of 50 moving companies that provide a good level of service. He adds that the prices could vary a lot – anywhere from $500 to $1000 for the amount of stuff you have. He therefore suggests that you randomly choose some of these 50 moving companies, get them to your apartment so that they can give you their price estimates, and then pick the one that is the cheapest.

The problem that you now face is to decide how many you should get home for an estimate. To get the cheapest rate, the best thing to do would be to let each of 50 companies visit your apartment and give you an estimate so that you may pick the cheapest one. However, there is a cost involved in terms of the amount of money/time you spend on this activity. Each moving company will charge $5/take 30 minutes to inspect your stuff and provide an estimate.

Out of the 50 moving companies that you are considering, how many are you going to get over for price estimates? (Please provide one number, not a range.)

I will ask ______ moving companies to come over and provide their price estimates.

After participants indicated the willingness to search (i.e., no. of companies), they turned to the next page and took two minutes to explain the thought process that led to their answer.

RESULTS AND DISCUSSION

We did not have any prediction regarding the willingness to search. The results indicated that there was no statistical difference between time and money ($F(1,41) = .6; p > .44$) but, numerically, the willingness to search was higher for money ($M = 6.7$) than for time ($M = 5.8$). To assess the variable of interest, we analyzed the cognitive responses – the comments that the respondents wrote about their thought process. We asked two independent judges who were blind to the experimental conditions to code participants’ responses as either 0 (non-heuristic-strategy) or 1 (heuristic-strategy). Through examples and discussions, it was explained to the judges that heuristic processing is reflected if participants rely on their own thumb rules in order to arrive at their search decision. The judges coded some responses as 0 (“If each company charged $5, I’d be willing to spend $50 to get estimates, which is 10 companies” or “I thought about how much time I wanted to spend), and other responses as 1 (“Ask 3 companies, so you have a high, middle, and low range.” “Pick 1 out of every 10, hence 5 companies in all”).

Out of the 43 responses, the two judges agreed on 41 ($r = .83; \text{Cohen’s } \rho = .81$). They then discussed the two dissimilar responses and arrived at a consensus. We used the mutually-agreed list of responses to analyze 22 participants in the time condition and 21 participants in the money condition. The number of respondents who indicated having used a heuristic strategy was higher for time than for money; 9 (40.9%) for time and 3 (14.3%) for money ($z = -1.95; p < .03$).

These results provide preliminary evidence for the higher use of heuristics in time (vs. money). However, because we assessed self-generated heuristics, we could not verify the causal mechanism. We therefore manipulate the availability of context-based heuristics – menu-dependence and anchoring – to better examine the differential use of heuristics.
Menu dependence (Huber, Payne, and Puto 1982; Simonson 1989) occurs if preferences for options are irrationally influenced by the menu of options in the choice set. One type of menu dependence, the compromise effect, runs counter to the notion of similarity. Given two options B and C, the inclusion of an option that is more similar to B (say, A) ought to reduce the preference for B (relative to C) because some of those who earlier chose B can now choose the adjacent option A. However, Simonson (1989) demonstrates that including A increases the preference for B. Because B is the middle option in the \{A, B, C\} set, it is an easy-to-choose compromise option. In the context of search, one can envision two options regarding the willingness to search (B = low search and C = high search). The inclusion of a third option (A = lowest search) would make B the compromise option. Given our predictions, the compromise effect is more likely to emerge for time than for money. If accounting for temporal search costs is hard, choosing the compromise option B will represent an easy-to-use thumb rule to decide which search option to pick. Therefore, the preference for B (relative to C) will increase when A is introduced. This effect will be relatively weaker for money because the search decision will be driven by analysis of search costs rather than a reliance on thumb rules. We test this idea in experiment 2.

Anchoring (Tverksy and Kahneman 1974) is the tendency to rely heavily, or anchor, on one piece of information when making decisions. For instance, the willingness to pay for a product can be influenced by an arbitrary anchor such as the last two digits of one’s Social Security number (Simonson and Drolet 2004). When consumers decide on how much to search, their decisions could similarly be anchored by numbers that they are first exposed to. If the currency is time (vs. money), people are more likely to rely on the anchoring heuristic because, given the difficulty in accounting for search costs, the anchor provides an easy way to arrive at a search decision. We test this in experiment 3. In experiment 4, we offer evidence for the heuristic process via response time measures, and by incorporating a prime for accounting.

EXPERIMENT 2

Overview

The experimental stimuli were similar to that of experiment 1. The main difference was that rather than having to decide on the number of moving companies that they would invite, participants had to choose one search option (i.e., number of companies to invite) from a menu of options. Our prediction was that a change in the menu of search options (two vs. three options) would lead to a stronger change in the relative share of the focal option if the currency of search was time rather than money. The focal option was the lower-search option in the binary set but the compromise (i.e., between lowest and highest search options) in the trinary set.

Design

A between-subjects design was used in which both currency of search (time vs. money) and menu of search options (\{3,5\} or \{1,3,5\}) were manipulated. The trinary set includes one option (i.e., invite 1 company) that is more similar to the search option of 3 companies than to 5 companies. Therefore, in the absence of a compromise effect, the 1-company option would more adversely affect the share of the 3-companies option rather than the 5-companies option. However, if people rely on the compromise effect, the share of the 3-companies option will actually increase relative to the 5-companies option (Simonson 1989). This change in the relative share of the 3-companies option (vs. the 5-companies option) was the dependent variable.

Procedure

In exchange for partial course credit, two hundred and eleven undergraduates participated in this experiment. After reading the main scenario, they read the following in the binary-set:

As you think about the number of moving companies you should get over for estimates, you consider getting either 3 or 5 moving companies. So you need to make a decision now. How many of the 50 moving companies will you get over for estimates? (Please mark only one of the following two options.)

I will ask 3 companies to come over for price estimates.
I will ask 5 companies to come over for price estimates.

In the trinary set, participants read the following after having read the main scenario:

As you think about the number of moving companies you should get over for estimates, you consider getting 1, 3, or 5 moving companies. So you need to make a decision now. How many of the 50 moving companies will you get over for estimates? (Please mark only one of the following three options.)

I will ask 1 company to come over for a price estimate.
I will ask 3 companies to come over for price estimates.
I will ask 5 companies to come over for price estimates.

Results

We employed a binary logistic regression model in which we analyzed the number of people choosing the 3-companies option or the 5-companies. The dependent variable was the relative share. The currency of search and the menu of search options were the between-subjects independent variables. Figure 3 depicts the percentage relative share ((No. choosing 3 companies / No. choosing either 3 or 5 companies) * 100).¹

There was no main effect of either currency (β = .22; Wald = .52; p > .47) or the menu of search options (β = -.47; Wald = 2.43; p > .11) but the predicted interaction was significant. The menu-of-options x currency interaction, (β = -1.29; Wald = 4.62; p < .05) confirmed that the compromise effect emerged differently in the money versus time conditions. Specifically, when the currency was time, the focal 3-companies option was chosen by 28 out of 52 (53.9%) participants in the binary condition and 39 out of 50 (78.0%) in the trinary condition. In line with the compromise effect, this increase was significant (z = -2.25; p = .01); the share of the 3-companies option relative to the 5-companies option increased when the 1-company option was introduced. In contrast, there was no statistical change in relative share when the currency was money (z = .43; p > .67). The 3-companies option was chosen by 34 out of 53 (64.2%) participants in the binary condition and by 30 out of 50 (60.0%) in the trinary condition. When offered the easy solution of relying on a compromise heuristic, participants relied on that option more in time (vs. money). We now examine time-money differences in the anchoring heuristic.

EXPERIMENT 3

Overview

Participants considered the situation of searching for information before purchasing a used car. Although it would be desirable to find out all information about each used car being considered, searching for such information usually involves certain costs, as is evident by the presence of companies that sell vehicle history reports for a price (e.g., Carfax®). The scenario clearly represented the relationship between search costs and search behavior. If one chose to search more (i.e., view more historical records), the likelihood of a desirable outcome (i.e., finding a used car of acceptable quality) increased but so did the search costs (i.e., cost of obtaining the records). The classic two-step procedure was used to anchor participants (Tversky and Kahneman 1974). First, they were asked whether the number of records they view would be less than or equal to a certain number, or more than that number. Second, they were asked to provide the exact number of records they would view. Our prediction was that the change in the anchor value (2 vs. 40) would more strongly influence the willingness to search (i.e., exact number of records to view) when search is conducted in time rather than money.

![FIGURE 1](image-url)

Experiment 2: Effect of Search Currency and Menu of Options on Relative Share of One Specific Option to Search for a Cheap Moving Company
Design

A between-subjects design was used in which currency of search (time vs. money) and anchor value (low vs. high) were manipulated. The dependent variable was the willingness to search—the number of historical records that the participants wanted to view.

Procedure

One hundred and forty-one undergraduate students participated in this experiment in exchange for partial course credit. In the following paragraph, underlining is used to highlight the four conditions to which the participants were randomly assigned.

You’re planning to buy a used car within the next few days. Your friends recommend that you consult a reputed used-car website which offers extensive information that is hard to find anywhere else. On this website, you cannot only view the listings of the used cars but can also view detailed historical records (accidents, water damage, number of previous owners, etc.).

You go to the used-car website, put in your search criteria (price range, brand name, etc.) and find that there are 80 cars that meet these criteria. You are now thinking about viewing their historical records. However, the website informs you that it takes $1/5$ minutes to view the details of one historical record. Therefore, the more records you view, the more money/time you spend on this website. You now have to decide how many of these 80 historical records you are going to view.

Will you view up to $2/40$ records or will you view more than $2/40$ records? (Mark one option) (a) I will view $2/40$ records or less (b) I will view more than $2/40$ records.

Exactly how many records will you view? (Write one number, not a range.)

I will view _______ records.

Results and Discussion

Two participants provided inconsistent responses to the two questions indicating that they had not read the questions well. For example, one participant marked “I will view 2 records or less” in response to the first question and then marked 5 records in response to the second question. Therefore, they were excluded. The following results are based on a sample size of 139 rather than 141. We used a between-subjects design in which willingness to search was the dependent variable and currency of search and anchor value were the between-subjects independent variables. Figure 2 depicts the results of the Analysis of Variance.

The currency \times anchor interaction was significant ($F(1, 135) = 3.5; p = .06$) confirming that the willingness-to-search difference between the low and high anchor conditions was greater for time ($M = 14.6$) than for money ($M = 3.4$). That is, when the anchor value increased (from 2 to 40), participants in the time (vs. money) conditions were more sensitive to this increase. In fact, the effect of anchoring was significant only for time, not for money. The willingness to search in the time condition was higher ($F(1, 135) = 13.5; p < .001$) when anchor value was high ($M = 23.7$) rather than low ($M = 9.1$), but the willingness to search in the money condition was statistically the same ($F(1, 135) = .57; p > .44$) irrespective of whether the anchor value was high ($M = 19.2$) or low ($M = 15.8$). Consistent with our earlier experiments, we demonstrate that people are more susceptible to relying on heuristics when the currency is time (vs. money).

EXPERIMENT 4

Overview

The experimental stimuli were similar to that of experiment 3 with a few exceptions. One, we used higher search costs ($3/15$ minutes instead of $1/5$ minutes) to check whether our results replicate. Two, we manipulated an accounting prime to be either absent or present. Given our theorizing about heuristic strategies being driven by the fact that people do not usually account for time (vs. money), an accounting prime should get the time participants closer to the money participants. As an additional check, we also measured response times to see if the accounting prime does indeed make the time participants spend more time in doing relevant calculations, rather than simply relying on the anchor. To that effect, we measured the response time for the willingness-to-search question (i.e., specific number of records to view) – the time it took from the moment this question was posed to the moment it was answered. To enable measurement of response time, we conducted this study using MediaLab software.

Design

A between-subjects design was used in which currency of search (time vs. money), anchor value (low vs. high), and accounting prime (absent vs. present) were manipulated. The dependent variables were the willingness to search (the number of historical records that the participants wanted to view) and the associated response time.
Procedure

One hundred and forty-five undergraduate students participated in exchange for partial course credit. If participants were assigned to the time (money) condition, they either saw the scenario, as in experiment 3, or wrote an essay on the value of time (money) as follows:

*Please take a couple of minutes to write a short essay on THE VALUE OF TIME/MONEY. In this essay, please explain how time/money is a resource that one should spend carefully.*

When accounting prime was manipulated to be present, participants saw the above instructions, typed in their essays, and pressed “Continue.” The computer then displayed the used-car scenario. When accounting prime was absent, participants were directly presented with the used-car scenario. At the bottom of the scenario, the anchor was manipulated by asking participants to choose one of two options; they marked whether they would view less than or equal to, or more than, a certain number of records (2 vs. 40). Then, on the next screen, participants were asked to type in the exact number of records they would view.

Results and Discussion

As in experiment 3, some participants were excluded because their responses revealed that they had not read the questions. The results are based on a sample of 143 rather than 145.

*Willingness to Search.* When the accounting prime is absent, we expect to replicate the results of experiment 3 such that a change in the anchor value (2 vs. 40) should more strongly impact willingness to search when the currency is time (vs. money). When the accounting prime is present, we expect this difference between time and money to diminish. To test our predictions, we used a between-subjects design in which willingness to search was the dependent variable and currency of search, anchor value, and accounting prime were the between-subjects independent variables. Figure 3 depicts the results of the Analysis of Variance.

As is evident from Figure 3 and the currency x anchor x accounting-prime interaction ($F(1, 135) = 2.8; p < .1$), the accounting prime changed the pattern. When accounting prime was absent, the currency x anchor interaction ($F(1, 135) = 3.4; p = .06$) was similar to that of experiment 3; the willingness-to-search difference between the two anchor conditions was greater for time ($M = 23.6$) than for money ($M = 8.4$). The anchoring effect was significant only for time, not for money; the willingness to search in the time condition was higher ($M = 29.4$) rather than low ($M = 5.9$), but the willingness to search in the money condition was statistically the same ($F(1, 135) = 2.1; p > .15$) irrespective of whether the anchor value was...
high ($M = 11.8$) or low ($M = 3.4$). When accounting prime was present, however, these time-money differences vanished. The currency x anchor interaction was not significant ($F(1, 135) = .3; p > .58$); the willingness-to-search difference between the two anchor conditions was similar for time ($M = 5.9$) and money ($M = 10.3$).

**Response Time.** Based on our theorizing about heuristic processing in time, we expect an interaction of accounting prime with search currency. When participants are asked to indicate the specific number of records they are going to view, those in the money condition are likely to calculate their response based on a relatively precise calculation regarding the search costs and the search payoffs. They are likely to do this accounting irrespective of whether the prime is absent or present. Consequently, the accounting prime is not expected to have a significant influence on the time taken to respond. Conversely, however, those in the time condition are more inclined to rely on a heuristic. So if the accounting prime is absent, they are likely to come up with a quick answer based on the anchor they have already formed. But if the accounting prime is present, they are likely to spend time on a more precise calculation based on search costs. Consequently, the accounting prime is expected to significantly increase the time taken to respond. To test our

NOTE. Numbers are means (standard deviations). Error bars show 95 percent confidence intervals.
predictions, we used a between-subjects design in which currency of search, anchor value, and accounting prime were the between-subjects independent variables. The dependent variable used was log-transformed willingness to search. This transformation was done in order to adjust for extreme response times. However, the results reported below are substantively identical to the results we obtained without doing any transformation. To ease interpretation, the means reported below are the actual response times (in milliseconds).

Although we used the complete model to use the full information, there is no reason to expect anchor value to have any impact on the response time; the currency x anchor value accounting-prime interaction was not significant ($F(1, 135) = .7; p > .39$). The only term statistically significant in the model was the critical currency x accounting-prime interaction ($F(1, 135) = 8.2; p < .01$). Specifically, for money, the response time was statistically the same ($F(1, 135) = 1.1; p > .29$) irrespective of whether the accounting prime was absent ($M = 13065$) or present ($M = 11204$). But, for time, the response time was greater ($F(1, 135) = 8.9; p < .01$) when the accounting prime was present ($M = 14912$) than when it was absent ($M = 9144$). These results for response time indicate that priming accounting does indeed make time participants spend more time on accounting. This is consistent with the willingness-to-search results that indicate that the accounting prime makes time participants rely less on heuristics.

Viewing the currency x accounting-prime interaction from a different perspective provided new insights into the heuristic process for time. Specifically, when the accounting-prime was absent, the response time was greater for money than for time ($F(1, 135) = 2.9; p < .1$). Conversely, when the accounting-prime was present, the response time was greater for time than for money ($F(1, 135) = 5.5; p < .05$). These results provide converging evidence for the process we propose. When the accounting prime is absent, those in the money condition are relatively slow because they answer the question by thinking carefully about the provided information regarding search costs and payoffs; those in the time condition are relatively fast because they simply rely on the anchor that they have already formed. When the accounting prime is present, those in the money condition are not affected because they continue to do the analysis that they would have done anyway. However, the prime makes those in the time condition do a careful analysis as well. And because it is not easy to work with search costs in time, it takes longer to reach an answer relative to the time it takes for search costs in money.

**GENERAL DISCUSSION**

The finding that people are more prone to using heuristics in time (vs. money) provides a new view of time-money differences. It also helps us grasp the search process better because it suggests a significant role for search currency. Managers need to be aware of the search currency of their consumers. For instance, when trying to sell a house, one could either pay a real-estate agent or spend one’s own time looking for the highest bidder. Whether people use money or time has implications for other consumers (i.e., home buyers) as well as businesses (i.e., real-estate agents). Therefore, businesses need to adapt to the currency of search used by consumers, or try to manage it, in order to succeed in terms of higher profits and more satisfied consumers.

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**ENDNOTE**

1 Given our focus on the compromise effect (Simonson 1989), we examined the share of the 3-companies option relative to the 5-companies option. Because the 1-company option exists only in the trinary condition, its results cannot be compared to the binary condition. However, for the reader who might interested in the number of people who chose the 1-company option in the trinary conditions, it was 2 for time and 4 for money.

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THE ROLE OF RECIPROCITY, SYMPATHY, AND GENEROSITY IN PREDICTING TIPPING BEHAVIOR

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SUMMARY

Though its origin is unknown, the practice of tipping has become commonplace in many service sectors – hairdressers, cab drivers, ushers, waiters, and waitresses are among the most commonly tipped service workers. It is estimated that in the United States, $16–$27 billion is given away in tips each year (Azar 2004b; Conlin, Lynn, and O’Donoghue 2003; Lynn and McCall 2000a). Tipping is an important part of the exchange process, yet little has been written about this subject in marketing literature (Koku 2005).

The primary objective of this study is to create a foundation for a predictive tipping behavior model that future researchers and managers can use to identify motivating factors that determine tipping behavior. The proposed model suggests that obligation (a negative affective construct often accompanied by feelings of indebtedness that create great discomfort), gratitude (an enjoyable state that has been shown to be a better predictor of future compliance than obligation (Goei and Boster 2005; Watkins et al. 2006)), and sympathy (a person’s awareness of the feelings of others or the capacity to respond to the concerns of others (Escalas and Stern 2003)), have direct effects on tipping behavior. Past theoretical studies suggest that the effects of gratitude and obligation (the primary agents of reciprocity) are moderated by differences in personal variables, such as generosity, that deter or enhance social behavior motivated by reciprocity.

Three hundred and ten online surveys were collected from undergraduate students at a large southeast American university. The 45-item survey included established Likert-type scales for measuring gratitude (Kolyesnikova 2006), obligation, and sympathy (Escalas and Stern 2003). A semantic differential scale was developed by the author to measure generosity. Tipping behavior, the primary dependent variable, was measured by asking respondents to indicate how much they would tip given a $30 food bill at a casual dining restaurant.

Of the 310 surveys, 160 were completed by female students (51.6%). The large majority of respondents described themselves as White/Caucasian (74.8%); others described themselves as Black/African American (9.4%), Hispanic/Latino (9%), Asian (3.5%), or “other” (3.2%). Participant ages ranged from 18 to 49, with a mean and mode of 20.

The mean tip amount in response to the tipping scenario was $5.44, or 18.13 percent of the $30 food bill. Among the various ethnic groups, Whites had the highest tipping rate (18.5%) and Blacks the lowest (16.3%). Significance tests show no significant difference between male and female respondents.

The psychometric properties of five variables with a total of 13 items were tested simultaneously in one model consistent with Anderson and Gerbing’s (1988) two-step approach for structural equation modeling (SEM). SRMR, RMSEA, and TLI were .036, .030, and .998 respectively; with a $\chi^2$ of 71.9 and 56 degrees of freedom (p < .074). Together, these results indicate a good fit to the data and the results of the structural test partially support the proposed model. Hypothesis 1 (gratitude has a direct and positive influence on tipping behavior), and Hypothesis 2 (obligation has a direct and positive influence on tipping behavior) were supported, but Hypothesis 3 (sympathy has a direct and positive influence on tipping behavior) was not. Additionally, the moderating effects of generosity (Hypothesis 4) were not supported, that is, no difference was found between highly generous individuals, and those who are not.

The results of this study suggest that consumers are motivated to tip by both gratitude and obligation, thereby providing additional support for applying the norm of reciprocity to explain this unique phenomenon in which consumers voluntarily pay extra for services rendered. As an expression of gratitude, tipping allows patrons to reward service providers for their efforts while at the same time presenting opportunities for altruistic behavior. The reciprocal nature of altruistic acts between patrons and service providers may explain (at least in part) the perpetuation of tipping as a social norm. References are available upon request.
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TO HAVE OR TO HOLD: THE INFLUENCE OF PAYMENT METHOD ON CONSUMER SATISFACTION

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SUMMARY

The acquisition of goods is not always accomplished through the outright purchase of those goods. In fact, marketers utilize a range of payment methods which allow consumers to gain possession of but not necessarily ownership of the product. Today, consumers may rent or lease durable products such as cars (Howard 2005), excavation equipment (Lovelock and Gummesson 2004), yachts (Wetschler 2006), and specialty and fashion goods like handbags (Jackson 2005). Despite the substantial growth in the rental and leasing of consumer goods, a relatively unexplored area lies in understanding whether alternative payment methods such as renting and leasing influence consumer satisfaction, especially in comparison to more traditional payment methods that result in ownership. Hence, the goal of this paper is to address the gap in our understanding of consumer satisfaction and its relationship to payment methods. By doing so, our theoretical contribution results from revealing the levels of satisfaction that emanate from various payment methods and by expanding upon a rather limited set of research on renting and leasing (Trocchia and Beatty 2003). In addition to examining the link between satisfaction and the leasing/rental versus ownership dichotomy, we argue that certain consumer characteristics (i.e., the consumer’s level of materialism and psychological ownership) may influence the payment method-satisfaction relationship.

Constructs Examined

We conceptualize payment method in two ways, as ownership, (i.e., whether one gains legal title to the property through outright purchase or financing) (Obenberger and Brown 1976b) or as access (i.e., a legal arrangement of rental or leasing payments in which the consumer agrees to give back the good at some preordained time) (Patton 1990; Rifkin 2000). To focus our investigation, we concentrate on the consumer market, rather than the business segment markets and we narrow our examination to a specific class of consumer products, shopping goods (Murphy and Enis 1986). We utilize the shopping goods construct (Murphy and Enis 1986) as it is based on two key pricing elements (risk and effort). As our central focus is on a form of a pricing tactic (i.e., access versus ownership terms) we find a price-based typology aligns with the nature of our study. We also follow the logic of Oliver (1993), Spreng et al. (1996) and Gardial et al. (1994) and conceive of a new construct, acquisition satisfaction that serves as an antecedent to overall satisfaction. This marketer-generated aspect of satisfaction is defined as the consumer’s appraisal of the pricing terms and structure through which they attained the product.

Hypotheses

Next, we build a number of hypotheses that relate payment method with acquisition satisfaction. Previous research builds a strong argument that links consumers who utilize an access payment method with greater levels of acquisition satisfaction than those who use an ownership payment method. The literature suggests the structure of access payment options provides consumers with a range of benefits that potentially yield greater acquisition satisfaction than those who own. These benefits include a decreased sense of responsibility and maintenance (Trocchia and Beatty 2003), lower levels of concern regarding product obsolescence, and decreased levels of risk of living with a bad purchase decision for an extended amount of time (Berry and Maricle 1973).

Next, we examine the influence of two consumer characteristics (i.e., materialism and psychological ownership) on the payment-method/acquisition-satisfaction link. The multi-faceted nature of materialism leads us to present contrasting hypotheses. First, we suggest that one of materialism’s central elements is control (Belk 1985; Burroughs et al. 2002; Kilbourne et al. 2005). We believe that the access pricing option requires the consumer to give up more control over the product than the ownership option does. When leasing, the consumer must return the item after a pre-determined period of time and must adhere to the terms of the leasing agreement. Under high levels of materialism, we would expect that satisfaction for consumers who use ownership payment terms will be greater than the satisfaction felt by consumers who use access payment terms. On the other hand, certain access options may provide greater satisfaction to materialistic consumers, as it allows them to utilize their consumption budget in a broader fashion. Materialists are often dissatisfied due to their circumstances in life (Richins and Dawson 1992). Renting or leasing may allow the consumer’s budget to go further, may provide access to a greater number and variety of objects and may aid the consumer to maintain consumption with a perceived peer group regardless of financial constraints associated with
ownership methods (Durgee and O’Connor 1995). Our competing hypothesis suggests that under high levels of materialism, satisfaction for consumers who use access payment terms will be greater than the satisfaction felt by consumers who use ownership payment terms.

We also integrate a second customer characteristic, psychological ownership, into our examination. Our goal is to delineate between the notion of property ownership and the notion of psychological ownership. Psychological ownership is “the state in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is ‘theirs’ (i.e., a feeling of “being psychologically tied to an object”)” (Pierce et al. 2001, p. 299). We submit that one’s feelings of psychological ownership will influence the payment-method-acquisition-satisfaction relationship. First, psychological ownerships generate a greater sense of responsibility and stewardship toward the item (Pierce et al. 2003) which may reduce the freedom provided by the access payment agreement and influence acquisition satisfaction. Second, psychological ownership may increase the level of integration into one’s self concept and the mere ownership effect (Beggan 1992). Because access pricing terms explicitly limits the term of possession, one may lose a part of the self at the end of lease term. Thus, acquisition satisfaction may be impacted. Therefore we posit that for those exhibiting high levels of psychological ownership, the individuals who use ownership payment methods will have greater acquisition satisfaction than those who use access payment methods.

Finally, we suggest the payment-method/acquisition-satisfaction relationship has both theoretical and managerial implications. Future studies may examine varying consumer and business markets, product classes, and other pricing strategies. References are available upon request.

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MEDIATED EFFECTS OF SELF-MONITORING ON PERSONAL SELLING: A META-ANALYSIS

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SUMMARY

Meta-analyses of research on personal selling have provided valuable empirical generalizations, but the emphasis has been on estimating relationships between two variables at a time. Combining meta-analytic procedures with structural equation modeling allows researchers to test multiple simultaneous pairwise relationships, revealing the processes mediating the effect of one personal selling variable on another (Brown and Peterson 1993; Franke and Park 2006). This study focuses on the mediated effects of self-monitoring (SM), a personality trait that involves the extent to which people monitor responses to their expressive behavior and adjust their self-presentation to fit the social setting (Snyder 1974). High self-monitors modify their public appearances to suit different situations and “seem to perform particularly well in occupations that call for flexibility and adaptiveness in dealings with diverse constituencies,” such as sales (Gangestad and Snyder 2000, p. 533). A previous meta-analysis reports correlations between self-monitoring and other variables for workers in general (Day et al. 2002), but not for salespeople in particular.

A plausible mediator of the effects of SM is adaptive selling behavior (ASB), the practice of altering sales behaviors across interactions with prospects to suit the situation (Spiro and Weitz 1990; Weitz 1981). Integrating meta-analytic findings for SM with existing results for ASB and other variables (Franke and Park 2006) suggests a causal process for the influence of SM on sales force performance and satisfaction. Updating and expanding past literature reviews also provides a broad basis for empirical generalizations about relationships among the model’s variables.

The methods in this study are similar to those of Franke and Park (2006). The structural analysis is based on 36 meta-analytically derived correlations between gender, experience, SM, ASB, customer orientation (CO), three measures of performance, and job satisfaction. The correlations are taken from studies of native English-speaking sales forces, dated 1979 or later. Correlations used are from 158 journal articles, 78 dissertations, and 11 conference proceedings and working papers, reporting results from 224 different samples containing a total of 48,728 salespeople.

The results show that the direct and total effects of SM on ASB are significant and substantial. SM has an indirect effect on CO mediated by ASB, but no additional direct effect. SM has a positive direct effect on self-rated performance, but only indirect effects on manager-rated and objective performance. SM has a strong negative direct effect on job satisfaction. This path is partially offset by positive effects mediated through ASB and other variables, though contrary to Day et al. (2002) the total effect is significantly negative. SM tendencies are significantly higher for salesmen than saleswomen. Selling experience is unrelated to SM. The other structural relationships are largely but not completely consistent with the results of Franke and Park’s (2006) preferred model. Where there are differences, many of the new results are arguably more plausible. For example, Franke and Park (2006) find ASB influences CO but not the reverse, whereas the current study reveals significant effects in both directions. Salespeople who are oriented to solving customers’ problems and stimulating long-term satisfaction are likely to treat each customer as an individual rather than minimizing adaptation across customers. Therefore, an effect of CO on ASB, not just ASB on CO, is reasonable. References are available upon request.

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THE MOTIVATION-SPILLOVER-PRINCIPLE: HOW LEADERS MOTIVATE SALESPERSONS TO ADOPT SALES TECHNOLOGY

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SUMMARY

Motivation of salespeople is important because they work at the boundaries of organizations where oversight and supervision is difficult. Since “customer contact employees are the first and only representatives of a service firm” (Hartline, Maxham, and McKee 2000, p. 35) sales organizations are constantly faced with the challenge of finding ways to improve salesforce performance. Previous studies especially underline the importance of sales managers’ behavior for the sales employees’ behavior (e.g., Wotruba and Rochford 1995; Hartline and Ferrell 1996). As Ilies, Judge, and Wagner (2006, p. 1) put it: “leader behaviors result in follower heightened motivation to attain designated outcome(s) which then leads to performance.” Despite the plausibility of these arguments empirical research investigating the processes how sales managers influence the motivation of subordinate employees is conspicuous by its absence.

A second issue of importance in contemporary sales management besides motivation spillover from leaders to followers are the antecedents of the usage of a sales technology. According to Mathieu, Ahearne, and Taylor (2007) “information technology is transforming the organizational landscape […] Nowhere is this truer than in sales environments, where technology tools are changing the way in which salespeople operate. Consequently, researchers and practitioners alike are beginning to examine closely the issues surrounding the implementation of technology in sales environments and its effectiveness” (p. 528).

Regarding the need for multilevel research in both the area of motivation as well as sales technology adoption, the goal of this paper is to develop and test a multilevel framework that combines the transfer of motivation (from sales managers and salespeople) and its effects on sales technology usage in sales organizations. At the heart of this framework we propose a motivation spillover effect. That is, we argue that the different dimensions of motivation transfer from leaders to followers. Specifically we propose a spillover of valences, instrumentalities and expectancies (concerning sales technology usage), the three components of Vrooms’ (1964) widely accepted motivation theory.

We believe that during sales technology implementation motivation of the sales force is crucial for success. Therefore, we see the sales technology context as an ideal application field for the motivation-spillover-principle.

A key asset of our research is that we are able to test the motivation spillover and its consequences on sales technology adoption on the basis of a large-scale multilevel data set, which links data from each of these two levels (sales managers and salespeople). Data sets were matched via code numbers. We utilize hierarchical linear modeling to adequately account for the nested data structure of this data set.

We found that there are several spillover effects of sales managers’ motivation components on salespeople’s motivation. Specifically, aspects of sales managers’ instrumentalities and expectancies affect their counterparts on salespeople-level positively. Moreover, a higher level of salesforce motivation is positively related to an increased sales technology usage. In contrast to our initial reasoning, sales managers’ valence does not affect the valences of their subordinates. A reason for this finding could be that valences of sales manager and salespeople are varying. In this respect, Churchill, Ford, and Walker (1979) argue that “personal characteristics do influence the kinds of rewards salespeople find most motivating” (p. 48).

Our results underline the importance of utilizing sales managers as multipliers during an introduction process of new sales technologies in large-scale organizations. Motivating salespeople is a major task of sales managers, leading to an ongoing need to understand how salespeople are likely to respond to organizational directives. Against this background, our findings provide an insight in this black box and offer guidance for managers on how to trigger the usage of new sales technologies.
The business community recognizes that top executives need to be committed to the management of the firm’s most strategic customers. The president and chief executive officer of the Strategic Account Management Association (SAMA) has observed that: “Top management sponsorship and involvement is the most critical indicator of success” (Napolitano 1997, p. 5). The academic literature also recognizes that top management involvement is a critical factor in key account management (KAM) success. Millman and Wilson (1999) consider commitment from senior management as a precondition that facilitates the implementation of KAM processes. Furthermore, Homburg, Workman, and Jensen (2002) find that companies with a KAM approach characterized by high-top management involvement tend to have higher profitability, while Workman, Homburg, and Jensen (2003) show that top management involvement (TMI) in KAM is positively related to KAM effectiveness.

True, top management involvement can be crucial for developing new business, setting long-term agendas, and steering the firm through sticky situations. However, it can also be detrimental to key account management (KAM) efforts when, for example, top executives make decisions regarding a customer without having enough knowledge about the customer’s way of doing business, competitive situation or environment (Harro and Blinde 2005), or when senior managers try to overtake the account during negotiations while diminishing the key account managers’ role as a primary contact (Koerner 2001).

In spite of the potential value and risks of top management involvement, the literature offers little guidance. Specifically, it fails to illuminate what top management involvement is—i.e., the breadth and nature of the construct and the specific ways in which senior managers should be involved with key accounts. Secondly, there is a dearth of empirical evidence as to how top management involvement affects key strategic outcomes such as performance in sales and profits, and the quality of the relationship with customers. Finally, there is no identification of the conditions under which top management involvement might be more beneficial or detrimental to the supplier company.

This research contributes in several ways to the understanding of this issue. First, it proposes a conceptualization of top management involvement (TMI) in KAM. Fifteen in-depth interviews with executives involved in key account management were conducted to understand why and how top executives participate in the business and the relationship with strategic customers, and how top management involvement can affect the performance with customers. Based on these interviews and a review of the business press on key account management, the following four dimensions of top management involvement were identified:

- **TMI in business interaction** refers to the extent to which top managers sell, negotiate, or participate in other business activities directly with customers. This interaction can be either strategic or tactical.
- **TMI in social interaction** is the extent to which the supplier’s top managers have social (nonbusiness related) contact with the buyer’s personnel.
- **TMI in decision-making** is the extent to which top managers make decisions with respect to key accounts. Strategic decision-making covers issues such as the expansion of the current business with a customer to new products/services or markets, or changes in the organizational structure to attend a customer, among other aspects. Tactical decision-making includes marketing mix—mainly product, price, distribution, and promotion—decisions for current products or services, payment conditions, the frequency of contact with a customer, etc.
- **TMI in KAM alignment** is the extent to which top managers have an active role in aligning the goals and processes of the different functional areas toward a customer.

The first two dimensions reflect top managers’ direct involvement with key customers (i.e., directly interacting with them), while the third and fourth dimensions reveal top managers’ indirect involvement with key customers (i.e., without directly interacting with them, but participating through internal processes).
Second, the author analyses how each of these dimensions of TMI affects the following KAM outcomes: **KAM performance** refers to the supplier firm’s economic achievements with key customers in terms of dollar sales, profitability, and share of customers’ purchases (in the same product- or service-category). **Relationship quality** is defined as how well the whole relationship fulfills expectations; it is a higher-order construct that encompasses satisfaction, trust, and commitment. The results show that TMI in social interaction has a positive effect on both KAM performance and relationship quality, while tactical business interaction has a negative impact on both outcomes. It is also found that TMI in strategic decision-making has a positive effect on KAM performance, and TMI in aligning the goals of those involved in managing the customer has a positive effect on relationship quality.

In addition to the main effects, two boundary conditions were examined. First, it is analyzed whether the existence of a high team spirit among those involved in managing or serving a key account reduces the importance of TMI in internal processes (decision-making and KAM alignment) or not, and whether the existence of a high competitive intensity in the supplier’s industry increases the relevance of top managers’ direct involvement with key accounts (through business and social interaction). The results suggest that the existence of a high team spirit among those who are involved with customers makes top management involvement in internal processes (decision-making and alignment) less critical, and that suppliers participating in highly competitive environments should have top executives actively interacting with customers in business-related issues. To test this model, 261 key account managers (as key informants) were surveyed from several industries, from United States and Chile (roughly 50% of the sample from each country). The sample frame was built mainly from the following sources: Institute for the Study of Business Markets (ISBM) company members, ANDA (Chilean Association of National Advertisers), Strategic Account Management Association’s peer directory, and Emory University Alumni database. The model was tested empirically using seemingly unrelated regression analysis; this approach improves the efficiency of the estimation by incorporating the possible correlation of the disturbance terms in both regression equations (Kmenta 1997). The following control variables were included in the analysis as predictors of KAM performance and relationship quality: executive sponsorship (i.e., whether there was a formal assignment of the top manager to the account or not), sales team size, age of the buyer-supplier relationship, and size of the supplier company. This research has several managerial implications for supplier firms. Based on the findings, senior executives are more likely to contribute to KAM by socially interacting with customers, and definitely avoiding participation in business meetings with customers on matters that are tactical in nature. However, supplier firms may benefit from having senior executives interact with customers on strategic business issues when the company faces a highly competitive environment. In addition, the results suggest that top managers have an important internal role in KAM in terms of supporting decision-making on strategic issues and aligning the customer team, especially when there is a lack of a strong team spirit among those involved in managing or serving the account.

Overall, both senior executives and key account managers need to recognize that top management involvement in KAM is not always beneficial to the supplier company. The key, then, is to determine when top managers should actively participate in KAM, and how. This research provides some valuable insights to help managers in that task. References are available upon request.

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Innovation has become the hallmark of today’s business. To stay innovative, firms need to refine and improve their existing competencies and/or develop new knowledge and skills. In this regard, the duality of exploration and exploitation (March 1991) has emerged as a valuable concept in strategic management research (e.g., Danneels 2002; Vera and Crossan 2004). However, though some tentative advances have been made to transfer the notion of exploration/exploitation into marketing strategy research (Atuahene-Gima 2005; Kyriakopoulos and Moorman 2004), this framework is far from being established in this discipline. We aimed to contribute to this nascent research effort by examining the impact of different business strategies on exploitative, exploratory, and ambidextrous learning processes, thereby answering a recent call for research on this issue by several scholars (e.g., Atuahene-Gima 2005; Smith and Tushman 2005). In doing so, we resort to the state-of-the-art paradigm of business strategies by Treacy and Wiersema (1995) (i.e., operational excellence, customer intimacy, and product leadership), and build on the literature on the resource-based view of the firm, the knowledge-based view of the firm and organizational learning to conduct our line of argument.

Four types of organizational learning are examined as dependent variables in this study: (1) exploration, (2) exploitation-extension, (3) exploitation-refinement, and (4) ambidexterity. We conceive of a business strategy as a unifying frame of reference that emphasizes the alignment of a firm’s resources in terms of knowledge, skills/competences, and routines to a specific value proposition. As such, a business strategy provides norms for dealing with organization-wide intelligence which in turn set the stage for the type of organizational learning processes that set in. We assume that operationally excellent firms – with their value proposition lying in delivering products and services at lowest total cost for the customer – foster a knowledge orientation in terms of reliance on current intelligence, i.e., the articulation, dissemination, and multiplication of existing knowledge. Hence, we hypothesize that a business strategy of operational excellence has a positive impact on exploitation-refinement, but neither on exploitation-extension, nor on exploration, nor on ambidexterity. In contrast, we assume that product leaders – with their value proposition lying in providing customers with cutting-edge products and services – facilitate a knowledge orientation in terms of knowledge generation, be it through completion and combination of existing knowledge or through creation of completely new knowledge. Therefore, we hypothesize that a business strategy of product leadership has a positive impact on exploitation-refinement, exploitation-extension, exploration, and ambidexterity. Further, we assume that customer intimate companies – with their value proposition lying in providing patrons with custom-made solutions – also foster a knowledge orientation of combining the use and extension of existing knowledge with the creation of new knowledge. Thus, we hypothesize that a business strategy of customer intimacy also has a positive impact on exploitation-refinement, exploitation-extension, exploration, and ambidexterity. Finally, according to the logic of “no company can be good at everything” put forth by many scholars (e.g., Kotler 1999; Porter 1985; Thornhill and White 2007; Treacy and Wiersema 1995), we hypothesize that no combination of the three business strategies will lead to higher levels in any of the four learning types (exploitation-refinement, exploitation-extension, exploration, and ambidexterity) than each of the business strategies in its purity.

Data for this study were collected from 377 individuals out of a commercial sampling list of 2500 CEOs and chief marketing executives in Swiss services and manufacturing firms. Whenever possible, established measures of the constructs were used and adapted to this study’s context. Exploratory and confirmatory factor analyses were used to ensure that study measures exhibited acceptable psychometric properties. Hierarchical moderated regression analyses were used to test our hypotheses. Results show support for all hypotheses stated.

This study is the first to empirically examine business strategies in their function as antecedents to exploitative and exploratory learning processes and to identify the most valuable approach in a marketing strategy context. Our findings suggest managers to either concentrate on a strategy of product leadership or customer intimacy in order to make most of their organization-wide learning potential. References are available upon request.
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THE ROLE OF STRATEGIC FLEXIBILITY ON KNOWLEDGE EXPLOITATION AND EXPLORATION

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SUMMARY

Do the core capabilities of firms lead to their core rigidities? In today’s highly competitive market environments, developing core capabilities represents a critical means for firms to survive and achieve sustainable competitive advantage. However, in rapidly changing environments, core capabilities may become “core rigidities” in that firms tend to heavily exploit their core capabilities but forego the exploration of new technologies and knowledge for future success.

To address this challenge, we develop a model to resolve the above conflict with an attempt to contribute to the literature in three ways:

- First, we focus on two critical organizational capabilities for NPD, namely marketing and technology capabilities, and examine how they affect knowledge exploitation and exploration. In doing so, we directly address whether core capabilities can lead to exploitation but drive out exploration.

- Second, we propose that strategic flexibility represents one important factor that may help firms overcome the rigidity dilemma. Our study fills this research gap by examining the facilitating role of strategic flexibility in managing the relationship between an organization’s core capabilities and its knowledge exploitation/exploration.

- Third, we examine how knowledge exploitation and exploration differentially affect firm financial performance. We propose that though both might enhance firm performance, exploitation will have a stronger performance impact in the short run, which explains why it tends to crowd out exploration.

The conceptual model is empirically tested using a cross-section of 192 high-tech firms in China. To eliminate common method bias, we obtained different information from different sources. Specifically, senior managers provided information about the strategic level, such as capabilities and strategic flexibility; middle managers provided data about the operational level, such as knowledge exploitation and exploration, as well as two control variables (i.e., market growth and technological turbulence). Information on firm profitability (i.e., return on assets [ROA]), firm age, size, ownership, industry, and location came from archival data provided by the research firm.

After measurement purification and confirmation, the overall conceptual model is tested using hierarchical regression analysis. The results indicate that even though marketing and technology capabilities can foster knowledge exploitation, marketing capability does not improve knowledge exploration and high levels of technology capability actually dampen knowledge exploration. However, strategic flexibility can solve this rigidity dilemma by strengthening the positive effects of technology capability on knowledge exploration. Moreover, knowledge exploitation and exploration differentially affect firm financial performance. References are available upon request.

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BEYOND THE DYAD: INITIATING INTERACTION WITH NON-ADJACENT SUPPLY-CHAIN PARTNERS

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SUMMARY

As managers increasingly recognize that they cannot go it alone they embrace the notion that companies only represent interdependent parts of larger business networks (Håkansson and Snehota 1989). Within such networks, companies strive to establish interactive partnerships with adjacent supply-chain members, i.e., their immediate customers and suppliers, and research to date offers managers plentiful insights into the management of these types of dyadic relationships. Beyond dyadic relationships, there has long been a recognition of the fact that dyads both affect and are affected by interactions with the surrounding environment of the dyad (Achrol, Reve et al. 1983; Anderson, Håkansson et al. 1994). Indeed, there are researchers that have begun the process of coming to grips with a business network perspective that looks beyond dyadic interactions in supply chains and marketing channels (Anderson, Håkansson et al. 1994; Antia and Frazier 2001; Rindfleisch and Moorman 2001; Wathne and Heide 2004; Wuyts, Stremersch et al. 2004).

There is still a shortage, however, of research and guidance with respect to if, when and how companies should engage in activities with the specific aim to form interactive relationships with firms beyond their adjacent supply-chain partners (Van den Bulte and Wuyts 2007). For example, are there situations when a company would benefit from interacting with the suppliers of their suppliers or with the customers of their customers? This paper examines the choice of whether or not a focal company should initiate direct interaction with non-adjacent supply-chain partners. Specifically, the objectives of this paper are (1) to identify theoretical arguments supporting each alternative and (2) to discuss potential criteria that can help managers in choosing the best alternative given their particular circumstances.

Interaction in Business Networks

Interaction is the degree to which two parties engage in a two-way communication process and interaction in business networks has been analyzed through the use of different theoretical foundations. A common theme of these works is that dyads such as specific buyer-supplier relationships cannot be analyzed without also taking the surrounding business network into account. In short, the dyadic perspective is increasingly being characterized as myopic and potentially misleading.

While fully embracing the social network perspective may seem a daunting challenge to researchers from both a theory-building and data collection standpoint, significant insights may be gained by merely extending the dyadic perspective to small networks like triads, i.e., social networks involving three actors (Van den Bulte and Wuyts 2007). Therefore, for the purposes of this paper, we will restrict our attention to triads involving a focal company, an adjacent supply-chain partner of the focal company, and a non-adjacent supply-chain partner that currently is involved in a direct exchange relationship with an adjacent supply-chain partner of the focal company. That is, we are looking into the prospect of a focal company initiating interaction with a company with “two degrees of separation.”

In extending the dyadic interaction perspective to a triadic one, we also build upon and extend trust-based theoretical arguments commonly used in dyadic research. We propose that trust plays a critical role in determining the best approach of the focal company to interact with non-adjacent supply-chain partners. The higher the degree of trust in the adjacent supply-chain partner both in terms of competence and goodwill trust, the more likely it is that the focal company can benefit from an indirect interaction approach with non-adjacent supply-chain partners. The dilemma is that too much trust in adjacent supply-chain partners also makes the focal company more vulnerable to exploitation. Some companies prefer direct interaction with non-adjacent supply-chain partners as a way for them to be better able to monitor and control adjacent supply-chain partners and not become too dependent upon trust in the willingness of the adjacent supply-chain partner to be on their side.

Thus, it seems as if trust alone is not a sufficient determinant of interaction mode and managers would benefit from more precise guidance as to how they strategically can manage interactions in their business networks. Using characteristics of social networks (network density, betweenness centrality, and tie strength), we suggest conditions under which the potential for exploitation is more apparent. Consequently, such conditions can also influence the relative effectiveness of the indirect interaction approach with non-adjacent supply-chain partners. References are available upon request.
NEW PRODUCT PRE-ANNOUNCEMENTS: INCUMBENT RESPONSES TO COMPETITIVE SIGNALS

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SUMMARY

The globalizing world is teeming with firms all hoping to make it big with their next new product launch. Everyday bears witness to the launch of countless new products and services. One phenomenon is the tendency of firms to announce new products in advance of their actual initial date of sale. Accordingly, investigation of new product pre-announcements (NPPAs) is an important area of research.

Wind and Mahajan (1987) discuss pre-announcements as part of broader pre-launch activities that a firm conducts to increase marketing hype for a new product. We adopt the NPPA definition provided by Eliashberg and Robertson (1988), “a formal, deliberate communication before a firm actually undertakes a particular marketing action such as a price change, a new advertising campaign, or a product line change.”

NPPAs are market signals. How these signals are interpreted is largely dependent on contingent factors, based on which their might be a competitive response. Hultink and Langerak (2002) define competitive responses as the set of decisions made by a firm in response to an observed new product launch. Empirical research suggests that new product launch decisions usually invoke competitive responses that vary in terms of strength and speed. Note that competitive responses can be multi-dimensional in nature (Kuester, Homburg, and Robertson 1999). We look at two dimensions in particular: (1) speed of response and (2) aggressiveness of response.

Speed of response is the time it takes a competitor to react to a particular competitive signal sent by another firm. Speed of response to an NPPA appears to be determined by a number of factors, which include the innovativeness of the product (Gatignon, Robertson, and Fein 1997) and perceived hostility (Robertson, Eliashberg, and Rymon 1995). This paper focuses on perceived hostility because it is the one factor that is a function of the NPPA itself.

A competitive response may be aggressive to varying degrees. An aggressive response is one that tries to elicit a sense of threat within the original signal sender (cf., Heil and Robertson 1991; Heil and Walters 1993). When an action is perceived as hostile, some kind of competitive response from incumbent firms is likely (Robertson, Eliashberg, and Rymon 1995). Research has found perceived hostility and signal credibility help determine the aggressiveness of the response.

We argue that the presence or absence of an ally will help determine the perceived credibility of the NPPA signal. We also argue that the stated lead time (short or long) to new product introduction will affect the perceived hostility of the NPPA signal. This results in an interaction effect such that the likelihood of response will be higher when both an ally and a short lead are present in the NPPA.

Signal credibility determines whether or not an incumbent in the marketplace is likely to react to an NPPA signal (Chen and Miller 1994). The credibility of a signal is two dimensional in the sense that it depends on the sender’s reputation, and the irreversibility of the signal. It can be hypothesized that credible signals will induce faster responses. Situations could arise in which some firms may have difficulty sending a credible signal through an NPPA. One possible solution to this conundrum is using a reputable ally. Since a credible NPPA signal should affect both the strength and speed of response by competitors, we offer the following propositions:

\[ P_{1a} \text{ – The presence of a well-known, reputable ally in an NPPA will lead to a more aggressive response by the signal receiver.} \]

\[ P_{1b} \text{ – The presence of a well-known, reputable ally in an NPPA will lead to a speedier response by the signal receiver.} \]

Similarly, signal hostility has been suggested to have an influence on speed and aggressiveness of response. Information about lead-time to product introduction or patent status information can influence the perceived hostility within an NPPA. If the NPPA indicates a short lead-time to introduction coupled with information that a patent is pending, this should be perceived as more hostile by competitors than such information is not included. We offer the following:

\[ P_{2a} \text{ – An NPPA with a shorter lead-time and a patent pending status will be associated with a more aggressive response by the signal receiver.} \]
P2a – An NPPA with a shorter lead-time and a patent pending status will be associated with an increased speed of response by the signal receiver.

A signal must be credible before it is perceived as hostile. We propose that when perceived signal credibility is low, the patent status of the new product or the lead-time mentioned in the NPPA is irrelevant. Essentially, the signal is not believable. Based on this argument, we should see a low level of response likelihood on both speed of response and strength of response when a signal is judged to be non-credible. We suggest the following interactions:

P3a – An NPPA with shorter lead-time and patent pending status will lead to a more aggressive response when an ally is present, but will have no effect otherwise.

P3b – An NPPA with shorter lead-time and patent pending status will lead to an increased speed of response when an ally is present, but will have no effect otherwise.

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INFLUENCE OF INDIVIDUAL’S PERSONALITY DIMENSIONS, EXPOSURE TO ADVERTISING AND PERSONAL RELEVANCE ON PERCEPTION OF BRAND PERSONALITY

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ABSTRACT

The objective of this study was to examine the relationship between individual’s personality (measured by the big-five inventory – BFI) and perception of brand personality (measured using the brand personality scale – BPS). An experimental study was designed after a review of conceptual and empirical studies in the area of brand personality and human personality. The results of the study indicate significant relationship between individual’s personality dimensions and perception of brand personality. In addition, the results indicate that advertising might be a stronger factor that influences brand personality perceptions. The two results take together indicates that while individual differences can affect brand personality perceptions, good advertising may be able to overrides individual personality differences.

Keywords: Brand personality, personality, personal relevance, marketing communication, and advertising.

INTRODUCTION

“Beauty lies in the eyes of the beholder” states an old adage. Does the perception of Brand personality, then, also depend on the perceiver’s personality?

Intuitively, one might theorize that individual personality differences affect perception of other personalities, including those of brands. While differences in general personality dimensions have indicated differences in job or task performances (Barrick and Mount 1991), educational achievement (Smith 1967) the affect of differences in individual personality on Brand Perceptions has been largely conjectural and contextual. This study proposes to address the lack of scientific evidence in this quarter.

LITERATURE REVIEW

Individual Personality has been extensively studied and extracted by psychologists, beginning as early in the history of psychology, as Sigmund Freud who determined the three part id-ego-superego personality, progressing to the trait theorists such as Gordon Allport, Cattel, and McAdams, who determined dominant and consistent traits that describe an individual’s personality (Kassarjian 1971). Among a plethora of personality trait theories, a popular and more general demarcation of personalities is made possible by the “Big Five” trait theory which includes the traits of Extroversion, Agreeableness, Conscientiousness, Neuroticism, (Emotional Stability) and Openness (Goldberg 1971). In the context of marketing, “Personality” has been one of the more inclusive constructs borrowed from psychologists. A number of consumer related activities such as purchase behavior, media choice, segmentation, choice, perceived risk, opinion leadership, and attitude change have been related to Personality (Kassarjian 1971). While a number of studies emphasize the link between personality and product or brand choice and stress on the actual decision making process, very few studies dwell in the realm how individual personalities process brand personality information and create brand perceptions. Even as far back as the 1940’s it was suggested that personalities might affect consumer decision making and it was suggested that various personalities would be predisposed to specific styles, colors, brands, or stores (Brody and Cunningham 1968). It has even been shown that personalities drive information processing which can in turn influence their perception of the brand. In an attempt to show that variances in consumer’s personality affect their brand choice, Fry (1971) studied personality disposition and brand choice in the context of cigarette brand choice. Other studies have demonstrated the relationship among a few personality traits, such as extroversion and openness and hedonic value, brand affect, and loyalty. Matzler, Bidmon, and Grabner-Kräuter (2006), provide evidence that individual personality differences can account for differences in the values expectation of the consumer and can also impact formation of brand affect and loyalty in the individual consumer.

Academic interest in the marketing domain, however, appears to have moved away from individual personality to defining and measuring personality of products and brands themselves (Aaker 1997). This is possibly a reason for the limited availability of empirical evidence connecting generic Individual personality dimensions and brand personality dimensions, which are of more recent origin. Literature shows the importance of specific personality traits such as need for cognition (Haugtvedt, Petty, and Cacioppo 1992), self confidence (Fry 1971); conscious and unconscious needs (Brody and Cunningham 1968) etc., on brand choice or preference. These studies...
have not focused on more general personality dispositions as described in the trait theory of personality such as the “Big Five” personality dimensions, the 16PF or the MMPI. The studies have dwelt, instead on contextual personality variables which have direct implication for the researcher’s interest.

Brand personality has been widely accepted as a part of the branding theory and is often considered as the closest variable to the consumer during the purchase decision making process (Rajagopal 2006). A positive brand personality is thought to increase the levels of trust, preference, usage, loyalty, encourage active processing of the information and provide the basis of differentiation (Aaker 1996; Fournier 1998). In addition, a strong, positive and favorable brand personality leads to favorable, unique, strong and congruent brand associations thus enhancing brand equity. Aaker (1997) compared the brand personality with human personality and identified a stable set of five personality dimensions that are thought to underlie the construct. The Aaker’s brand personality scale (BPS) measures the extent to which the brand possesses any of these personality traits. The brand personality dimensions include: Sincerity; Excitement; Competence; Sophistication; and Ruggedness.

Besides, previous research suggests that the greater the congruity between the brand personality and the human characteristics that describes an individual’s actual or ideal self; the greater the preference for the brand (Kim, Lee, and Ulgado 2005). Human Personality and Brand Personality can be thought of as counterparts in the human and brand world. Since markets involve interaction of human and brands, it may be conceivable that the two personalities influence each other. While various studies have noted the possibility of conceiving brands as personalities and the influence of brand personality on consumer’s responses toward the brand (Freling and Forbes 2005), few studies have sought to understand how human personality variations may affect perception of the brand (Matzler, Bidmon, and Grabner-Krauter 2006). While Brand personality itself is derived as a parallel to human personality, the perception of the brand personality as communicated through marketing channels may be influenced by human personality variations in the consumers themselves. As pointed out by Freling and Forbes (2005), “creation of personality is a ‘joint venture’ between brand’s management and the consumers.”

The perceptions of brand personality are shaped and influenced by both direct (user imagery; McCracken 1989) and indirect (product-related attributes, product category associations, brand name, symbol, advertising style, pricing, and distribution channel; Batra, Lehmann, and Singh 1993) contact that consumer has with the brand. Brand communication helps consumers to conjure up brand personality in the consumers’ mind that facilitates better recall and positioning of the brand. Consequently, this affects the equity of the brand. The advertisement cannot by itself transfer the brand personality until the viewer makes the connection between the personalities of the celebrity/person in the advertisement and/or the personality derived from the meaning of the advertised product. Thus consumers conceptualize and humanize brands to give them human-like personalities.

It has been demonstrated that individuals are more susceptible and receptive to messages that match their personalities (Moon 2002) and hence the communication interacting with the personality type could also cause differences in perception of Brand personality.

An individual must process information in some manner in order to form a perception or attitude about the object in contention. Celsi and Olson (1988), point out that “felt involvement is a motivational state that affects the extent and focus of consumers’ attention and comprehension processes, and thus the specific meanings that are produced.” Involvement with a product category would occur when the product category is of some relevance to the recipient of the information. Hence, while considering how an individual processes information, involvement due to personal relevance has been considered in several studies and it has been shown that involvement can play a moderating role in processing information (Celsi and Olson 1988). In experimental conditions, involvement is often manipulated by inducing personal relevance to motivate involvement which can influence processing.

This study, therefore, attempts to link individual personality dimensions, specifically the “Big Five” to the perception of brand personality dimensions. In addition, the study also examines the role of advertising and personal relevance of the target category in moderating the perception of brand personality by people with differences in various personality dimensions. This study provides evidence that individual consumer’s personality differences among the various Big Five dimensions can affect their perception of brand personality with or without the presentation of a common marketing communication.

**EXPERIMENT**

**Research Problem**

This research is based on the premise that individual personality dimensions may influence brand personality perception since individual’s process information differently. Similarly, personal relevance and involvement become motivational factors that influence processing of brand related information and exposure to advertising provides individuals with an opportunity to process information. This study was, therefore, designed to study the
effects of individual personality dimensions, personal relevance of the issue under contention and exposure to marketing communication on the perception of brand personality. Furthermore, considering that both brand personality and individual personality are multi-dimensional, the effect of each individual personality dimension on the perception of each dimension of brand personality was sought, since there is evidence from literature that certain brand personality traits are preferred by certain individual personalities due to perception of the self.

It is expected that individual personality dimensions would have main effects in perception of some of the dimensions of the brand personality. The exposure to advertising is expected to have significant main effects since it directly influences motivation as well as nature of processing. Personal relevance may not have significant main effects in perception of brand personality, but moderating effects are expected in the form of interaction effects with both personality dimension as well as exposure to advertising. A significant three-way interaction is also expected. However, this may not be consistent for all individual personality dimensions.

**Hypothesis.** Based on the aforesaid, the following hypotheses evolve

H1: Individual’s personality dimensions cause variations in perception of Brand personality dimensions.

H2: Exposure to advertising causes variations in perception of brand’s personality dimensions.

H3: Individual’s with high personal relevance perceive the brand’s personality differently from those who have less personal relevance.

H4: Individual’s personality dimensions with higher personal relevance perceive brand’s personalities differently from those with lower personal relevance.

H5: Individual’s with varied personalities exposed to advertising perceive brand’s personality differently from those who are not exposed to advertising.

H6: Individuals with varied personal relevance who are exposed to advertising perceive brand’s personality differently from those who are not exposed to advertising.

H7: Individual personalities with varied personal relevance levels who are exposed to advertising, perceive brand’s personality differently from those who are not exposed to advertising.

The following sections explain the method, procedure and analysis of the study designed to answer the aforementioned questions.
**Participants and Procedure.** Using the standardized instrument for gauging the “Big Five” dimensions of human personality (BFI), the data was collected from 270 students enrolled into the MBA program. Un-cued recall was elicited for corporate advertisements and the respondents were asked to recollect information about the advertisements recalled (information regarding name of company, punch line, and concept). This initial data was collected in order to identify groups for the five individual personality dimensions as well as to effect the personal relevance manipulation.

A second phase of data collection on the various brand personality dimensions was done after two weeks of the initial data collection from two groups of respondents, half of who were shown print corporate advertisement of two Information Technology companies and the other half who were not shown any advertisement. It was ensured that half of those in both these groups were either interested in IT companies for future placements and career choices and fell on one end of each of the personality dimension.

**Method and Measures.** Following the initial data collection, the respondents were sorted in groups based on their personal interest in information technology industry. This was determined based on their personal interest of choosing IT company for future career prospects as well as immediate placements. As final year MBA students who were looking forward to facing selection boards during campus placements, the group of respondents, had corporations, at the top of their minds and were considering these corporations as brands that have immediate personal relevance. With II companies paying the largest pay packets and booming as an industry in India, it was felt that the focus on IT companies for the study makes intuitive sense.

After two weeks, responses on the brand personality scale (BPS: Aaker 1997) for both the information technology (IT) companies [Apple Inc. and Hindustan Computers Limited (HCL)] was collected from one group of respondents. The second group of students was exposed to print advertisement of both the information technology companies and responses on the brand personality scale were collected for both the companies, one after the other. The groups had an equal mix of those who had shown interest in the information technology industry and those who did not. It was then ensured, respondent wise, that the two groups had equal number of members who fell on each end of each of the personality dimensions. Thus, a $2 \times 2 \times 2$ factorial design was enabled.

In addition to the 44 items that measures the personality dimensions, the data collection instrument also included questions that captured the interest of the respondents in the information technology industry. The average scores of the set of items that captured each of the personality dimensions: extroversion, agreeableness, conscientiousness, openness and neuroticism, were used to group respondents. Those who had an average score of less than a cut of (see Table 2 for averages and cut offs) on the 5-point multi-item scale (agree strongly – disagree strongly: items such as is talkative, is reserved, is full of energy etc.) were assigned to the “low on the dimension” condition and those who got a score of more than the cut-off point were assigned to “high on the dimension” condition.

**Personal Interest Manipulation.** Considering that the sample used was a set of final semester MBA students who had indicated their pre-placement interests, the experimenters chose to use this information to manipulate personal interest conditions. The conjecture was that the students would have prior brand images of specific target companies in the industries of interest. Given that information technology is a popular industry due to its prominence in the Indian context, its high remuneration structure and high level of awareness of the industry, the information technology industry and two of the information technology companies were chosen for the study. Those respondents who ranked the IT industry as their first, second or third choice as their target industry for future career prospects, were assigned to the high personal interest condition and those that gave it a rank of four or more were assigned to the low personal interest condition.

**Advertisement Exposure.** The pretest conducted during the initial contact contained questions that probed the awareness of corporate advertising of the respondents. Two companies that did not feature in the list of companies for which students had seen corporate advertising were chosen as target companies whose brand personality perception was captured on the brand personality questionnaire. The companies chosen were Apple Inc. and Hindustan Computers limited, both of which were companies that had 100 percent awareness among the respondents. The two companies were also selected since both were multinational but had American and Indian origin respectively. The respondents from the pretest were divided into two groups with almost equal composition of those in the two extroversion conditions and the two personal interest conditions. One group was then asked to respond to the brand personality questionnaire when only the name of the companies was given and the second group was asked to respond to the same brand personality questionnaire after exposure to a print advertisement for the company that they had not seen before. Thereby, the two conditions for exposure to advertising were manipulated.
Analysis

The dependent variables used were the five brand personality dimensions. The average scores from the multi-item 5-point scale for each dimension were used to denote the perception of brand personality along those dimensions (Sincerity, Excitement, Competence, Sophistication, and Ruggedness). The independent variables were each of the five dimensions of individual personality, and the personal interest and exposure to advertising. Five multivariate analyses of covariance were done, for each dimension of individual personality groupings using SPSS 13.0 to determine the impact of the independent variables on the personality dimensions. In order to eliminate chances of confounding results caused by gender effects, this variable was controlled by using it as a covariate. The analysis for the two companies was done independently and the results are reported as such.

Results

Two of the manipulations, individual’s personality dimension and personal interest were pre-determined. Equal number of those with personal relevance and without, belonging to higher or lower of each of the individual personality dimensions were assigned to “exposed to ad” and “not exposed to ad” conditions. Each of the conditions had equal number of participants.

Manipulation check for personality dimensions was again done by running a one-way ANOVA for the groups under each dimension. Table 2 presents the results which indicate that the groups were indeed significantly different from each other on each of the dimensions.

For the exposure to advertising manipulation, the pretest had provided information from recall questions that the respondents did not remember the corporate advertisements for the two companies chosen in this study. During the experimentation when groups were either exposed or not exposed to advertising, specific questions related to their knowledge and memory of the ads presented elicited answers that indicated that 100 percent of the participants were aware of the companies, but had not been exposed to the advertising used in the experiment. In the “not exposed to advertising” group, the respondents were shown the ads after brand personality scores were elicited in order to be sure that they had not been exposed to the advertisements used in the study.

Analysis of Data. MANCOVA was used to analyze the data from each of the 2×2×2 (individual personality dimension × exposure to advertising × personal relevance) designs. SPSS 13.0 was used for the analysis. Five designs were obtained based on the five individual personality dimensions. The results are presented on the basis of the individual personality dimensions as the other independent variables remain the same in each of the designs. The results of the analysis are presented for one of the design.

The results of the design using the groups based on extraversion scores, yielded results that indicated that extraversion and advertising exposure have an overall significant main effect on the dependent variables for Apple Computers. The gender covariate also shows significant main effects. There is a marginal significant main effect of the advertising exposure and extraversion interaction. Considering each dependent variable individually, advertising exposure seems to have an effect on most of the dimensions of brand personality excepting the dimension of “ruggedness.” Whether a person scores low on the extroverted dimension or not seems to indicate the perception of the “sophistication” dimension of brand personality, while females and males perceive the “sincerity” dimension differently. Surprisingly, advertising exposure and extraversion show an interaction effect for the perception of the “ruggedness” personality dimension (Table 3a).

A similar result with very minor variances is noted in the perception of HCL’s brand personality. The results indicate that advertising exposure, extraversion and gender have significant main effects, while a three way marginal interaction effect is noted for the three factors.

As seen in the case of Apple Computers, advertising exposure effects perception of four of the brand dimensions. Extroversion seems to indicate that it affects only two dimensions, but the overall main effect is highly significant. Gender effects perception of sincerity as well as sophistication. A three-way interaction is noted for the excitement dimension at 5 percent significance level (Table 3b).

Similar analysis was done on other dimensions of human personalities. The results indicate the following:

1. There are consistent and significant main effects for advertising exposure.
2. Advertising exposure affects perception more than one brand personality dimension
3. Each dimension of the individual’s personality has significant main effects of perception of brands personality.
4. Each dimension of individual’s personality affects different dimensions of brand’s personality
5. The effect of individual’s personality dimensions on brand personality dimensions is not consistent across brands. This may be due to other factors outside the
### TABLE 3(a)
Extroversion Design: Significant Main Effects and Means

#### APPLE Computers Inc.

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Extro-Version</th>
<th>Personal Relevance</th>
<th>Adv. Exposure</th>
<th>Gender</th>
<th>Per Rel* Extro</th>
<th>Per rel* ad exp</th>
<th>Ad exp* extro</th>
<th>Ad exp* Extro* per rel</th>
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<tr>
<td>Multivariate Test results</td>
<td>P = .001</td>
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<td>P = .000</td>
<td>P = .005</td>
<td>–</td>
<td>–</td>
<td>P = .070</td>
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<tr>
<td><strong>Between Subject Effects and Means</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sincerity</td>
<td>–</td>
<td>–</td>
<td>P = .007</td>
<td>P = .000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Excitement</td>
<td>–</td>
<td>–</td>
<td>P = .014</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Competence</td>
<td>–</td>
<td>–</td>
<td>P = .000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sophistication</td>
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<td>P = .000</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Ruggedness</td>
<td>–</td>
<td>–</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>P = .008</td>
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### TABLE 3(b)
Extroversion Design: Significant Main Effects and Means

#### HCL

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<th>Per rel* ad exp</th>
<th>Ad exp* extro</th>
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<td>P = .000</td>
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<td>P = .007</td>
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<td>–</td>
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</tr>
<tr>
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<td>–</td>
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<td>–</td>
<td>P = .036</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<td>Sophistication</td>
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<td>–</td>
<td>P = .001</td>
<td>P = .022</td>
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<td>–</td>
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<tr>
<td>Ruggedness</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>P = .087</td>
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</table>

(3.194; 3.374) (4.177; 4.346) (3.792; 4.237) (3.488; 3.811) (3.502; 3.797) (2.353; 2.647) (2.747; 3.005)
purview of the study such as prior knowledge and familiarity with the brands.

6. The existence of personal relevance of the category has not shown consistent and significant effects on perception of brand’s personality.

7. The gender covariate appears to have a consistent main effect on the perception of brand personality. However, it affects only one dimension, namely sincerity.

8. Interaction effects are minimal and hence inclusive by way of results that the factors used in the study consistently interact in producing variations in brand personality perceptions.

8. While the effects of the factors considered in the study are more or less consistent across both brands used in the study, some personality dimensions may affect some brands differently as evidenced in the case of “Openness to experience” and “Neuroticism” designs.

9. It is quite apparent that interaction effects among the factors are unpredictable. This indicates that the results of the study cannot be used as evidence to prove that individuals with certain personality traits, process advertising according to whether the product category is relevant to them in perceiving brand personality dimensions.

**DISCUSSION**

Instead of focusing on the creation of brand personality and its impact on consumers, this study examines the impact of human personality in the very conception and understanding of brand personality. In addition, this research takes into consideration the role of marketing communication (advertising) in shaping this perception. As rightly pointed out by Matzler, Bidmon, and Grabner-Krauter (2006) “a walk down any street in any town swiftly reveals that people are different. The days when marketers could treat them as being the same are long gone.” Their research concluded that human personality dimensions such as extroversion and openness to experience (human personality dimensions) influences the consumer’s level of loyalty toward a brand. They further opined that their individual responses to the hedonistic properties of the brand and propensity for affective responses may cause these variations in loyalty. While this study establishes the differences in brand perception by different personalities, a link between brand personalities and human personalities was not divulged.

This study was designed to examine the influence of the five dimensions of human personality on the consumer’s perception of brand personality as proposed by Aaker (1997). The study indicates significant effects for the factors – exposure to advertisement, and specific individual personality dimensions – while, the results are inconclusive for the factor – personal relevance. This indicates that each of the individual’s personality dimensions does, in fact, affect the perception of brand’s personality. Moreover, each dimension significantly affects the perception of different set of brand’s dimensions. One may note that there are more significant effects for the HCL than for Apple Computers. This could be due to the fact that the Indian students who participated in the study are less familiar with Apple computers than with HCL. This is however conjectural as the study does not indicate such in the results. Further, it was found that identification of prior knowledge, attitude etc. about the brand was out of the scope of the study and there was fear of contaminating the data by getting the participants to think about these brands before the experiment was conducted.

With further research, the specific connections between brands and individual personalities could be identified and relationships between brands and consumers could be built on the basis of consumer personality profiles and brand personality characteristics that would best influence them. Implications for marketers would be, for instance, if they found that their typical target scored high on extroversion, then, depending on the prior knowledge and attitude toward the brand, they could point out the level of sophistication, in a brand such as apple and Sincerity and ruggedness for a brand like HCL. The study also indicates consistent and significant impact of advertising on the personality of brands. Although outside the scope of this study, it may be noted that the content of the advertisement can play a moderating role in causing variations in perception of the brand’s personality. However, this study indicates that advertising, in fact, does impact perception of brands personalities and in tandem with the information on the individual personality dimension, marketing communication could be made more effective in delivering brand’s personality information to the consumer.

Further, this study has been inconclusive and insignificant in most cases with respect to the personal relevance factor. This could mean that personal relevance, by itself may only affect the depth of processing of information as suggested by literature (Petty and Cacioppo 1983; Celsi and Olson 1988), but not affect the perception of brand’s personality by impacting the nature of processing. The lack of consistent and significant interactive effects suggests that the influence of individual personality dimensions and advertising exposure could be independent and they may not moderate each other. Hence, the marketer must look at each of these factors and assess their influence separately. For instance, a study of the individual’s personality dimensions and the brands per-
sonality dimensions may be done to assess a positioning plank, whereas creating and disseminating advertising may be done to render this information to the consumer. Each of these would determine how the consumer perceives the brand’s personality, albeit not in tandem.

LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

The focus of this study was only to examine, whether an individual’s unique personality, marked by differences in the dimensions would affect the perception of another personality, in the case, that of brands. The study included marketing communications and personal relevance in the form of motivation since literature suggests that these factors might significantly impact how brands are perceived. Therefore, the study did not look into aspects of attitude and prior knowledge.

These additional measures in the study could have added value in assessing the nature of the results. However, the researchers kept these variables out of the study in order to keep measurements and data collection instruments simple, as well as not contaminate the data by allowing the respondents to dwell on the nature of the brands used in the study.

This limitation however, creates scope for future work that could examine the reasons for the results obtained in the study. One such important question is whether the prior knowledge/attitude toward a brand would cause variations in perception of the brand’s personality by individuals with differing personality profiles.

Another question that might arise from this study is whether processing of information is a function of individual’s personality, advertising exposure and personal relevance. If the depth and nature of processing are considered as dependent variables instead of brand personality dimensions, one might be able to examine the role of individual personality dimensions.

Yet another variation of the study is possible in a non-factorial design condition, where the independent variable used in the study could have been the various dimensions of individual personality with the five brand personality dimensions as the dependent variables. This might have provided direct information on the manner in which the various personality dimensions interact. However, given the nature of the design and scope of work envisioned for this study, this was not possible. Hence this study focused on the factors including the advertising exposure and personal relevance which provided additional insights into how these factors interact.

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ENHANCEMENT OF BRAND PERSONALITY: THE USE OF DIFFERENT INFORMATION SOURCES FOR DIFFERENT DIMENSIONS

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Cele Otnes, University of Illinois at Urbana-Champaign
Magne Supphellen, Norwegian School of Economics and Business Administration, Norway

SUMMARY

A brand, like a person, may be characterized as “modern,” “old-fashioned,” “lively,” or “exotic.” These characterizational aspects of the brand fall under what is called the brand personality (Plummer 1985). Much research has emphasized the importance of brand personality (Johar, Sengupta, and Aaker 2005). For example, brand personality can serve a symbolic or self-expressive function (e.g., Belk 1988; Johar and Sirgy 1991; Levy 1959).

However, the primary focus of previous studies has been either on understanding the effects of brand personality or on measurement issues related to the construct (e.g., Aaker 1997; Azoulay and Kapferer 2003; Govers and Schoormans 2005). Fewer studies explore the nature of brand personality and identify its sources. Nevertheless, a number of authors (e.g., Batra, Lehmann, and Singh 1993) express their concern regarding the lack of the research on this topic. It is important to understand how consumers form their perceptions of brand personality and to understand how different sources contribute to brand personality.

Study 1

We assume many sources can contribute to forming the personality of a brand. These include not only the traditional ones like typical brand user or endorser (McCracken 1989) but also indirect sources like price, product-related attributes, advertising style, distribution channel, and symbols used in all phases of brand communication, sales promotions, and media advertising (Batra, Lehmann, and Singh 1993). Brand personality itself is a complicated concept that encompasses five different dimensions: Sincerity, Excitement, Competence, Sophistication, and Ruggedness (Aaker 1997). These dimensions differ in their nature. According to the “match-up” hypothesis (Kahle and Homer 1985), there should be a match between the stimuli (or source of brand personality in our case) and the desired message about the brand the marketer wants to deliver through these stimuli. This assumption means marketers cannot use the same sources to convey different messages about brand personality. In order to make the message about brand personality effective, it is necessary to find the sources that match this message. Thus, we hypothesize that different information sources are relevant for forming different dimensions of brand personality.

A survey of ten brands was conducted to test this hypothesis. The results support our assumption. Moreover, we found systematic differences regarding which sources are relevant for building each dimension. The most important sources of Competence and Sincerity are company-level sources such as company’s moral values, the CEO and company employees. In contrast, Sophistication and Ruggedness seem formed to a large extent by brand symbols such as endorsers, typical brand users, brand name, and brand logos. Excitement seems to be formed by a blend of company-level sources (employees), symbols (endorser), and advertising style.

Study 2

A related issue not previously explored in the literature is the enhancement of brand personality. Brand image/personality enhancement is a serious challenge to brand managers (Keller 1998). When brand personality stagnates or declines, the result could be lower brand preference and reduced brand equity. However, there is still lack of research on this phenomenon. A number of studies explore adapting brands to changing consumer taste (e.g., Van Rekom, Jacobs, and Verlegh 2006) but a more general approach based on understanding the diverse nature of brand personality is lacking.

Thus, after identifying the sources of different brand personality dimensions, we sought to determine whether these sources could be effective for the purpose of brand personality enhancement. In this study we chose to focus on two personality dimensions that are different in nature: Competence and Sophistication. We hypothesize that the sources found relevant in Study 1 can be effectively used for brand personality enhancement. For example, company-level sources (company’s employees, company’s managing director, and product attributes) are effective for brand personality enhancement on the Competence dimension, and brand symbols (celebrity endorser, typical brand user, and brand logo) are effective for brand personality enhancement on the Sophistication dimension.
The experiment was designed to assess these assumptions. The results show that the sources that were found relevant for particular brand personality dimension in Study 1 are also, for the most parts, effective for brand personality enhancement in Study 2.

Discussion, Conclusions, and Further Research

We investigate two important issues related to brand personality. First, we identify the sources of brand personality. Second, we explore whether these sources can be effective for the purpose of brand personality enhancement. The results of these two studies have both theoretical and managerial implications. They contribute to understanding the nature of brand personality and to the literature on brand personality enhancement. The results can also be used by managers for choosing strategies for brand personality development.

There are a number of possibilities for further research. The nature of brand personality is not yet fully explored. We isolate which sources are responsible for forming different dimensions, but it is still necessary to understand why some sources are more relevant than others. It would also be interesting to compare the effects of relevant and less relevant sources on brand personality enhancement. To our mind, less relevant sources should be less effective for the enhancement of brand personality. One more direction of extending the current research is to try to enhance the rest of brand personality dimensions (e.g., Sincerity, Excitement, and Ruggedness).

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PROMOTION MATCHING: THE ROLE OF PROMOTION TYPE, SELF-CONSTRUAL, AND BRAND CONNECTION ON PURCHASE INTENTIONS

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Vikas Mittal, Rice University, Houston  
Vanitha Swaminathan, University of Pittsburgh, Pittsburgh

SUMMARY

With promotions taking from 25 to 50 percent of companies’ marketing budgets for consumer products and packaged goods (Ailawadi et al. 2006; Raghubir, Inman, and Grande 2004), consumers are showered with promotions each day. Yet, the effectiveness of many promotions in building sales is not clear. We examine the effectiveness of special promotions based on the context in which consumers evaluate promotions. Self-construal, defined as an individual’s sense of self in relation to others, has been found to influence consumer responses to advertisements and brand information (Aaker and Lee 2001; Agrawal and Maheswaran 2005). We propose that the effect of special promotions may be moderated by self-construal.

Sales promotions may lower brand evaluations (Dodson, Tybout, and Sternthal 1978), but this finding is not consistent (Davis, Inman, and McAlister 1992). Research indicates that promotions lead to increased sales, but these sales may be short-lived as they are largely a result of brand switching and stockpiling (Gupta 1988). On the contrary, promotions may increase brand equity by increasing brand knowledge (Palazón-Vidal and Delgado-Ballester 2005). One promotion that has increased sales is that of employee pricing. After promoting automobiles using the “Employee Pricing for Everyone” tagline, General Motors’ sales increased 41 percent for the month of June (Munoz 2005). We term these types of promotions “inclusive” promotions. Under what conditions will such inclusive promotions be more effective? Given the tendency of individuals characterized by an interdependent self-construal to focus on ingroups such as family and friends (Markus and Kitayama 1991), inclusive promotions may be evaluated differentially based on one’s interdependence. We argue that interdependent consumers will have higher purchase intentions for an inclusively-framed discount than that of those with a low interdependent self-construal while interdependence will have no effect on purchase intentions for a regular discount.

Consumers may also be characterized by an independent construal of self. The independent self-construal is characterized by one’s focus on individual thoughts and feelings (Markus and Kitayama 1991). Recommending that companies remember customers’ birthdays and offer them incentives, Harrington (2006) states, “Successful businesses take every opportunity to offer unique, personalized products and services, and using the retail promotions calendar can help you do just that.” We propose that an independent self-construal will enhance the effect of exclusively-framed promotions (i.e., birthday discount, unique customer) on purchase intentions while an interdependent self-construal will enhance the effect of inclusively-framed promotions on purchase intentions.

In the first study (N = 247 students), participants were exposed to either an inclusively-framed (employee) promotion or regular promotion for a young apparel retailer. They then indicated their purchase intentions as well as their chronic interdependence on a commonly used scale. Results indicated that the interaction of promotion type and interdependence is significant (F(1, 240) = 3.92; p < .05). Comparing cell means, purchase intentions for those in the employee promotion condition were significantly greater for those with high interdependence than for those with low interdependence (M_{high} = 4.69 vs. M_{low} = 3.94; t = 2.52, p < .05). In contrast, for those in the regular promotion condition, purchase intentions were not significantly different for those with high interdependence and those with low interdependence (M_{high} = 4.17 vs. M_{low} = 4.22; t = 0.20, ns).

In the second study, participants (N = 235 adult consumer panelists) are exposed to one of four conditions in a 2 (Promotion: Employee vs. Birthday) X 2 (Self-construal: Interdependent vs. Independent (manipulated)) between-subjects design. Participants’ self-brand connection was also measured using nine items adapted from Escalas and Bettman (2005) to examine the three-way interaction of promotion type, self-construal, and self-brand connection. A manipulation check was conducted to ensure that the promotions were viewed as inclusively- or exclusively-framed, as intended. Importantly, the analysis reveals that interaction of promotion type, self-construal, and self-brand connection is significant (F(1, 234) = 4.21; p < .05), controlling for pre-purchase intentions. Specifically, for those in the employee promotion condition with low self-brand connection, purchase intentions were sig-
significantly greater for those in the interdependent prime than those in the independent prime ($M_{\text{Inter}} = 5.34$ vs. $M_{\text{Indep}} = 4.87$; $t = 1.99$, $p < .05$). In contrast, for those in the birthday promotion condition with low self-brand connection, purchase intentions were significantly greater for those in the independent prime than those in the interdependent prime ($M_{\text{Indep}} = 5.62$ vs. $M_{\text{Inter}} = 4.96$; $t = 2.77$, $p < .05$). For those with high self-brand connection, there was no difference in purchase intentions, regardless of promotion type or self-construal ($p's > .40$). These findings indicate that when promotions are framed to match a consumer’s self-construal, purchase intentions may increase. However, this effect is limited to those consumers with lower self-brand connection. While marketing managers are constantly offering promotions to increase sales and market leadership, this research examines how special promotions (i.e., inclusively- and exclusively-framed) can have positive impacts on the brand via purchase intentions when appropriately matched with consumers’ self-construal. Importantly, these effects appear to be limited to those consumers with lower connections to the brand.

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BUILDING CUSTOMER’S TRUST IN THE SUPPLIER FIRM: THE IMPACT AND LIMITS OF SALESPERSON’S CONTINUITY

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SUMMARY

Do supplier firms benefit from having their relationship managers look after the same customers for an extensive time period? Previous research suggests that, to build long-term relationships with customers, supplier firms must ensure continuity between the relationship manager and the buying company (Capon 2001; Weitz and Bradford 1999). Moreover, sales managers tend to avoid the reallocation of salespeople to different customers because they risk losing business; salespeople see this option as stressful and unattractive when they are comfortable with their existing customers; and customers may perceive the assignment of a new sales representative as disruptive, particularly when in-depth customer knowledge is needed for effectiveness (Zoltners and Lorimer 2000). Bendapudi and Leone (2002) argue that customers may have potential negative responses when the key contact employee is unable to continue serving them, especially when he or she plays a critical role in determining satisfaction with the supplier, and when the customer has developed special bonds with the sales representative.

However, maintaining continuity of salespeople with their customers is not always possible, because new job opportunities may arise for the relationship manager, or the supplier company may need to realign sales territories to increase sales productivity or adopt a new sales strategy (Zoltners and Lorimer 2000). Furthermore, it is not clear whether continuity of the salesperson with a customer reaches a point where its benefits start to wash out, or the conditions under which salesperson continuity becomes less effective as a mean to build long-term relationships with customers.

This gap in the literature motivates this research, which looks at how salesperson’s continuity with customers can affect customers’ trust in the supplier firm. Specifically, it is examined whether there is an inverted-U relationship between salesperson’s continuity (measured as the number of years that the salesperson has been in charge of the same customer) and customer’s trust in the supplier firm (in terms of these two variables, and whether the linear effect between continuity and trust is moderated by the size of the customer team, the dedication of unique resources to the customer (in terms of product specifications, procedures, and marketing activities), and the length of the relationship between the supplier and the buyer firms (i.e., relationship age).

To test this model, 261 key account managers (as key informants) were surveyed from several industries, from United States and Chile (roughly 50% of the sample from each country). The sample frame was built mainly from the following sources: Institute for the Study of Business Markets (ISBM) company members, ANDA (Chilean Association of National Advertisers), Strategic Account Management Association’s peer directory, and Emory University Alumni database. The model was tested empirically using regression analysis. The following control variables were included in the analysis as predictors of customer’s trust: access to resources (i.e., the extent to which the relationship manager receives support from the following functions: Sales, Customer Service, Marketing, and Production), esprit de corps among those involved in serving or working with the customer, and top management involvement in decision making.

The results show that, although salesperson’s continuity is positively associated with customer’s trust in the supplier firm, there is a limit after which this effect washes out. After a few years (in this sample, after eight years), securing the continuity of salespeople with the same customers does not contribute significantly to building customer’s trust in the supplier company. Second, the findings provide evidence that, under certain conditions related to sales organization, idiosyncratic investments in the customer, and the long-term orientation of the buyer-supplier relationship, salesperson’s continuity becomes less relevant as a determinant of customer’s trust in the supplier. Specifically, I find that the importance of salesperson’s continuity declines – and eventually vanishes – when the supplier has a large cross-functional team involved in servicing or working with the customer, when the supplier dedicates a large amount of unique resources to the customer (in the form of unique product specifications, procedures, and marketing activities), and when the relationship between the supplier and the buyer has existed for a long time.

This study provides useful insights for supplier firms and, in particular, for sales managers who have the greatest responsibility for deciding how long salespeople should look after the same customer. This is especially relevant in times when the competition is intense and global, and consequently there are many circumstances where turnover or transfer of salespeople may occur. All references in this abstract are available upon request.
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CUSTOMER-CENTRIC CULTURE IN SALES ORGANIZATIONS: ON ITS MEASUREMENT AND IMPACT ON SALESPERSON PERFORMANCE

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SUMMARY

Over the last few years, there has been a growing recognition among researchers and practitioners that the development of customer centricity in organizations constitutes the foundation of marketing (Sheth, Sisodia, and Sharma 2000) and represents a source of competitive advantage (Day 2003; Gulati 2007; Shah et al. 2006). Interestingly, this recognition comes with the realization that very few studies have been conducted in the area that can guide companies in their transition to being customer-centric (e.g., Sheth, Sisodia, and Sharma 2000). To date, published studies are mostly conceptual and are discussing customer-centricity at the organizational level, thereby paying less attention to organizational sub-processes, such as the sales process (Leigh and Marshall 2001). Against this backdrop, the aim of the present study is threefold. First, we build and test a multiple-layer model of customer-centric sales culture with the hope to provide insights on the measurement issues surrounding the development of customer-centricity in sales organizations. This multi-layer conceptualization is grounded on the work of Homburg and Pflesser (2000) and echoes the call of Leigh and Marshall (2001) for future work on the area. Importantly, this approach allows for an in-depth analysis and understanding of the different layers comprising customer-centric sales culture. Second, we examine the factor structure of the customer centric culture construct. Third, we empirically examine the impact of customer-centric sales culture on salesperson performance.

Theory and Hypotheses

Culture was defined and conceptualized on the basis of Homburg and Pflesser’s work (2000). This conceptualization identifies four different layers of culture: “values,” “norms,” “artifacts,” and “behaviors.” Briefly, culture exists simultaneously on three levels: on the surface are behaviors and artifacts, underneath artifacts lie norms, and at the core are basic shared values. Culture is, therefore, generated through values, but manifested and expressed sequentially through norms, artifacts, and behaviors. Drawing on the above discussion, the present study approaches customer-centric sales culture as a hierarchical model comprising four interrelated layers (Homburg and Pflesser 2000): (a) shared basic values supporting a customer-centric culture, (b) norms for customer-centricity, (c) artifacts of customer-centricity, and (d) customer-centric behaviors.

Consistent with Leigh and Marshall’s recommendations, the identification of values, norms, artifacts and behaviors surrounding and supporting a customer-centric sales culture was based on Chally Group’s (2006) research report. In addition, to ensure content validity we (a) searched for related materials in major marketing journals, textbooks, and Fortune 100 company web sites, and (b) discussed definitions and items with eight managers and salespeople. This process resulted in the identification of six dimensions tapping the customer centric sales culture construct: (1) Cross-functional coordination, (2) Adoption of a relationship/partnership business model, (3) Formalization of customer needs analysis processes, (4) Continuous improvement stressing customer satisfaction, (5) Repositioning the salesperson as business consultant, (6) Educating customers.

Based on prior work, we generated five research hypotheses (e.g., Gebhardt, Carpenter, and Sherry 2006; Homburg and Pflesser 2000). In particular, according to the multi-layer model of culture, values influence norms, which influence artifacts and customer-oriented behaviors, which, in turn, influence behavioral and outcome salesperson performance.

Research Methods

Data were collected from salespeople working in the Greek pharmaceutical industry; salesperson names and addresses were provided by a mailing-list broker specialized in the prescription-based pharmaceutical industry. We randomly selected 800 salespersons from the list. Salespeople received questionnaires via mail. A total of 323 usable questionnaires were returned, representing a response rate of 40 percent.

Analysis

Measurement scales (i.e., customer-centric sales culture, salesperson performance) were subjected to confirmatory factor analysis, which indicated that measures possess adequate psychometric properties. Structural equation modeling was then employed to assess the hypothesized model relationships. The fit statistics indicated that
the conceptual model fits the data well (RMSEA = .09; NNFI = .92; CFI = .93).

Discussion and Implications

Our study answers the calls for research in the realms of customer-centric marketing (Sheth, Sisodia, and Sharma 2000) and customer-centric sales culture (Leigh and Marshall 2001). Specifically, the present study contributes to the sales management literature in three important ways: (1) we conceptualize a multi-layer model of customer-centric sales culture, (2) we empirically examine its factor structure, and (3) we test the nomological validity of the model by testing its effects on salesperson performance. Overall, our study provides evidence of discriminant validity for the different layers of customer-centric sales culture and identifies six important dimensions of customer-centrism that can be further explored in future research.

On the basis of our research results, we identify specific actions that both senior sales executives and sales managers must implement for customer centricity to occur within sales organizations. First, our study tells managers that the establishment of customer-centric values and associated norms should be a top priority in modern sales organizations. This is so because developing an appropriate system of cultural values enhances norms and behaviors supporting a customer-centric orientation, thereby increasing salesperson performance. Second, the effects of customer-centric culture primarily occur through values, norms, and behaviors. Artifacts (i.e., arrangements, stories, rituals, and language) do not appear to have a significant effect on salesperson performance. This result is interesting and it partially reflects that, at least for the sample companies, artifacts do not constitute important performance levers. This finding may also signal that in contrast with employees that work inside the company (see Homburg and Pflesser 2000), artifacts in the form of arrangements, stories and language, do not have an important effect in the enhancement of performance for boundary-spanners (i.e., salespeople) who are spending most of their time in the field. Rather, it is the set of basic values and expectations (norms) that will affect their behavior and hence their performance. Finally, sales executives can use our scale to measure customer-centricty among members of their sales forces with the intent to guide managerial actions. References are available upon request.

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FLATTERY’S CURSE: HOW CUSTOMER-ORIENTED SELLING AFFECTS SHORT-TERM CUSTOMER SATISFACTION AND DECISION TO BUY

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SUMMARY

More than 80 years ago, Strong (1925) emphasized that personal selling strategies should be directed toward securing customer satisfaction as well as making the sale. Nearly 60 years later, Saxe and Weitz (1982) suggested customer-oriented selling (COS) to be a key aspect of securing customer satisfaction (Saxe and Weitz 1982). Since then, a substantial amount of research has been directed toward COS (for an overview, see Schwepker 2003). This work has focused on long-term effects of COS and has largely overlooked the short-term effects of COS. Accordingly, the question of how COS affects customers’ decision to buy (CDTB) at the end of a given sales encounter remains still open. This is surprising given that making the sale is an important objective of salespeople.

Against this background the aims of this study are threefold. First, we will investigate the mechanism of how COS affects customers’ decisions to buy. Building on previous work, we consider direct and indirect effects, mediated by customer satisfaction with sales interaction (CSSI). In addition, these effects are investigated on the level of the dimensions of COS. Second, we will suggest and test a three-dimensional model of COS adding socio-emotional behaviors to the two dimensions of the construct as measured with the customer orientation and selling orientation sub-scales of the SOCO scale (Saxe and Weitz 1982). Third, relative effects of the dimensions of COS will be examined.

In order to achieve these three aims, we collected data in multiple retail outlets whose managers had agreed to participate in the research project and had granted the permission to interview customers within the outlets in a major German city. Research assistants were instructed to interview consumers who had engaged in sales interactions right after the sales interactions. This process yielded usable data about 203 sales interactions. Twenty-one point two percent of the sales interactions related to apparel, 78.8 percent to electrical appliances and took place in stores and retail outlets of different sizes. As to the sample demographics, 50.2 percent of the respondents were males, 49.8 females. Their ages ranged from 17 to 82 with a mean of 43.4 years.

Our empirical results support the dimensions’ indirect effects on CDTB, mediated by CSSI. The COS-Dimension “building a positive interaction climate” was found to have the strongest impact on CSSI and a direct negative effect on CDTB. Also, results supported the expected inverted u-shaped relationship between “avoiding pressure to close” and CDTB. Finally, COS was found too only have a little impact on CDTB. References available upon request.

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A COMPARISON OF TELEVISION CELEBRITY USE IN THE UNITED STATES AND LEBANON

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SUMMARY

Jagdish and Kamakura (1995) argued that celebrity endorsement has become a prevalent form of advertising in the United States. Approximately 20 percent of all television commercials feature a famous person, and approximately 10 percent of the dollars spent on television advertising are used in celebrity endorsement advertisements (Advertising Age 1987; Sherman 1985).

There are several reasons for the extensive use of celebrities in advertising. Research findings show that celebrities make advertisements believable (Kamins et al. 1989), enhance message recall (Friedman and Friedman 1979), aid in the recognition of brand names (Petty, Cacioppo, and Schumann 1983), create a positive attitude toward the brand (Kamins et al. 1989), and create a distinct personality for the endorsed brand (McCracken 1989). Because it is believed that celebrity endorsements are likely to generate a greater likelihood of customers choosing the endorsed brand (Heath, McCarthy, and Mothersbaugh 1994; Kahle and Homer 1985), businesses are willing to pay the high price to obtain them.

The purpose of this study is to compare the use of celebrity endorsement between the United States and Lebanon in terms of two fundamental cultural dimensions: (1) low versus high context, and (2) individualism versus collectivism. This study will investigate differences and similarities regarding celebrity characteristics in the U.S. and Lebanon.

Celebrity and Celebrity Endorsements in the Arab World

Although celebrity fascination takes place in the Arab world, it is likely that the way people react to celebrity is different from the way people do in the U.S. due to religious and cultural factors. In spite of these cultural and religious values; however, Arab fascination with celebrity has recently increased due to more exposure to the West and particularly the United States. For example, BBC News (2005) reported that “a Saudi star of a reality TV show caused such commotion among fans in a Riyadh mall he was reportedly arrested for sparking an “indecent scene.” Saudi fans tried to hug and kiss the star which is against religious and cultural values of the kingdom.

Research Questions

RQ1: Which one of the two countries (U.S. or Lebanon) uses more celebrity in television advertising?

RQ2: What are the types and characteristics of celebrities appearing in Lebanese and U.S. television advertising?

RQ3: What are the product types for which celebrities are commonly employed as endorsers in Lebanese and U.S. television advertising?

Research Hypotheses

H1: Lebanese Celebrity will be more likely to convey less information compared to their U.S. counterparts due to the high context nature of the Lebanese culture (was not supported).

H2: Lebanese celebrity will be more likely to employ collectivism appeals compared to their U.S. counterparts due to the collectivistic nature of the Lebanese celebrity (was not supported).

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CELEBRITY ENDORSEMENT, BRAND EQUITY, AND BRAND CREDIBILITY

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SUMMARY

Celebrity endorsement is considered a valuable promotional tool by marketers worldwide. Companies invest heavily in celebrities, with one-in-four advertisements using celebrity endorsement (Market Watch 2006, p. 29).

The term, brand equity, refers to the incremental value added by a brand name to a product (Farquhar 1989, p. 7). Firms’ major marketing activities are generally aimed at building, managing and exploiting this important marketing metric (Yoo and Donthu 2001, p. 1). Brand equity has emerged as a priority area in the marketing discipline, leading to calls for research identifying strategies for building brand equity.

Several researchers have emphasized the importance of brand associations in building brand equity. Celebrity endorsement represents one tool marketers can use to develop and maintain appropriate brand associations (McCracken 1989, p. 12). Despite suggestions from researchers (e.g., Till 1998) that celebrity endorsement could lead to improved brand equity, extant research does not offer much guidance on this issue. Specifically, existing research does not provide any empirical evidence for this relationship.

The principal objective of the present research is to provide a conceptual framework for explaining the impact of the credibility of the celebrity endorser used on the consumer-based equity of the endorsed brand. The mediating role of the credibility of the endorsed brand on the “celebrity credibility-brand equity” relationship is also examined. The moderating role of the type of branding employed on the ‘celebrity credibility-brand equity’ relationship is also examined. Three propositions are advanced for the proposed relationships. Guidelines are also provided for empirical testing.

We conceptualize the credibility of the celebrity endorser based on the source model theory which contends that endorser credibility is based on his/her attractiveness, expertise and trustworthiness (e.g., Biswas, Biswas, and Das 2006, p. 18; Erdogan 1999, p. 297; Ohanian 1990, p. 41). Consumer-based brand equity is conceptualized based on Accurst (1991, p. 16) brand equity framework, as a multidimensional construct comprising of brand awareness, brand associations, perceived quality and brand loyalty, which is consistent with recent work in this area (e.g., Pappu, Quester, and Cooksey 2006; Yoo and Donthu 2001; Washburn and Plank 2002). Brand credibility has been conceptualized as a two-dimensional construct comprising trustworthiness and expertise (Erdem and Swait 2004, p. 192). Brand credibility refers to how effectively information is conveyed by the brand signal and how truthful and dependable that information is considered to be (Erdem and Swait 1998, p. 137).

The relationship between credibility of a celebrity endorser and brand equity is explained using the associative network memory model (e.g., Anderson 1973) from cognitive psychology and the persuasion knowledge model (Friestad and Wright 1984). Previous research has used associative learning principles to articulate the underlying process of celebrity endorsement (e.g., Till 1998). We argue that by using endorsement, a celebrity could be linked to a brand within a consumer’s memory, hence providing a favorable association conducive to the creation of brand equity.

The mediating role of brand credibility on the credibility-brand equity relationship is explained using the brand signaling theory from information economics. We argue that the credibility of a celebrity endorser will add credibility to the signal of the endorsed brand. Subsequently, brand credibility can build brand equity by favorably influencing consumer attribute perceptions, information costs and perceived risk.

It is proposed that the impact of celebrity credibility on brand equity would differ depending on whether a celebrity is endorsing a parent brand or a sub-brand. A sub-brand is a type of brand extension, whereby a new brand is combined with a parent brand (Keller 2003, p. 577). Using associative learning principles, it is argued that a celebrity endorser would be more effective for a sub-brand because a sub-brand would have a less-established associative network in consumer memory.

The proposed framework could be tested using an experimental design. This experiment could follow a 3 x 2 between-subjects factorial design. That is, source credibility could be varied at three levels (control group/low credibility endorsement/high credibility endorsement). Type of branding could be manipulated at two levels.
Valid and reliable measures are available from past research to measure the variables included in our conceptual framework. The experimental manipulations could be implemented using print advertisements featuring celebrities of varying credibility for a brand and its sub-brand selected through pre-testing. Data for this research could be collected using a mall-intercept approach which would yield a sample of real consumers. To strengthen the validity of this research, the proposed experiment could be replicated across two brands within a chosen product category.

The present research has significant implications for marketing theory and practice. The framework proposed in this research is one of the first to conceptualize a relationship between celebrity credibility and consumer-based brand equity. The present research also contributes by identifying the mediating role of brand credibility and the moderating role of type of branding on the “celebrity credibility and consumer-based brand equity” relationship. This research also demonstrates another application of associative learning theory. In terms of practical implications, this research will be useful for managers in their selection of celebrities. Further, the present research provides managers with compelling justification for the use of celebrity endorsement as an effective promotional technique which can genuinely create value for a firm such as improvements in intangible assets like brand equity. References are available upon request.
COMMUNICATING CORPORATE BRANDS THROUGH NARRATIVES: THE MODERATING EFFECT OF PERSUASION MOTIVES

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SUMMARY

In recent years, researchers have paid increasing amounts of attention to the management of corporate associations and corporate brands (e.g., Brown et al. 2006; Berens, van Riel, and van Bruggen 2005; Brown and Dacin 1997). A strong corporate brand is a strategic asset because it can positively affect how different stakeholders evaluate and respond to the organization and to the products and services it offers. As such, managing and communicating a corporate brand constitutes an important strategic task and, consequently, more research is needed that shows how this can be achieved successfully (Dacin and Brown 2002). The purpose of this research is to investigate if a corporate brand and its underlying values can be communicated effectively through the use of narratives or stories (van Riel 2000; Dowling 2006).

Narratives and the Persuasion Knowledge Model

Narratives or stories are defined as “knowledge structures that consist of a sequence of thematically and temporally related events” (Adaval and Wyer 1998, p. 208). A great deal of studies have shown that information that is presented in a narrative form can lead to positive consequences in terms of memory, affect, and persuasion (e.g., Escalas 2004; Adaval and Wyer 1998; Polyorat, Alden, and Kim 2007; Pennington and Hastie 1988). Narratives exert their persuasive impact through a cognitive process called “transportation” (Escalas 2004, 2007; Green and Brock 2000). Transportation denotes the extent to which individuals immerse themselves into the content of the narrative and get “lost” in it. Transportation enhances persuasion by eliciting strong affective reactions and reducing the amount of negative cognitive responses (Escalas 2007; West, Huber, and Min 2004). These studies would suggest that narratives are an effective way to communicate the values of a corporate brand to consumers.

We, however, posit that under some circumstances narratives cause consumers to infer a persuasion motive and to resist the message of the narrative. This perspective is consistent with the Persuasion Knowledge Model (Friestad and Wright 1994). For instance, Campbell (1995) demonstrated that attention-getting advertising tactics can cause viewers to question the motives of the advertiser and to draw inferences of manipulative intent. These inferences, in turn, exerted a negative impact on the evaluations of the advertiser. We posit that similar processes may be at work in the context of narratives. When consumers do not infer a persuasion motive, narratives may be a very effective means for communicating the values of a corporate brand. Consumers are then drawn into the narrative and can form a stronger connection between their own selves and the brand that is depicted in the narrative. When, however, an ulterior motive for using narratives is made accessible, consumers may infer that the company is trying to manipulate them by unfair means. They may think that narratives are powerful tools of persuasion and that marketers are using narratives for precisely that reason. As a result of these inferences, consumers may discount the narrative relative to situations when an ulterior motive is not as evident (Campbell and Kirmani 2000; Campbell 1995). Hence, narratives may lose some of their persuasive power if they are associated with a persuasion motive.

Methods, Results, and Discussion

To test our hypotheses, we conducted two experiments with adult German and Swiss consumers. In both experiments, we asked participants to evaluate a corporate brand that was either represented in a narrative or an expository, factual format. Furthermore, the extent to which a persuasion motive was accessible was also manipulated. In the first experiment, we manipulated the accessibility of a persuasion motive by suggesting that the company may have had an ulterior motive for communicating its corporate brand. In the second experiment, we triggered a persuasion motive by embedding the brand values into a narrative theme that was not entirely credible (Escalas 2004, 2007; Green and Brock 2000). The effect was similar in both cases. When ulterior motives were easy to discern, participants inferred that they were being unfairly persuaded and, as a result, the positive impact of the narrative was attenuated. Participants partially discounted the brand and its values and considered them to be less relevant and credible. Interestingly, the presence or absence of a persuasion motive did not affect participants’ responses when the brand was represented in an expository fashion. These results hold important implications for managers that decide to use...
narratives to communicate their corporate brands. When narratives are executed poorly and ignite a persuasion motive, they are likely to be met with resistance and may eventually backlash against the brand. References are available upon request.

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THE NEGLECTED POWER OF MOOD: HOW IT MODERATES BRAND PLACEMENT’S EFFECTIVENESS

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Melchior D. Bryant, Mannheim University, Germany
Marcus M. Neumann, Mannheim University, Germany

SUMMARY

Brand placements take root as a successful advertising approach reflected by an expected increase of global sales of 30 percent to US$4.4 bn. in 2007 (PQ Media 2007). Following d’Astous and Chartier (2000), brand placements contain all intentional placements of branded products in motion pictures for promotional purposes. Thus, this approach becomes more and more important for the advertising industry as a visible flash of the brand during the current program can be guaranteed even though viewers increasingly avoid commercials (Harvey 2001).

While the effectiveness of brand placements in terms of brand attitudes and purchase intentions is already shown in studies (e.g., Law and Braun 2000; Russel 2002) the role of the viewers’ mood has not been explored. Thereby, mood is defined as “feeling states that are subjectively perceived by individuals” (Gardner 1985, p. 282). Further, motion pictures are able to evoke positive or negative mood states in the audience which in turn influence the effectiveness of traditional commercials (e.g., Goldberg and Gorn 1987; Holbrook and Batra 1987). Karrh, McKee, and Pardun (2003) revealed in an exploratory study with marketing professionals the belief that induced mood is likely to influence the viewers’ reactions toward brand placements. However, no empirical study has examined whether mood moderates the known antecedents of brand placement’s success.

To address this research gap we apply a two-step procedure. At first, we are developing a core model of brand placement’s effectiveness including antecedents based on findings of existing literature. We are using structural equation modeling for assessing the significance and the effect size of each antecedent. Then, we are testing every path in the core model for being moderated by movie-induced mood.

Altogether, our core model consists of six hypotheses: We assume that the attitude toward advertising in general determines the attitude toward the brand placement in the movie which in turn influences the attitude toward the placed brand. Further, we hypothesize that the image congruency between the placed brand and the movie affects the attitude toward the brand placement in the movie, whereas the image congruency between the placed brand and the character has an effect on the attitude toward the placed brand. In addition, the attractiveness of the character affects also the attitude of the placed brand. Finally, we postulate that the attitude of the placed brand influences the respective purchase intention.

Based on our core model, we discuss movie-induced mood as a moderating variable of the hypothesized relationships. Basically, we assume that every path on the core model is positively moderated by the viewer’s perceived mood.

We used data of 237 study participants (average age of 26.3 years, 32.1 percent female, 67.9 percent male) in an online setting to assess our assumptions. At first, test persons were asked to choose one of two movies (“Hitch” with a placement of a car brand and “Ocean’s Twelve” with a placement of a mobile phone brand). Afterwards, test persons were exposed to the official movie trailer and to the scene that included the brand placement. At last, the questionnaire was shown to the participants. The computed results confirmed all hypotheses.

The study shows for the core model that the use of brand placements influences desirable dispositions of the purchase behavior. The following recommendations might be given. Brands should be placed in a positive environment. To increase the acceptability of the message, it is essential to integrate brands exclusively in movies with corresponding images. If the positioning is too inappropriate the recipient will perceive it as an attempt of promotional influence, which in turn will lower the advantage of the placement. This conscious perception can lead to an intense negative attitude toward the advertised brand. Likewise, it is important to pay attention to a high degree of congruity between the image of the character and the advertised brand. The attractiveness of the character also constitutes an important factor to activate identification processes of recipients and, therefore, increase the effects of brand placements through imitating processes.

Reviewing the core model for moderating effects reveals that the paths are influenced by the viewers’ mood state. In the positive mood condition effect sizes in the core model are strengthened while relationship effects decrease in the less positive mood condition and, there-
fore, lower brand placement’s success. This finding is of utmost importance as brands should only be placed in entertainment programs, which can assure positive mood effects. Especially the integration of brands into live programs like sport events or shows are critical due to unpredictable mood causing contents, if the favored characters are not performing as expected. In this case, the success of brand placements cannot be controlled by exogenous variables like context congruity or character’s attractiveness.

Resumptive, our research helps managers to understand the effectiveness of brand placements and gives them a guideline to successfully implement branded products in motion pictures.

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FLOW EXPERIENCE: NEW APPROACHES FOR CONCEPTUALIZATION AND MODELING OF A MULTIFACETED CONSTRUCT

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Manuela Sachse, Chemnitz University of Technology, Germany

SUMMARY

The flow experience has gained increasingly more attention in marketing research. So far, it has mainly been used to explain the impact of commercial websites, software use or the analysis of marketing events. There have been several attempts to develop a detailed definition, conceptualization, and operationalization of the construct. However, these findings often encounter problems in terms of content validity. One problem regards a blurred conceptualization of flow. Either only some of the facets are considered or further constructs describing flow are added. A second problem can be identified in respect to different views of the distinction between reflective and formative facets of the flow construct, its antecedents and consequences. A third problem area concerns the modeling of this multifaceted construct. Based on literature review and three empirical studies, the authors developed a revised and valid conceptualization of flow and examined several approaches of modeling multifaceted constructs. For that, the framework of Bagozzi and Heatherton (1994) was applied.

Empirical Studies

To clarify the conceptual framework and to examine the developed scale, two pilot studies were conducted with spectators of the FIFA World Cup Germany 2006. The data for the main study was collected with the help of an online questionnaire using participants of the Massively Multiplayer Role-Playing Game “World of Warcraft.” The final sample of 618 respondents was used to compare the different approaches of modeling multifaceted constructs and their adaptation to the flow construct. The parameters of the models were estimated with the help of CFA.

Conceptualization of Flow

Reviewing the literature, the mainly used facets were taken into account for this conceptualization in order to represent the construct as a whole. To distinguish formative and reflective facets (see Table 1), the authors adapted appropriate decision rules by Jarvis, MacKenzie, and Podsakoff (2003).

Some facets neither build manifestations of the construct (reflective view) nor the elimination of these facets necessarily alters the conceptual domain of the flow construct (formative view). Hence, it seems to be reasonable to separate these facets from the construct as antecedents. The classification of the facets Control and Concentration can be termed both as reflective facet and antecedent. Therefore, both views were considered. With respect

<table>
<thead>
<tr>
<th>Table 1</th>
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<tbody>
<tr>
<td>Reflective Facet</td>
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<tr>
<td>action-awareness merging</td>
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<tr>
<td>loss of self-consciousness</td>
</tr>
<tr>
<td>transformation of time</td>
</tr>
<tr>
<td>concentration on task at hand</td>
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<td></td>
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</tbody>
</table>
to their perceived control, the results of the empirical studies showed no distinction between respondents who experienced flow and those who did not. Hence, this facet should only be conceptualized as an antecedent of flow.

In conclusion, the following definition can be derived. Flow is a holistic experience, explaining the state in which the acting individual is absent-minded, loses all sense of time while being highly concentrated and having the impression of its consciousness and action merging.

### TABLE 2

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Partial Aggregation with Hierarchical Organization of Facets</td>
<td>The facets are organized hierarchically as indicators of an underlying factor. The indicators of each facet are summed up as indices and load as indicators on a higher order single-factor (flow).</td>
</tr>
<tr>
<td>IIa Total Disaggregation First-Order</td>
<td>The facets are formed as correlated latent variables. Each item is used to operationalize its respective facet.</td>
</tr>
<tr>
<td>IIb Total Disaggregation Second-Order</td>
<td>The facets are organized as first-order factors. The second-order factor can be thought as an abstract representation of the overall flow construct.</td>
</tr>
</tbody>
</table>

In summary, the following practical implications can be deduced: Both total disaggregation models (II) can be used if the researcher wants to focus on the structure of the flow construct. If the aim is to integrate the flow construct into a higher-order structure, one can choose between two approaches. Focusing on the impact of the respective facets on other key constructs, the first order approach (IIa) can be suggested. The partial aggregation model (I) would be useful to analyze the relationship between the flow experience as a global construct and other key constructs. Hence, due to its lower complexity, the partial aggregation model seems to be the most practicable alternative to the total disaggregation second order model. References are available upon request.

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EXPLORING PERCEPTIONS OF CONSUMER EXPERIENCE ONLINE

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SUMMARY

This paper explores consumers’ perceptions of their online experience beyond website interface issues. Using Personal Construct Theory (Kelly 1955) this research identified twelve themes including: aesthetics, customer orientation, customization, dependability, entertainment, functionality, identification, informative, innovative, price, product/service offer, and social. These findings build upon those reported in existing literatures on Web site quality. Specifically, this study captured identification and social aspects of online experience as important issues.

Increasingly, customers are using the internet for hedonistic rather than utilitarian purposes. The majority of customer experience research conducted to date has focused on the web site interface or specifically on the consumer’s feelings or state of mind. The Web site quality literature predominantly considers the interface between the consumer and the Web site. The main consideration of the customer experience literature has been the customer himself. In order to explore this gap in the literature this paper considers the perceptions of consumers’ experiences online.

This study draws from George Kelly’s Personal Construct Theory (1955). Originally designed as a psychological instrument for exploring patients’ perceptions of interpersonal relationships the approach was adopted by marketers looking to explore consumers’ perceptions of market offerings (Guttman 1982). The methodology is qualitative exploring consumers’ perceptions of products or services through a process of comparisons between objects. Initially participants are asked to select three websites and note, “how two are immediately similar but different from a third in terms of your online experience.” The answers to this triadic sorting are noted as a pair of “constructs” which then forms the basis of a rating scale. Web sites are then rated against the two “construct poles” and the process resumes with a new triadic sort. Once saturation is achieved, the results are collated and coded drawing out patterns of similarities and differences resulting in the derivation of key themes.

The sites used in this study were taken from an open poll of graduate and undergraduate students who comprised the sample frame for this study. Seventy-seven Internet Marketing students were asked to identify most frequently used sites. The results were collated and the ten most frequently cited chosen. The ten sites used were; Amazon.com, Dell.com, Netflix.com, Walmart.com, BestBuy.com, eBay.com, Google.com, iTunes.com, and Facebook.com.

Overall the study revealed twelve key themes and 601 pairs of constructs denoting the samples perceptions’ of their experience with Web sites (1202 construct poles). References are available upon request.

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CONSUMER CONTROL AND THE PSYCHOLOGY OF DVR USE

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SUMMARY

Media fragmentation, consumer interactivity, and personalization are the product of technology advancements. Furthermore, these advancements lead to one outcome—the empowerment of the consumer. Recently, Andrew Heyward, former president of CBS news, consumers create their own media environment and “watch what they want when they want” (Page 2006, p. 18). Designating this phenomenon as the “control revolution,” Shapiro (1999) claims that technology has brought with it a reduction of institutional control resulting in an increase of individual control. Recently, Cover (2006) defined the control revolution as a “push-and-pull of author versus (intended) audience control over the text” (p. 153). Control represents a personality trait that links use with gratifications sought from media. Certainly, the relationship between psychological personality traits and media use is frequently noted in the literature (Finn 1997; Hall 2005; and so on). We adopt the “desire of control” construct suggested by Burger and Cooper (1979) to better understand the use of DVRs. Building on Eastin’s work (2005), the role of self-efficacy in DVR use is also examined. Finally, enjoyment and social interaction as outcomes of DVR use will be examined.

As shown in Figure 1, DVR self-efficacy, prior experience, and desirability of control all act directly on DVR use. DVR self-efficacy and desirability of control also act indirectly on perceived outcomes from use. Finally, DVR use directly influences perceived enjoyment and social expectations.

Methods

Participants were part of a large opt-in online research panel recruited over a seven-day period through EMI Market Research. A total of 3,000 emails were sent. The survey was closed once 325 completed surveys were completed (day 7). The current research was only interested in DVR users, thus, only those who indicated being DVR consumers were included in analysis (N = 106). Of those participants, 63 were male and 43 were female. Ages ranged from 21 to 84 (M = 43.50, SD = 15.05). Eighty-five percent were Caucasian, 4 percent were African American, 4 percent were Asian, 6 percent were Latino, and 2 percent indicated other.

DVR Use. Guided by Ferguson and Perse’s (2004) 14 DVR functions, participants were asked to indicate the relative frequency of use on a Likert-type scale where 1 = Never and 7 = Always (M = 4.28, SD = 1.09). Prior DVR Experience. Prior DVR experience used a single item to estimate the length of time (months) each participant has owned a (M = 27.49, SD = 24.75). Desirability of control. Participants were asked to indicate on a Likert scale their agreement with eight statements where 1 = Strongly Disagree (SD) and 7 = Strongly Agree (SA) (M = 5.34, SD = .89) (i.e., “When I see a problem, I prefer to do something about it rather than sit by and let it continue” and “I enjoy having control over my own destiny”; α = .86) (Althaus and Tewksbury 2000; Burger and Cooper 1979). DVR Enjoyment. Participants were asked to indicate on a Likert scale their agreement with four statements where 1 = SD and 7 = SA (M = 4.93, SD = 1.33). The statements reflected the likelihood they would “enjoy the show more,” “be more entertained,” “have more fun,” and “be more relaxed” when using a DVR (α = .94) (LaRose and Eastin 2004). DVR Social Engagement. Participants were asked to indicate on a Likert scale their agreement with five statements where 1 = SD and 7 = SA (M = 4.60, SD = 1.23). The statements reflected the likelihood they would “spend more time with others,” “watch shows to talk about with others,” “my interaction with the digital video recorder is clear and understandable,” “be more entertaining,” “talk about television programming,” and “watch television with others” when using a DVR (α = .92) (Eastin 2005). DVR Self-Efficacy. Participants were asked to indicate on a Likert scale their agreement with four statements where 1 = SD and 7 = SA (M = 5.46, SD = 1.50). From Eastin’s (2002), the statements reflected attitudes of “my interaction with the digital video recorder is clear and understandable.” “interacting with the digital video recorder does not require a lot of mental effort,” “I find the digital video recorder is easy to use,” and “I find it easy to get the digital video recorder to do what I want it to do” (α = .96).

Results

Path analytic results (Figure 1) indicate the data represent a relatively good fit of the model proposed, 2(3) = 19.07; p < 0.05; CFI = 0.90; RMSEA = 0.22; GFI = 0.90.
Conclusions

Through the integration of desirability of control and the social cognitive construct of self-efficacy, this paper advances current understanding of how and why people are using DVRs. Further, these constructs, as well as actual DVR use, provide insight and predictive power for the outcomes of enjoyment and social interaction. Moreover, as a central component to this study, desirability of control also displayed positive relationships with DVR consumption and the expected outcomes. This is hardly surprising considering the desirability of control construct represents the aspiration of a person to be in control (behaviorally speaking) (Burger 1984; Burger 1992). In conclusion, the current paper sides with the idea that consumers increasingly holding more control over what and when they view mediated content. The current paper offers a new direction in this area, suggesting desirability of control and self-efficacy as two cognitive constructs that influence behavior. References are available upon request.

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MEASURING CONSUMER RITUALS: A MARKETING APPLICATION

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SUMMARY

Some brands seem to garner uncommon levels of loyalty from their customers. These brands can weather economic downturns, long-term competitive disadvantage and continual performance failures to emerge with a core of dedicated, committed, and loyal consumers. Good examples of this phenomenon come from sports. Some sports teams have fans who proudly proclaim their loyalty as well as financially support their team through attendance, yet live their entire life without witnessing their team win a championship. Why would they do this, when switching brands is possible?

One of the features of the sporting industry is the ritualized way in which it is consumed across the world. Rituals are an important part of society, and are a frequent topic of investigation among sociologists and anthropologists. Fans of every sport use rituals and superstitions to help them enjoy the spectacle, socialize with other like-minded fans, and reduce some of the anxiety of watching their team play. Yet marketers generally do not include consumption rituals in their marketing plans. One possible explanation is that there is currently no way to objectively quantify and measure rituals in a consumption context.

This study uses a sample of 651 attendees at an Australian Football League game to explore ritual behavior, define the game-day rituals observed, and design a scale to measure sports fan ritual. Sample items were refined through a four-step process, (1) observation of fans at professional football games, (2) reviewing literature involving sports fans, (3) interviews with sport marketing practitioners, and (4) consultations with sport marketing academics. A sixteen-item scale was designed for spectators of Australian football during game day. These scale items are behaviorally based and include body painting, wearing a lucky charm, and singing the team song.

A two-dimensional construct was proposed. The dimensions were labeled Social Rituals and Personal Rituals. Social rituals are performed in groups, or with the purpose of involving others in the ritual such as singing the team song. Personal rituals are carried out individually and include praying for team success. Exploratory factor analysis supported the two-dimensional construct, which was confirmed using Structural Equation Modeling.

For academic researchers, the findings are important to establish the role of ritual in consumption and loyalty, while opening future research opportunities in other product categories. For sports marketers, the results indicate the importance of developing and facilitating consumption rituals tied to game day attendance, with a view to generating uncommon loyalty. While the results from the scale validation procedure are encouraging, further scale development and refinement is suggested as there appear to be other latent dimensions affecting ritualistic consumption. This study serves as a starting point to measure ritualistic consumption. References are available upon request.

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SOURCES OF GLOBAL E-TAIL ADVANTAGE: RELATIONSHIPS AMONG ORIENTATIONS, RESOURCES, AND PERFORMANCE

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SUMMARY

Retail e-commerce continues to grow as an important channel of distribution in the global business environment. Annual U.S. e-tail sales revenue growth of 22.2 percent between 2004 and 2005 strongly outpaced the total retail sales growth of 6.3 percent during the same period (U.S. Census Bureau 2007). Similar and often greater growth rates are common in other markets globally. Despite the growth of e-tailing, many e-tailers struggle to understand how to create customer value and gain competitive advantage (Larson 2001).

Firms that achieve superior performance typically possess and leverage important resources such as assets, knowledge, and processes that allow them to efficiently and effectively develop and implement successful strategies. These strategies form the basis of competitive advantage, and the more resistant the resources are to duplication or imitation, the more sustainable the advantage and superior performance. This resource-based view of the firm (Wernerfelt 1984; Barney 1991) provides a theoretical framework through which to assess how e-tailers can achieve competitive advantage and superior performance. As described by Day (1994) and Hult and Ketchen (2001), firms often utilize critical capabilities that independently and collectively contribute to the creation of unique resources. Thus, competitive advantage and subsequent performance are contingent on firms managing capabilities to create valuable and inimitable resources.

Following Hult and Ketchen’s approach (2001), we identify certain capabilities (market orientation, entrepreneurial orientation, and foreign market orientation) that can contribute to e-tailers’ abilities to create strong brands and supplier relations. Firm orientations have been linked to performance (Lumpkin and Dess 1996). Similar to Noble, Sinha, and Kumar (2002), we hypothesize that the impact of these orientations on performance are not direct, but rather are mediated by the resources they help create. This study investigates the ability of important e-tail firm resources to mediate the effects of market orientation, entrepreneurial orientation, and foreign market orientation on global revenue growth and firm performance.

Two key sources of customer value creation and competitive advantage in e-tailing are brand strength and supplier relations. While price is a key driver of e-commerce transactions, retailer name and reputation are important criteria in e-tailer selection (Shop.org 2004). The strength of consumers’ associations of a brand (Keller 1993; Park, Jaworski, and MacInnis 1986), create one of the most valuable assets a firm can own (Aaker 1991), including those in the retailing industry (Ailawadi and Keller 2004). Studies indicate that online brand loyalty and market share are positively correlated (Danaher, Wilson, and Davis 2003) and strong brands do better online than weaker brands (Degeratu, Rangaswamy, and Wu 2000). Creating and leveraging a strong brand can be a strategic asset and competitive advantage for online retailers. Effective branding can help create experiential value that may otherwise be lacking online (Mathwick, Malhotra, and Rigdon 2001).

While the store’s brand name and reputation may draw customers, product availability and prompt delivery are also requisite conditions for consummating online transactions (Korper and Ellis 2001; Lancioni, Smith, and Oliva 2000). Accurate fulfillment and reliability are key factors of consumer e-tail satisfaction and quality perceptions (Wolfinbarger and Gilly 2003). By managing their relations with key suppliers, e-tailers can assure their customers quality product selection and provision. Online, brand strength and supplier relations represent organizational resources that can lead to competitive advantage based on increased site traffic and superior service which subsequently lead to superior performance (Day 1994). Such a focus on strategic resources is commensurate with the resource-based view of the firm (RBV), which posits that unique assets, such as strong brands and supplier relations, are difficult for competitors to replicate and can differentiate a firm (Barney 1991).

Using survey data from a cross-national sample of marketing and e-commerce decision-makers, the model was tested using structural equation methods. Key informants were marketing or e-commerce decision makers responsible for the operations of online retailing and marketing activities. Using Steenkamp and Baumgartner’s (1998) prescribed hierarchical confirmatory factor analysis procedure; the multi-item measures were evaluated for cross-national measurement invariance to examine the strength and generalizability of scales between the U.S. and non-U.S. respondents.
The overall objective of this research was to enhance understanding of the relationships among a series of hypothesized antecedents of e-retailer firm performance and to investigate the potential for firm resources to mediate the effects of important firm orientations on revenue growth and performance relative to objectives (cf., Avlontis and Karayanni 2000). The results provide partial support for the ability of the resource-based variables (i.e., brand strength, supplier relations) to mediate the effects of the antecedent orientation variables on the two performance outcomes. Thus, this research shows how certain unique resources important to e-tailing are established and how different types of capabilities and resources relate to one another.

The findings support the resource-based view of the firm that competitive advantages can be accrued through the development and deployment of unique and inimitable assets (Wernerfelt 1984; Barney 1991). Further, our study reinforces the importance of key capabilities, specifically market and foreign knowledge orientations, on resources and ultimately performance (Day 1994; Hult and Ketchen 2001). The results suggest that the impact of orientations on performance was mediated by the resources that the orientations help create. That orientation effects on performance are indirect (see also Noble, Sinha, and Kumar 2002) contributes to our knowledge of the interrelationships between capabilities, resources, and performance. Resources such as brand strength and supplier relation are thus critical mediators of the orientation–performance relationship. References are available upon request.

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UNDERSTANDING THE DRIVERS OF THE SUBSIDIARY INNOVATIVE CAPACITY IN HOST-MARKETS

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ABSTRACT

A common theme in innovation research is the notion that innovation leads to superior performance because it provides successful innovators with a competitive edge. However, a major void exists in our current understanding because of the assumed yet empirically untested competitive benefits of innovative capacity. This research examines key attributes of organizational culture, firm structure, and micro- and macro-host country environment as drivers of a foreign subsidiary’s innovative capacity, which in turn, provides the subsidiary with a competitive edge and more satisfactory performance. Results from a survey with 137 informants at 103 multinational corporations (MNC) provide support for the proposed conceptual model.

Keywords: Innovative capacity, competitive equity, headquarters-subsidiary relationships, multinational corporations.

INTRODUCTION

In today’s increasingly dynamic and competitive global markets, many executives are aware that their companies need to innovate and to improve how they manage innovations. In Booz Allen’s (2004) survey of senior executives, nearly half of the respondents said they were dissatisfied with their companies’ innovation performance. The practice of keeping the R&D function close to the center of firm’s operations, producing a product domestically first and then introducing the same product with minor modifications into other countries no longer guarantees success. Today, many companies in industries ranging from fast-moving consumer goods to high-tech consumer durables are introducing new products simultaneously in many countries. Furthermore, firms’ innovative behavior has become increasingly more dispersed as evidenced by growth and geographical diversity of the R&D investments. For example, Booz Allen’s (2004) European innovation survey estimates that European companies will increase their R&D expenditures in Eastern Europe and Asia from 6 percent to 31 percent by 2007. As Doh et al. (2005) argue, this trend is making location of innovation and its management increasingly important to MNCs. So, the critical managerial question is how to support and leverage the ability of foreign subsidiaries to adopt or implement new ideas or products successfully, namely how to manage a foreign subsidiary’s innovative capacity.

The managerial necessity and importance of innovation has provided the impetus for studies investigating its antecedents and performance consequences (e.g., Ambos and Schlegelmilch 2007; Bonner, Ruekert, and Walker 2002; Damanpour 1991; Deshpandé, Farley and Webster 1993; Deshpandé and Webster 1989; Hurley and Hult 1998; Sinkula, Baker, and Noordewier 1997; Slater and Narver 1995). The result is a substantial amount of research on innovation across multiple disciplines in both domestic and multinational settings. The common denominator of this diverse research is the belief that innovation leads to superior performance because it provides successful innovators with a sustainable competitive edge. The presumed competitive effects of innovation are attributed to information asymmetry, high risks, and high costs that characterize innovative behavior, and create entry and mobility barriers to competitors. If innovation involves a deliberate but risky and costly attempt to create a new product with commercial value then the company must establish a strong competitive advantage to differentiate itself before it can enjoy outstanding performance. That is, innovation can result in superior and sustainable success if it first creates an advantage relative to competitors. However, in none of the existing empirical studies have the competitive effects of innovation been directly tested. Hence, despite considerable research accumulated to-date, a major void in our existing knowledge concerns the competitive benefits that give innovation its strategic value. While this traditionally assumed but empirically untested relationship frames the central research problem of the study, we also argue that to be successful at product innovations, firms must know when and how to support innovative capacity and when to scale back. That is, the attributes of innovative behavior and its importance as a source of competitive advantage also make discretion and care paramount in managing innovations. As a result, in this study, we also examine the drivers of innovation addition to its consequences.

To this end, we integrate and extend the resource-based view of the firm (Barney 1991; Wernerfelt 1984) and the Day and Wensley’s (1988) positional advantage framework to identify the necessary organizational culture, firm structure, and environmental drivers that stimulate innovative behavior. In so doing, we provide a more
Innovative Capacity

Zaltman, Duncan, and Holbek (1973, p. 2) define innovation “as an idea, practice or material artifact perceived as new by the relevant unit of adoption.” Firms have considered innovation as a means of responding to environmental changes and uncertainties to increase or sustain their effectiveness and competitiveness (Damanpour and Evans 1984; Thompson 1967). While innovation is associated with success, stability is related to failure (Daft 1982). Thus, the purpose of innovation is to contribute to the performance of the firm through creating a change in its economic or social environment.

Building on Cohen and Levinthal’s (1990) absorptive capacity, Hurley and Hult (1998) consider innovative capacity as an important building block of innovation consisting of the abilities to evaluate, assimilate, and apply knowledge from the external environment. Thus, developing and maintaining innovative capacity is critical to a firm’s competitiveness and success because firms with higher levels of innovative capacity are assumed to be better and faster at exploiting the valuable developments in the market. Based on this reasoning, innovative capacity is generally viewed as an organizational outcome and has been measured by the number and rate of new product introductions (Damanpour and Gopalakrishnan 2001; Hurley and Hult 1998; Persaud 2005).

It has been shown that developing and maintaining innovative capacity requires a number of facilitators at a variety of levels: organizational culture (e.g., Deshpandé, Farley, and Webster 1993; Hurley and Hult 1998; Sinkula, Baker, and Noordewier 1997; Slater and Narver 1995), firm structure (e.g., Ambos and Schlegelmilch 2007; Bonner, Ruekert, and Walker 2002; Damanpour 1991; Deshpandé and Webster 1989), and environmental forces (e.g., Cooper and Brentani 1984; Cooper and Kleinschmidt 1993). Based on this literature, our conceptual model specifically focuses on a centralization of subsidiary decision making, home office managers’ orientation toward international marketing, host-market attractiveness, and host country environmental similarity as key drivers of a subsidiary’s innovative capacity in the foreign market.

Drivers of Innovative Capacity

Centralization refers to the concentration of decision-making authority in the hands of top management (Aiken and Hage 1968). In an MNC context, centralization would imply the extent of foreign subsidiary’s decision-making autonomy in general, and with respect to its local marketing activities, in particular (Venaik, Midgley, and Devinney 2005). Theoretically, it has been argued that subsidiaries with low levels of decision-making authority will be not be motivated to take initiatives in introducing new products. That is, centralization makes it difficult for local experimentation to occur because home country managers, who decide and approve on new product innovations, are often isolated from the subsidiary managers, who are in a position to know what is needed and to deliver these innovations. Similarly, MNCs favoring a centralized structure will be careful not to over complicate their operations and vary their product offerings because variety can undermine efficiency, span of control, and authority of home-office managers. Additionally, the established ways of doing business reinforced by centralization encourage status quo and hinder the adoption of novel, tailored, and flexible approaches to serving foreign markets. These theoretical arguments have been empirically supported in the extant literature, where a negative association between centralization and innovation has generally been observed in the organizational innovation literature (Damanpour 1991). Similarly, in an MNC context, empirical support has been found for the positive effects of subsidiary autonomy on the level of innovations (Birkinshaw, Hood, and Jonsson 1999; Ghoshal and Bartlett 1988; Venaik, Midgley, and Devinney 2005).

Based on this research, we argue that because centralization will necessitate gaining headquarter’s approval of new product initiatives, it may delay speed to market, making the launch less pronounced or even immaterial if and when it is actually realized. Therefore,

Hypothesis 1: The higher the centralization of foreign subsidiary’s decision-making, the lower will be its innovative capacity.

Managerial orientation toward international marketing has generally been viewed as an important component of organizational culture because it represents headquarter’s subjective evaluations of international marketing activities which result in deeply embedded attitudes and perceptions (Zou and Cavusgil 2002). We know of no study that has investigated the relationship between international marketing orientation and innovative capacity either theoretically or empirically. Accordingly, we
borrow from the market orientation literature, which attributes a significant role to market orientation in increasing a firm’s innovation performance (Deshpandé, Farley, and Webster 1993; Gatignon and Xuereb 1994; Han, Kim, and Srivastava 1998). Drawing on these studies, we expect a subsidiary to have a more innovative capacity in an MNC with a strong international marketing orientation because home office managers will be more committed to and allocate greater resources to international marketing activities. Unless a subsidiary gets clear signals from headquarter managers about the importance of being responsive to local opportunities, the subsidiary is not likely to invest in developing its innovative capacity. Therefore,

Hypothesis 2: The more favorable the home-office managerial orientation toward international marketing, the higher will be the foreign subsidiary’s innovative capacity.

Host-market attractiveness refers to the favorability of economic conditions of a particular segment/industry in a foreign country. Several new product scholars have identified different market characteristics (e.g., market size, growth rate, and customer need level) as important factors for new product success (Cooper 1980; Cooper and Kleinschmidt 2007; Globe, Levy, and Schwartz 1973; Montoya-Weiss and Calantone 1994). For example, a Stanford study conducted by Maidique and Zirger (1985) shows that 14 percent of the time, managers consider market characteristics as critical for new product success. This literature also considers market attractiveness as a key dimension in new product screening and evaluation (Cooper and Brentani 1984; Cooper and Kleinschmidt 1993). Additionally, several studies have provided empirical support for the positive effect of market attractiveness on a firm’s resource allocations to new products (Abell and Hammond 1979; Luck and Ferrell 1985). Apart from new product literature, research on MNCs has identified economic factors as drivers of innovation measured by foreign R&D investments (Doh et al. 2005). Building on the implications of these two research streams, we postulate that existence of many potential and profit-oriented customers, who are open to try new products in attractive host markets, will encourage the subsidiary to engage in a greater number and a higher rate of new product introductions to exploit such attractive market opportunities. Hence;

Hypothesis 3: The greater the perceived attractiveness of the host-market, the higher will be the foreign subsidiary’s innovative capacity.

Host country similarity, which refers to the similarity between the home- and host-country macro-environmental characteristics (i.e., socio-cultural), is a prominent explanatory variable of subsidiary behavior in both international business and international marketing literatures. This perceived similarity between the socio-cultural characteristics (i.e., language, culture, and business practices) of countries has been termed psychic distance (Johanson and Widersheim-Paul 1975). Previous research on standardization-adaptation (Jain 1989; Szymanski, Bharadwaj, and Varadarajan 1993) as well as diffusion of innovations (Ganesh, Kumar, and Subramaniam 1997; Hagerstrand 1967; Rogers 1983) have shown that firms operating in markets that are socio-culturally similar or with shorter psychic distance are likely to adopt similar products (Levitt 1983; Sorenson and Weichmann 1975) because of ready transferability of knowhow between such markets. The perceived host country similarity would allow home country managers with accumulated experience to easily transfer their knowledge to host markets with socio-economic characteristics, and hence better gauge the strengths of certain product features and decide which customer problems will be more advantageous to solve. On the other hand, since home country managers have relatively little established knowledge or past experience to draw upon, culturally dissimilar countries will prevent exploitation of existing knowledge base. Instead, they will demand experimentation, speculative investments, and possible failure; all of which entail high cost and risk. As a result, we expect host market dissimilarity to temper down the innovative behavior. Thus;

Hypothesis 4: The greater the perceived host country similarity between home- and host-country, the higher will be the foreign subsidiary’s innovative capacity in a foreign market.

Consequences of Innovative Capacity

The link between innovative capacity and firm performance has been well-documented in the marketing literature across various definitions and operationalizations of organizational success (Hult and Ketchen 2001; Noble, Sinha, and Kumar 2002; Siguaw, Simpson, and Enz 2006). For example, Ittner and Larcker (1997) observe a significant positive relationship between innovation and return on assets and growth. Likewise, Han, Kim, and Srivastava (1998) report that technical and administrative innovations are positively related to organizational performance measured in terms of growth, profitability, and return on assets. Based on this extensive literature, two critical manifestations of organizational success are used in this paper.

First, called competitive equity, is adapted from Schatzel and Calantone (2006), and refers to relative competitive position of the company and its products within the served market. In this context, we are explicitly acknowledging and testing the competitive advantages
that may stem from innovative capacity by considering the relative reputation of the subsidiary as well as the relative quality of and loyalty for its products. The second manifestation of organizational success considered in this paper captures the satisfaction of home office managers with the operational performance of its foreign subsidiary measured in terms of sales, sales growth, market share, and profits. The theoretical rationale behind considering innovative capacity as a determinant of competitive equity and satisfaction with operational performance is that new products may enable the subsidiary to cope with the changes in the foreign market, satisfy customer needs better than the existing goods by continuously offering greater benefits, and prevent competitors from capturing the subsidiary’s customers with their own products (Szymanski, Bharadwaj, and Varadarajan 1993). Given this theoretically grounded empirical support in the literature, we expect the subsidiary’s innovative capacity to be positively linked to its competitive equity and the satisfaction of corporate management with the subsidiary’s operational results. Thus;

Hypothesis 5: The higher the foreign subsidiary’s innovative capacity;

(a) the greater will be its competitive equity.

(b) the greater will be the home office managers’ satisfaction with its operational results.

In addition to postulating a direct relationship between subsidiary’s innovative capacity and the two components of organizational success, we expect a sequential ordering between these two components, whereby competitive equity would contribute to home office managers’ satisfaction with the subsidiary’s operational performance. Competitive equity capturing the relative reputational and quality position of the subsidiary as well as its products should have a positive impact on the subsidiary’s operational performance in terms of sales, market share, and profits. For example, the importance of product quality in achieving satisfactory operational results has been highlighted by several marketing researchers (Day 1994; Hunt and Morgan 1995; Song and Parry 1997). Specifically, customers’ evaluations of product quality and reputation have been shown to contribute to their purchase decisions (Spreng, MacKenzie, and Olshavsky 1996), positively effecting sales and market share (Tatikonda and Montoya-Weiss 2001). Hartman and Teece (1990) also find market share to be positively influenced by brand reputation. Thus;

Hypothesis 6: The higher the foreign subsidiary’s competitive equity, the greater will be the home office managers’ satisfaction with its operational results.

In the second stage, 27 informants from 18 different firms were used to pretest the format and content of the survey instrument. No difficulties were encountered and hence no major changes were made in the measures or the questionnaire used. In the third stage of data collection, questionnaires along with a cover letter were mailed to the remaining 225 informants at the 132 divisions across the 103 firms. To facilitate development of valid measures and control for extraneous sources of variation, respondents were asked to self-select a product unit and one foreign market served by this unit with which they were most familiar with, and answer all questions with respect to the chosen foreign market. After a postcard reminder and two follow-up letters, completed useable questionnaires were received from 137 informants at 103 firms, for a response rate of 61 percent.

Non-response bias was assessed by comparing early and late respondents on key variables. To assess non-response bias, we divided our data into two groups based on the date on which we received the completed surveys. Based on a comparison of the averages of annual sales volume, years of exporting, and the number of employees, t-tests revealed no significant differences between re-
respondents and the two groups of nonresponding firms. Accordingly, non-response bias was not considered to be a significant problem in the data.

The survey respondents held upper-management positions (President/CEO, Director, Vice-President, Area Manager/General Manager), had on average 13.02 years of experience working with the current firm and 6.23 years of experience in making decisions about the firm’s marketing activities in the foreign country they had selected. These characteristics suggest that the respondents are likely to be familiar with their firm’s foreign operations, knowledgeable about the questions asked in the survey, and competent to serve as a key informant for the particular foreign venture of their respective firms.

Measures

Several considerations guided the development of the scales to operationalize each of the constructs discussed in our conceptual model (Churchill 1979; Nunnally 1978). Based on the constitutive definition of innovative capacity and its antecedents as adopted in this study, an initial list of items was generated through an exhaustive review of the literature. Then, in view of the extensively reported concerns about the adequacy of single indicators, multiple item scales were used to measure each construct of interest. Finally, the order of the scales was randomized and some of the items were negatively stated in order to minimize position and response set bias. Table 1 provides a complete list of scale items for all the measures used in this study.

The centralization scale assessed the degree to which (1) any changes in the international marketing activities of the foreign subsidiary must first be cleared with the corporate management; (2) corporate management approval is required for all subsidiary marketing activities; and (3) home-office managers of the subsidiary have the final say in marketing decisions (Davidson 1984). The managerial orientation toward international marketing scale was adapted from the measures used by Cavusgil and Nevin (1981) and Cavusgil (1984) and assessed the favorability of home-management’s subjective evaluations of international marketing with a 4-item scale. Both scales were measured by a 6-point Likert scale ranging from “Definitely Agree” to “Definitely Disagree.”

The host-market attractiveness scale, representing the perceived potential for the host market to contribute to a business’ foreign marketing objectives, was adapted from the measures developed by Burke (1984). The measure of host-market attractiveness involved a 5-item 7-point Likert scale ranging from “Low” to “High.” The host country similarity scale assessed the degree to which the foreign country in question was perceived as being different from the home country. The measurement of environmental similarity was accomplished by developing a 6-item 6-point Likert scale ranging from “Very Similar” to “Very Different.”

The operationalization of subsidiary’s innovative capacity was intended to measure the number as well as the rate of new product introductions in the host-market served. Contrary to past research, in this study, we assessed innovative capacity not only relative to home-country but also relative to competitors in the host-country. While the relative to home country measure included a 3-item 6-point Likert scale ranging from “Much Lower than U.S.” to “Much Higher than U.S.,” the relative to host-country competitors, measure consisted of a 3-item 6-point Likert scale ranging from “Much Lower than Major Competitors” to “Much Higher than Major Competitors.”

To explore the relationship between the subsidiary’s innovative capacity in a foreign market and its organizational success in that market, we used two outcomes: (1) competitive equity and (2) satisfaction with operational results. Competitive equity assessed the degree to which the relative positional advantages such as brand loyalty and reputation were attained by a subsidiary in the host-market served. It was measured by a 4-item 6-point scale ranging from “Definitely Agree” to “Definitely Disagree.” The second assessment of performance measured the extent to which home-market managers were satisfied with the operational results (e.g., sales, sales growth, market share, and profits) of the foreign subsidiary. The satisfaction scale was measured by a 5-item 6-point scale ranging from “Extremely Dissatisfied” to “Extremely Satisfied.”

Control Variables. To account for the effects of extraneous variables, a business’ international experience and international involvement were included as control variables. We used the number of majority owned foreign sales subsidiaries to represent international experience. We measured international involvement by the number of its employees residing in the foreign country as a percentage of its total (i.e., worldwide) workforce.

ANALYSIS AND RESULTS

The Measurement Model

We evaluated the psychometric properties of our measures using a confirmatory factor analysis (CFA) that combined each factor measured by reflective scales (Bagozzi, Yi, and Philips 1991; Gerbing and Anderson 1988). The CFA was fitted using the maximum likelihood estimation procedure with the raw data as input in EQS 6.1 (Bentler 1995). After we dropped some items that had low factor loadings or high cross loadings, the confirmatory model fit the data satisfactorily.
<table>
<thead>
<tr>
<th>Scale Items</th>
<th>Standardized Loading</th>
<th>t-value*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Centralization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 49.7%; HSV = 11%; CR = .70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>When an unusual marketing problem is encountered, it is handled without checking with the home-office managers of this product unit.</td>
<td>.80</td>
<td>8.81</td>
</tr>
<tr>
<td>When a marketing decision is to be made for which rules and procedures do not exist, the decision is made without referring to the home-office managers of this product unit.</td>
<td>.74</td>
<td>8.17</td>
</tr>
<tr>
<td>When a marketing problem is encountered, the home-office managers of this product unit are contacted for an answer.</td>
<td>.55</td>
<td>6.11</td>
</tr>
<tr>
<td>When a marketing decision is to be made, the recommendations of home office managers of this product unit are followed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home office managers of this product unit have the final say in marketing decisions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Managerial Orientation Toward International Marketing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 44.2%; HSV = 11%; CR = .70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consider domestic marketing activities to be more important than international marketing activities.</td>
<td>.67</td>
<td>7.19</td>
</tr>
<tr>
<td>Actively explore international opportunities.</td>
<td>.61</td>
<td>6.55</td>
</tr>
<tr>
<td>Frequently travel abroad.</td>
<td>.71</td>
<td>7.57</td>
</tr>
<tr>
<td>Have no intention of increasing the unit’s international marketing activities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Host-Market Attractiveness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 67.6%; HSV = 6%; CR = .90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prospects for future profits.</td>
<td>.57</td>
<td>6.99</td>
</tr>
<tr>
<td>Average industry gross margin.</td>
<td>.99</td>
<td>14.33</td>
</tr>
<tr>
<td>Average industry pretax profits.</td>
<td>.85</td>
<td>11.49</td>
</tr>
<tr>
<td>Short-term market growth rate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term market growth rate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Perceived Host Country Similarity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 68.1%; HSV = 5%; CR = .90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural values.</td>
<td>.83</td>
<td>11.03</td>
</tr>
<tr>
<td>Distribution infrastructure.</td>
<td>.70</td>
<td>8.86</td>
</tr>
<tr>
<td>Norms of business conduct.</td>
<td>.93</td>
<td>12.98</td>
</tr>
<tr>
<td>Communication infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Predominant language.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Predominant religion.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subsidiary’s Innovative Capacity Relative to Host-Country Competitors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 90.3%; HSV = 22%; CR = .90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of new product introductions.</td>
<td>.93</td>
<td>13.32</td>
</tr>
<tr>
<td>Rate of new product introductions.</td>
<td>.97</td>
<td>14.43</td>
</tr>
<tr>
<td>Number of product changes in your unit.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 1 (CONTINUED)
Results of the CFA

<table>
<thead>
<tr>
<th>Scale Items</th>
<th>Standardized Loading</th>
<th>t-value*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidiary’s Innovative Capacity Relative to Home-Country</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 76.9%; HSV = 7%; CR = .90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of new product introductions.</td>
<td>.98</td>
<td>9.69</td>
</tr>
<tr>
<td>Rate of new product introductions.</td>
<td>.76</td>
<td>7.92</td>
</tr>
<tr>
<td>Number of product changes in your unit.*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Competitive Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 74%; HSV = 24%; CR = .90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our products have a better overall reputation.</td>
<td>.81</td>
<td>11.09</td>
</tr>
<tr>
<td>We have higher quality products.</td>
<td>.81</td>
<td>11.07</td>
</tr>
<tr>
<td>We have a better company reputation.</td>
<td>.95</td>
<td>13.94</td>
</tr>
<tr>
<td>There is higher brand loyalty for our products.*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Satisfaction with Operational Results</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVE = 72.9%; HSV = 24%; CR = .90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of your product unit.</td>
<td>.88</td>
<td>12.41</td>
</tr>
<tr>
<td>Sales growth rates of your product unit.</td>
<td>.81</td>
<td>11.04</td>
</tr>
<tr>
<td>Market share of your product unit.</td>
<td>.87</td>
<td>12.16</td>
</tr>
<tr>
<td>Profit margins of your product unit.*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profits of your product unit.*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Model Fit Statistics:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\chi^2 = 315.15$ (df = 181, p &lt; .05)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NNFI = .89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFI = .92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFI = .92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMSEA = .07</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The t-values from the unstandardized solution; *Deleted items; rc Reverse coded.

Notes: AVE = Average variance extracted; HSV = Highest shared variance with other constructs; CR = Composite reliability.

We assessed the convergent and discriminant validity of the focal constructs by estimating an 8-factor confirmatory measurement model. Each measurement item loaded only on its latent construct. The model showed a chi-square ($\chi^2$) value of 315.50 (df = 181) having a p value less than .05, indicating significance of the $\chi^2$ test. There has been considerable discussion in the Structural Equation Modeling (SEM) literature concerning the validity of the $\chi^2$ test as an index of model fit, especially when the sample size is small as in our study. As a result, a number of adjunct fit indices have been proposed to reflect the improvement in fit of a specified model, in which all parameters are fixed to zero. Accordingly, the model provides a satisfactory fit to the data (Bentler-Bonett nonnormed fit index [NNFI] = .89; comparative fit index [CFI] = .92; Bollen’s fit index [IFI] = .92; root mean square error of approximation [RMSEA] = .07), indicating the unidimensionality of the measures (Anderson and Gerbing 1988) (Table 1). Furthermore, all the factor loadings were statistically significant (p < .01), and the composite reliabilities of all constructs exceeded the threshold value of .70 (Nunnally 1978). Thus, the measures demonstrate adequate convergent validity and reliability.
Discriminant validity was examined by calculating the shared variance between all possible pairs of constructs verifying that they were lower than the average variance extracted for the individual constructs (Fornell and Larcker 1981). The highest level of shared variance between any pair of constructs was 24 percent. The average variances extracted ranged between 90.3 and 44.2 percent. These results showed that the average variance extracted by the measure of each factor was larger than the squared correlation of that factor’s measure with all measures of other factors in the model (see Table 1). Given these values, we concluded that all the factors in the measurement model possess strong discriminant validity. In light of this evaluation, we are able to conclude that all factors in the measurement model possessed both convergent and discriminant validity, and that the CFA model fit the data adequately. Table 1 presents key results of the CFA.

**Hypothesis Testing**

The hypothesized model was estimated by using SEM, with the EQS 6.1 program. Although the chi-square test was statistically significant ($\chi^2(218) = 357.86, p < .05$), the Bentler-Bonett nonnormed fit index [NNFI = .89]; the comparative fit index [CFI = .91]; the Bollen’s fit index [IFI = .91]; the root mean square error of approximation [RMSEA = .07] indicated a good fit with the hypothesized structural model (see Figure 1).

Centralization was found to be negatively associated with the foreign subsidiary’s innovative capacity relative to host-country competitors ($\beta = -.29; p \leq .05$). However, the relationship between centralization and the subsidiary innovative capacity relative to home country was positive but not significant ($\beta = .16; p \geq .10$). Managerial orientation toward international marketing was found to have positive effects on subsidiary’s innovative capacity relative to host-country competitors ($\beta = .44; p \leq .01$) and relative to home country ($\beta = .24; p \leq .10$). Similarly, the more attractive the host market the higher the subsidiary’s innovative capacity relative to host country competitors ($\beta = .28; p \leq .01$) and relative to its home country ($\beta = .15; p \leq .10$). In terms of host-country environmental similarity, the higher degrees of perceived similarity has a positive and significant effect on the subsidiary’s innovative capacity relative to host country competitors ($\beta = .27; p \leq .01$). In contrast, subsidiary’s perceived environmental similarity had a negative effect on the subsidiary’s innovative capacity relative to home country ($\beta = -1.78; p \leq .10$).

In examining the consequences of innovative capacity, we found that the subsidiary’s innovative capacity relative to host country competitors had positive effects on both its competitive equity ($\beta = .42; p \leq .01$) and home country managers’ satisfaction with its operational results ($\beta = .27; p \leq .01$). On the other hand, the subsidiary’s innovative capacity relative to home country did not appear to be significantly related to brand advantage ($\beta = -.01; p \geq .10$). However, we found the subsidiary’s innovative capacity relative to home country to be significantly related to its satisfaction ($\beta = .21; p \leq .05$). Furthermore, competitive equity had a positive effect on home offices managers’ satisfaction with subsidiary’s operational results ($\beta = .40; p \leq .01$).

The level of home office managers’ international experience and international involvement were included as control variables. The results indicated that only international experience was significantly, negatively related to subsidiary’s innovative capacity relative to host-county competitors ($\beta = -.21; t$-value = -1.95; $p \leq .01$). In addition, neither of the control variables did have significant effects on subsidiary’s innovative capacity relative to home country. Furthermore, we found that only international involvement was significantly, negatively related to competitive equity ($\beta = -.15; t$-value = -1.77; $p \leq .01$). Finally, neither international experience nor international involvement did appear to be significantly related to home office managers’ satisfaction with operational results.

**DISCUSSION**

Much of the existing research had assumed the competitive benefits of innovation considering it an antidote to being indistinguishable from competitors, and thus a cure for operating with paper thin profit margins. In this study, we provide an explicit and more precise test of this assumption than previously offered in the literature. In particular, we propose, test, and find empirical support for competitive equity as an important outcome of innovative capacity in addition to the traditional operational metrics such as sales and profits considered in the extant research. We also provide a slightly different but in our opinion much more relevant measurement of operational performance by considering the frequently used metrics in terms of home market manager’s satisfaction with the operational performance of its foreign subsidiary.

Furthermore, our study represents one of the first attempts we know of operationalizing subsidiary innovative capacity not only in reference to that of the home country but also in relation to the competitors in a given host-market. The results support the importance of this distinction since all the hypothesized drivers have a more pronounced relationship with the subsidiary’s innovative capacity relative to its competitors in the host market. Our study has focused on a representative range of factors driving a subsidiary’s innovative capacity, with particular attention paid to organizational culture, firm structure and micro as well as macro host country environmental forces.
FIGURE 1
Results of Hypothesis Testing

Centralization

Managerial Orientation toward International Marketing

Product-Market Unit Characteristics

Host-Market Attractiveness

Host Market Characteristics

Perceived Host Country Similarity

Host Country Characteristics

Subsidiary’s Innovative Capacity relative to Host-Country Competitors

Subsidiary’s Innovative Capacity relative to Home-Country

Competitive Equity

Satisfaction

Model Fit Statistics: \( \chi^2 = 357.86 \) (df = 218, p < .05)
NNFI = .89
CFI = .91
IFI = .91
RMSEA = .07

Notes: t-values are in parentheses

***p d" .01; **p d" .05; *p d" .1.
Consistent with the findings of previous research, the results support the general view that both internal home market and external host country factors play an important role in determining the innovative capacity of foreign subsidiaries. Yet, our study clearly highlights the fact that the role played by these drivers is especially critical when the MNC wants and or needs to support innovative capacity of its subsidiary relative to its host-country competitors. Under these circumstances, a decentralized structure along with managers’ favorable attitudes toward international activities create an internal climate conducive to enhancing the number and rate of new product introductions by the subsidiary to a level beyond that of its competitors. Similarly, subsidiaries operating in attractive foreign markets as well as in countries perceived to be similar to their home market are likely to enjoy a greater innovation capacity than their competitors.

Additionally, and more critically, while a subsidiary’s innovative capacity relative to its competitors contributes significantly to the subsidiary’s competitive standing as captured by its competitive equity, its relative to home innovative capacity has no competitive effect whatsoever. That is, a key finding of our study is that the historically presumed but untested competitive benefits of innovative capacity will be realized only when the foreign subsidiary achieves an innovative capacity that is superior to its competitors in the host-market. Apparently, foreign subsidiaries with a higher innovative capacity than that of their home market in terms of either the number or the rate of new product launches do not necessarily enjoy the presumed competitive advantages of innovation in the markets they are serving.

Limitations and Directions for Future Research

This study’s contributions as well as limitations also suggest directions for future research on this important topic.

First, the findings of this study unequivocally show that future research should consider more than the home country operations as a reference point and include competitors in the host market as well in assessing the innovative capacity of foreign subsidiaries.

Second, this study also illustrates the relevance and importance of assessing competitive benefits of innovative capacity directly and explicitly. While our attempt to test this presumed relationship focuses on competitive equity capturing the relative reputation of the subsidiary as well as the relative quality of and loyalty for its products, future research may build upon and extend both the conceptualization and operationalization of this construct.

Additionally, in extending the implication of diverse research on innovations and innovative capacity into the realm of foreign subsidiaries, our study both reinforces the results of previous studies and provides additional empirical evidence in support of the importance of both internal organizational and external host country climate in fostering innovative capacity. While the drivers of innovative capacity considered in this study are representative of the key and empirically supported considerations observed in the extant literature, both the depth and breadth of explanatory variables can be expanded in future research. For example, since host countries benefit from the external spillovers from the innovative capacity of the foreign subsidiaries operating within their national borders, host government policy and national innovation efforts are becoming relevant factors to consider in future research on this topic.

Finally, while we used a multi-industry sample to increase observed variance and to strengthen the generalizability of the findings, future studies should expand the scope of the proposed model beyond manufacturing firms and consider adoption of service innovations in foreign markets.

REFERENCES


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TOWARD AN ENRICHED ORGANIZATIONAL ECOLOGY FRAMEWORK OF FOREIGN MARKET ENTRY: THE EXPLANATION FOR RETAILERS’ INTERNATIONAL EXPANSION

Chuanyi Tang, University of Arizona, Tucson
Eric J. Arnould, University of Arizona, Tucson

SUMMARY

Foreign market entry is an important issue in international marketing. In recent years, the dominant research stream based on transaction cost analysis or efficiency received criticism; organizational ecology theory has been proposed as an alternative explanation. Organization ecology theory complements the traditional research perspective by conducting population level analysis and emphasizing the effects of resource constrains, inter-organizational competition, and temporal disequilibrium on organizational viability. However, organization ecology theory itself has some limitations. This paper intends to address these limitations and establish an enriched organizational ecology framework for organizations’ foreign market entry. To develop the theoretical framework, international retailing as an under-researched field is employed as the research context, and four main dimensions of organizational ecology are examined.

Carrying Capacity and Demand Dynamics

According to organizational ecology theory, carrying capacity influences the survival of organizations (Hannan and Freeman 1989). However, most research focuses only on the effects of carrying capacity size, while dynamic change in carrying capacity is seldom considered. We propose that the number of foreign retail entries into a foreign market is positively related to not only the host country market demand (size of carrying capacity) but also the growth rate of the host country market demand (growth rate of carrying capacity).

Density Dependence and Population Dynamics

Most ecological studies on foreign market entry focus on the analysis of population density or organizations’ prior entry and exit in a host market. However, density dependence theory has two major problems. One is that it simply counts the total number of firms and doesn’t take into account firm characteristics and population composition. In fact, these factors reflect market structure and opportunities, and thereby influence potential newcomers’ entry decision. Following resource partitioning theory (Carroll 1985), we propose that generalist retailers (e.g., Wal-Mart and Carrefour) are less likely to enter (or survive) highly concentrated markets than specialist retailers (e.g., Footlocker and Body Shop), since there are fewer survival opportunities for generalists than specialists.

Another weakness of density dependence theory lies in its unrealistic assumption: all organizations exert equivalent impact on other organization’ mortality rates. We argue that this unrealistic assumption should be relaxed and let imitative isomorphism provide the boundary of the theory instead. According to the imitative isomorphism mechanism, the densities of different sub-sets of the whole population have different effects on other retailers’ entry decision, and the bundled effects of density dependence can be disaggregated into characteristics of the sub-sets: aggregated number based, trait based, and outcome based. Therefore, we propose that the number of foreign retail entries into a host country not only has a U-shaped relationship with the density of the retail outlet in the host country, but also has stronger U-shaped relationships with the number of prior entries and exits made by all the other foreign retailers, retailers with the same retail format, and retailers from the same home country, etc. Overall, the imitative isomorphism mechanisms and density dependence theory complement each other based on the common ground of legitimacy seeking. After addressing their boundary problems, the demarcation between these two theories disappears.

Organization Inertia, Environment Uncertainty, and Their Moderating Effects

International experience and firm size are good proxies of firm inertia in international market. Since selection processes favor organizations with inert structures, we expect that experienced and large organizations tend to make foreign entry decision consistent with their own experience and care less about the signals of population density. Since organizations reduce risks through mimicking other firms in a highly uncertain environment (e.g., DiMaggio and Powell 1983), we expect that the higher the environment uncertainty, the more likely organizations conduct legitimacy seeking and thereby are more affected by the signals of different population densities.
This paper provides an important alternative explanation for retailers’ foreign market entry and contributes to the existing literature in two aspects. Firstly, we provide new insights into organization ecology theory. The unrealistic assumption of density dependence is relaxed by incorporating the characteristics of individual organization and organization salience into population analysis. Furthermore, the confounding effects of density dependence are decomposed, and the underlying mechanisms and patterns of density dependence are identified. This disaggregating helps us to understand the inconsistent results of density dependence studies and answers Zucker’s (1989) call for more credible proxy for cognitive legitimacy. We propose aggregated number based, trait based, and outcome-based densities as proximal proxies of legitimacy in the context of foreign market entry. Second, by exploring the boundaries and limitations of organizational ecology and imitative isomorphism, this paper identifies the potential opportunity for integrating these two theories and argues that these two theories are complementary. Managerial implications are provided. References are available upon request.

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SUCCESSFUL RELATIONSHIPS WITH FOREIGN PARTNERS OFFER VARIOUS ADVANTAGES: GREATER OPERATIONAL EFFICIENCIES; REDUCED RISKS (COMMERCIAL OR POLITICAL); THE ABILITY TO ENTER MARKETS THAT MAY OTHERWISE BE CLOSED TO FOREIGN FIRMS; EXPLOITING NATIONAL AND/OR DIFFERENTIAL ADVANTAGES OF PARTNERS; REDUCING THE CAPITAL INVESTMENT BY SHARING SOME VALUE-ADDELING ACTIVITIES WITH FOREIGN FIRMS; GAINING SPEED IN GETTING PRODUCTS TO MARKETS; AND ESTABLISHING LONG-TERM RELATIONSHIPS WITH A GLOBAL NETWORK OF SUPPLIERS, IMPORTERS/DISTRIBUTORS AND OTHER INTERMEDIARIES. THUS, FORMING AND MAINTAINING A SUCCESSFUL RELATIONSHIP SHOULD IMPROVE BUSINESS PERFORMANCE IN AN INTERNATIONAL MARKET. HOWEVER, RESEARCH ON THE IMPACT OF DYADIC ASPECT OF EXPORTER-IMPORTER RELATIONSHIPS ON EXPORT PERFORMANCE IS SCARCE. GIVEN THE UNIT OF ANALYSIS IN EXPORTER-IMPORTER RELATIONSHIPS IS THE RELATIONSHIP, RATHER THAN EITHER PARTNER, STUDYING THE INTERACTION FROM THE PERSPECTIVE OF BOTH PARTNERS IS NECESSARY FOR A FULL UNDERSTANDING OF THE IMPACT OF RELATIONAL VARIABLES ON EXPORT PERFORMANCE.

IN THIS STUDY, RECIPROCAL EFFECTS OF RELATIONSHIP COMMITMENT ON EXPORTER-IMPORTER RELATIONSHIP PERFORMANCE ARE TESTED WITH DATA FROM 125 PAIRS OF AUSTRALIAN-THAI EXPORTER-IMPORTER RELATIONSHIPS. DRAWING ON EARLIER WORK IN DOMESTIC DISTRIBUTION CHANNELS, AND INTER-ORGANIZATIONAL RELATIONSHIP THEORIES, THIS STUDY DEVELOPS AND TESTS A DYADIC MODEL THAT HYPOTHESIZES LINKS BETWEEN RECIPROCAL EFFECTS OF COMMITMENT IN EXPORTER-IMPORTER RELATIONSHIPS AND EXPORT PERFORMANCE.

RELATIONSHIP PERFORMANCE IS MODELED AS A FUNCTION OF EACH PARTY’S COMMITMENT TOWARD THE OTHER PARTNER. EACH PARTY’S COMMITMENT TOWARD THE OTHER PARTNER IS DRIVEN BY RECIPROCAL CYCLE OF EACH PARTNER’S PERCEPTION OF THE OTHER’S COMMITMENT. THE CYCLE FROM EXPORTER’S COMMITMENT IMPORTER’S PERCEPTION OF EXPORTER’S COMMITMENT IMPORTER’S COMMITMENT EXPORTER’S PERCEPTION OF IMPORTER’S COMMITMENT, DESCRIBES A POSITIVE REINFORCEMENT THAT INCREASES THE LEVEL OF COMMITMENT BY BOTH PARTNERS OVER TIME. PERCEPTIONS OF EACH OTHER’S COMMITMENT ARE INFLUENCED BY PERCEPTIONS OF HOW DEPENDENT EACH PARTY IS ON THE OTHER, AND PERCEPTIONS OF THE LEVEL OF RELATIONSHIP SPECIFIC INVESTMENT BEING MADE BY THE OTHER PARTY.


ALTHOUGH RELATIONSHIP COMMITMENT HAS OFTEN BEEN VIEWED AS THE CENTRAL FACTOR TO THE ONGOING SUCCESS OF BUYER-SELLER RELATIONSHIPS, THERE IS LIMITED UNDERSTANDING OF THE RECIPROCAL ROLE OF COMMITMENT IN AN INTERNATIONAL EXCHANGE RELATIONSHIP. THIS STUDY ADDS TO THE BODY OF KNOWLEDGE ON THE EFFECT OF PARTNER’S MUTUALLY REINFORCING CYCLE OF COMMITMENT ON INTERNATIONAL RELATIONSHIP (I.E., EXPORTER-IMPORTER RELATIONSHIP) PERFORMANCE. WHILE MOST HYPOTHESES WERE SUPPORTED, OUR RESULTS SHOULD BE INTERPRETED IN LIGHT OF SOME LIMITATIONS INHERENT IN THIS RESEARCH. THE STUDY WAS CONDUCTED WITHIN THE CONTEXT OF AUSTRALIAN EXPORTER – THAI IMPORTER RELATIONSHIPS. IT WOULD BE VALUABLE TO REPLICATE OR REFUTE THE RESULTS OF THIS STUDY IN OTHER CROSS-BORDER RELATIONAL CONTEXTS. OUR STUDY EXAMINES THE RELATIONSHIP AT ONE POINT OF TIME. LONGITUDINAL STUDY IN FUTURE WOULD PROVIDE A MORE IN-DEPTH UNDERSTANDING OF THE DEVELOPMENT OF RELATIONSHIP COMMITMENT. IN FUTURE STUDIES, LARGE SAMPLE FROM VARIOUS RELATIONSHIPS CAN BE EXPLORED.

the importance of commitment in building successful cross-border inter-organizational relationships. A full working paper including references is available upon request.

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INNOVATE, DON’T ALIENATE: HOW COMPONENTIAL FACTORS AND CONSTRAINT ENHANCE CREATIVITY IN NEW PRODUCT IDEATION

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SUMMARY

The development of new product idea (or new product ideation) is the transformation of a raw idea into a robust concept with consideration of fit and feasibility of technologies, customer benefits, and market opportunity. Although the ideation process often involves ambiguous processes, it is the most critical activity in new product development.

As a creativity task, the ideation process is traditionally considered heuristic rather than algorithmic in nature. The idea generation is heuristic in the sense that it is the process whereby individuals generate variation of ideas in somewhat mysterious ways. In contrast, several studies have attempted to address the weakness of heuristic process by attempting to replace this process with an algorithmic approach. However, making the ideation process to be completely heuristic (i.e., anything goes) needs not result in breakthroughs while the rigid, algorithmic procedure often leads to just conventional outcomes.

Rooted in cognitive psychology, this study proposes that ideation activities in new product development should be pursued as the constrained stochastic behavior. An ideation task not only needs good componential factors but also requires constraint to frame the task by precluding unwieldy ideas while promoting high variability of ideas.

Focusing on the inputs and attempting to strike a balance between algorithmic and heuristic ideation process may provide the mechanisms to manage the psychological perceptions with an aim to stimulate and orchestrate the ideation staff’s cognitive efforts to generate the creative idea.

To achieve this goal, new product idea creativity is considered as the ideas that could turn out to be products that are novel to and useful for customers, and appropriate to firms’ existing production systems. All these dimensions should be used simultaneously to appraise the extent to which new product ideas are considered creative. In addition, this study asserts that componential factors include two factors: (1) specialization representing idea creators’ depth of new product development knowledge, experience, and skills in a product domain, and (2) diverse expertise representing the breadth of ideation team’s knowledge, experience, and skills concerning the same domain of new product development. These factors are essential and collectively can enhance creativity in the development of new product ideas. Finally, goal constraint is defined and incorporated in the development of new product idea framework. This constraint encapsulates the overall criteria and stylistic principle for a particular product domain and reflects the frame of reference for new product idea development. Reference available upon request.

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IN CONTROL OR OUT OF CONTROL? ACTIVE MANAGERIAL INVOLVEMENT AND ITS IMPACT ON ESCALATION OF COMMITMENT

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SUMMARY

Introduction

Most marketing decisions are made in environments where the final outcome is uncertain and not fully under the firm’s control, e.g., the launch of a new product is impacted not only by the decisions of marketing managers, but also by competitor reactions, which are not under the direct control of the firm. Yet many managers feel that they can use managerial skill to minimize the role of exogenous factors (March and Shapira 1987). This tendency to overestimate the impact of managerial skill is termed as “managerial conceit.”

In this paper we examine the causes and consequences of managerial conceit. We do this examination in the context of escalation of commitment (henceforth, escalation) to a failed new product launch. Extant escalation studies conceptualize managers as either (1) passive observers, or (2) passive investors, who view project data and then may assign some funds to the project. The key point here is that, in both cases, there is little scope for the exercise of skill. These conceptualizations are in sharp contrast to practice. If a project is viewed as going badly, a manager will get involved and use managerial skill to suggest, for example, a revised pricing policy, with the intent of increasing the expected payoff associated with the project. We ask the following: (1) Will the manager overstretch the impact of his/her involvement, an involvement that is – prima facie – linked to managerial skill, and hence exhibit managerial conceit? (2) Will involvement in a decision related to a specific component of a project lead the manager to be more likely to recommend persisting with the overall project?

Experiments/Results

Langer (1975) posits that skill-based interventions typically lead to better outcomes. However, in some contexts, interventions do not impact outcomes. Because distinguishing between contexts is a difficult task, individuals use the heuristic that potential for skill-based intervention (also called skill-cues) always lead to superior outcomes. Hence even in contexts wherein interventions do not impact outcomes, individuals with some element of skill-based involvement exhibit “illusion of control” (the managerial analogue of which is managerial conceit) and believe they can achieve better outcomes than what is normatively possible. By modeling our experimental contexts on Langer (1975), where managerial skill does not impact project outcomes, differences in managerial behavior due to skill-cues can wholly be attributed to managerial conceit.

We run two studies, using 225 manager-participants (MBAs) with an average of six years of managerial experience. Participants are told that they are part of a committee at Quality Valves Company (QVC) that approves new product launches. In period one, the participants approve the launch of a new automotive valve – RXT 1. In period two, participants are asked to imagine themselves two years in the future. The updated performance report provides information about RXT 1’s (lack-luster) post-launch performance. The participant is told the firm is planning to hire a stellar salesman to improve the current situation. A revised report, which explicitly takes into account the hiring of this stellar salesman, includes a distribution of NPVs indicating that the mean NPV from future cash flows is lower than the certain cash-out value associated with the available alternative of disposing the RXT 1 business. The normative decision is to terminate the project.

Participants are randomly split into a control group and an experimental group. A separate manipulation (skill-cue) is provided to the experimental group, incorporating potential for experimental group participants to be involved in the salesman hiring process. Pretests/analyses establish that there is no normative difference in salesman valuation across the two conditions. Nevertheless, the involvement manipulation creates illusory differences between groups, such that experimental group participants rate the to-be-hired salesman as having a higher valuation. Consistent with our hypotheses, the results of both studies indicate that (1) a greater proportion of the experimental group participants exhibit escalation, and (2) increased salesman valuation in the experimental group explains the higher levels of escalation seen in the experimental group. Not only does this study illustrate the link between managerial conceit and escalation, but also we use various quantitative and qualitative measures.
(e.g., thought listings) to provide a rich and deep understanding of how managerial conceit leads to increased escalation.

**Conclusion**

Our research hence suggests that there are two independent reasons why managers close to a project escalate. One reason relates to the biasing impact of positive priors (Biyalogorsky, Boulding, and Staelin 2006). The other reason – explored in this research – relates to the biasing impact of managerial conceit, which is triggered by the potential for skill-linked managerial involvement. The above findings contribute to research on both escalation of commitment and managerial conceit. References available upon request.
SUMMARY

New Product Portfolio Management (NPPM), the decision process of evaluating, selecting, prioritizing, and allocating resources to new product development (NPD) projects, is pivotal for firm success. NPPM is comprised of three dimensions: strategic connection, value maximization, and balance.

In strategic connection, managers evaluate NPD projects based on the extent to which they reflect firm strategy (Cooper, Edgett, and Kleinschmidt 2001a). The project selection decision therefore involves assessing how well a project meets strategic goals and justification of the product opportunity (Krishnan and Ulrich 2001). Strategic connection is reflected by fit and contribution, which includes marketing and technological synergy (Henard and Szymanski 2001; Montoya-Weiss and Calantone 1994), order of market entry (Henard and Szymanski 2001), and how well the target market fits the company’s image and vision of its preferred target market (Krishnan and Ulrich 2001).

In the value maximization dimension, managers evaluate NPD projects based on the financial returns they are expected to generate, such as long-term profitability, return on investment, or net present value (Cooper, Edgett, and Kleinschmidt 2001a; Sorescu, Chandy, and Prabhu 2003). Studies reveal that this criterion is the most often used to evaluate new product projects (Cooper, Edgett, and Kleinschmidt 2001b).

NPD projects can be evaluated for their general contribution to the firm’s NPD project portfolio based on the extent to which they create a diverse product mix (Blau et al. 2004). Therefore, in the balance dimension, managers evaluate NPD projects based on the extent to which the mix of NPD projects balances multiple concerns, such as time-frame, innovativeness, financial returns, and resources (Cooper, Edgett, and Kleinschmidt 2001a). In addition, balance can be evaluated relative to a collection of specific criteria, such as speed to market (Griffin 1997), product innovativeness (Ali, Kalwani, and Kovenock 1993), and various financial criteria like risk and return (Blau et al. 2004).

Research suggests that performance is enhanced when multiple NPPM components are considered in making decisions rather than employing a single criterion, such as evaluating only financial returns (Cooper, Edgett, and Kleinschmidt 1999). Although limited, there is a growing number of studies about constructing NPD project portfolios that support firm strategy, maximize value, and provide balance. However, there is a gap in the literature regarding the differing effects the three NPPM components have on firm performance and the contingencies involved in their effect strength. This study provides an initial investigation to fill these gaps by first operationalizing and empirically testing the effect of NPPM dimensions on firm performance, and second, by identifying two moderators that alter the influence of NPPM dimensions on firm performance.

The existing validated measures of the constructs were used where appropriate and, when needed, new measures were developed (e.g., NPPM dimensions) following Churchill’s (1979) recommendations. All NPPM dimensions are measured with multiple items. These items were pre-tested for relevance, interpretation, and clarity with six academics familiar with NPD literature as well as with three practitioners. Based on the comments of these experts, some item wordings were modified and additional items were included in the survey. Then, data was collected from business professionals enrolled in a part-time MBA program at a large Midwestern university. Overall, the sample consists of 94 business professionals.

Based on our analysis, we find that only value maximization directly enhances firm performance. Moreover, we find that decision makers’ associative cognitive style interacts with the balance dimension to hinder performance. We also hypothesize a negative interaction between strategic connection and ambiguity intolerance on firm performance, but find no support for this hypothesis. Despite this result, the growing evidence that personality traits can be expressed differently in different situations suggests that future research should examine other personality traits potentially influencing the relationship of NPPM dimensions and firm performance.
The major managerial implication of our study is that executives should continue to emphasize value maximization during NPPM decisions while keeping in mind that managers’ personality traits could affect the composition of their firm’s NPD portfolio, which would have crucial top and bottom line consequences. References are available upon request.
A CONCEPTUAL FRAMEWORK OF TECHNOLOGY ORIENTATION: A RESOURCE-BASED PERSPECTIVE

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SUMMARY

Today’s business landscape is one of increased competitiveness, global perspective, and saturated markets. By recognizing the pivotal role technology has in achieving market success, organizations are focusing more attention on acquiring technology knowledge and managing technology resources across the organization. Technology plays a central role in connecting employees, customers, and the organization. More and more, organizations see the benefits of integrating technology into marketing functions; advantages include increasing efficiency (Meuter et al. 2000), extending customer interface hours (Dabholkar 1996), managing capacity (Radas and Shugan 1998), enabling customization (Meuter et al. 2000) and developing product innovation (Zhou, Yim, and Tse 2005). However, unless the use of technology is strategically incorporated into a firm, unintended negative consequences can result. Technology failures can range from careless strategic planning to inferior designs or poor implementation. Without adequate technology learning and knowledge management, it is difficult to effectively assimilate technologies into firms.

In order to utilize technology effectively in any element of the marketing mix and service design, understanding a firm’s technology orientation is essential. Technology orientation (TECHOR) is defined as a continuum of technology integrated practices that either directly or indirectly enhance value creation. TECHOR exists along a continuum because firms vary in the extent to which they engage in technology strategies and practices. In the same industry, firms may perform differently because of differences in their technology resources, competence, and capabilities to explore or exploit technology opportunities (Teece, Pisano, and Shuen 1997).

To develop a multi-dimensional TECHOR construct, we conducted semi-structured brainstorming sessions and focus groups over a two-year period with more than 300 health care employees in two leading hospitals in Northeastern Ohio. Based on our literature review and field work, we operationalize TECHOR as a firm’s ability to effectively (1) allocate technology resources, (2) develop technology competencies, and (3) sense and respond to technology opportunities. The antecedents of TECHOR are comprised of two external forces (technology policy and industry characteristics), and three factors of internal dynamics (top management, interdepartmental goals and organizational factors). We posit that TECHOR levels influence key employee outcomes (job satisfaction, job performance, and technology learning) and customer outcomes (perceived quality, loyalty, and technology learning). In addition, two environmental factors (market turbulence and technology turbulence) influence the relationship between TECHOR and key organizational outcomes such as firm performance, service quality, and competitive advantage.

This paper marks our initial efforts to understand the benefits of technology learning and knowledge management in relation to marketing activities. By developing a TECHOR construct, firms will have the knowledge to better manage their technology initiatives, more effectively determine an appropriate level of technological integration within their marketing operations, and develop stronger technological capabilities leading to sustainable competitive advantage.

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THE EFFECTS OF STRATEGIC ORIENTATION IN EMERGING ECONOMIES: A DYNAMIC CAPABILITY PERSPECTIVE

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SUMMARY

Strategic orientation defines firms’ relative emphasis on ways to acquire, allocate, and utilize resources; how to create organizational capabilities; and how to integrate the resources and capabilities into a cohesive whole to attain competitive advantages, according to the resource-based view (RBV) (Day 1994; Gatignon and Xuereb 1997). Although the RBV as a theoretical framework is highly influential for explaining how to achieve competitive advantage, it does not explain adequately how firms achieve competitive advantage in the context of fast changing environments (Eisenhardt and Martin 2000). Researchers extend the RBV further to the dynamic capability perspective, stressing the critical role of capacities for renewing, reconfiguring, and adapting existing firm-specific resources to achieve congruence with the changing environment (Teece, Pisano, and Shuen 1997). However, despite growing interest in the dynamic capability perspective, most studies are theoretical and conceptual and call for more empirical research to examine and validate this perspective (Lavie 2006). Extant literature on strategic orientation also fails to integrate the dynamic capability perspective.

To address these research gaps, this article examines the role of strategic orientation in the emerging economy of China. Emerging economies offer a rich context for studies of dynamic capabilities because their unprecedented changes and high uncertainties raise serious strategic problems for firms (Hoskisson, Eden, Lau, and Wright 2000). In particular, adaptive capability represents a key element of dynamic capability through which strategic orientations may affect performance. This study includes three types of strategic orientations (customer, competitor, and orientation) and examines how they influence adaptive capability and consequently firm performance. And we propose that market dynamics (i.e., demand uncertainty and competitive intensity) may moderate the effects of strategic orientations on adaptive capability.

We conducted a large scale survey in China and obtained a total of 380 usable responses. Our results empirically demonstrate that adaptive capability – a key element of dynamic capabilities – enhances firm performance in emerging economies. This finding supports the dynamic capability perspective by showing its positive role in uncertain environments. Second, this study identifies strategic orientation as an important driver of adaptive capability and thereby fills the research gap pertaining to how to build dynamic capability. Third, as the interaction test shows, the effects of strategic orientations on adaptive capability depend on the dynamics of market environments. When market demand is increasingly uncertain, the role of customer orientation declines, whereas technology orientation becomes more prominent. With more intense competition, both competitive and technology orientations help build adaptive capability. Therefore, in order to succeed in this dynamic market, firms should actively build their adaptive capability to integrate, build, and reconfigure existing competencies that provide strategy – environment congruence and thereby superior performance. Furthermore, to build adaptive capability, firms can undertake a customer or technology orientation, but they must understand the boundary conditions of these strategic orientations. References are available upon request.

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WHAT HAPPENS WHEN FIRMS COMBINE CUSTOMER AND COMPETITOR ORIENTATIONS WHILE PURSUING LEARNING OR PERFORMANCE GOALS RELATED TO COMPETITORS?

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SUMMARY

Two questions about goal setting for firms motivate this study. First, what is the nature of the synergy a firm can gain from combining a customer orientation with a competitor orientation when it pursues organizational goal-setting focused upon learning? Second, what is the nature of the synergy of combining these two orientations when goal setting is focused upon performance? The purpose of this research is to better understand the possible three-way interaction of these elements, as well as the two-way interaction possible when combining a customer orientation with a competitor orientation. In this way, scholars will be able to gain deeper understanding for the outcomes of important strategic stances that the firm can take in the competitive marketplace.

The Two-Way Interaction of Competitor and Customer Orientations

In brief, the interaction between competitor and customer orientation is critical to the understanding of the interdependent nature of the performance advantages of each orientation. Without a simultaneous employment of both, a firm is not likely to benefit fully from each orientation’s advantages and at the same time to avoid the associated limitations.

H1: Both orientations have synergistic benefits; competitor and customer orientation will enhance each other’s positive influence on firm financial performance.

The Three-Way Interaction of External Orientations with Organizational Goal-Setting

Goal setting is conceptualized as consisting of two distinct types: (1) learning goal-setting, and (2) performance goal-setting (Seijts and Latham 2001; Seijts et al. 2004). We predict the contingent effects of goal-setting types will likely differ.

Positive Moderating Effects of Learning Goal-Setting. Goal-setting related to learning from competitors is likely to augment the benefits of both orientations on firm profitability. First, this is because if organizations are strongly committed to and spend a lot of effort in learning from their rivals, acquiring and exploiting knowledge of competitors would bring “learning advantages” to the firm (Grant 1996; Luo, Slotegraaf, and Pan 2006). These knowledge-based effects would enable the competitor- and customer oriented firm to satisfy customer needs more effectively. Logically, the best partners from which to learn would likely be one’s strong competitors due to the distinct and complementary knowledge such competitors wield in the same industry as one’s firm (Lado, Boyd, and Hanlon 1997). In addition, setting learning-based competitive goals would amplify the benefits of superior organizational capabilities of satisfying customer needs at lower costs than the rivals.

H2: The synergistic benefits of both orientations will be stronger in organizations emphasizing learning goal-setting, than in those not emphasizing learning goal setting.

Negative Moderating Effects of Performance Goal-Setting. We predict that performance goal-setting is likely to weaken the benefits of both orientations on firm profitability. First, when firms adopt performance-based competitive goals, they are more likely to focus on competition as a win-lose rivalry. Second, firms with performance goals focused on competitors may engage in more “price wars” and desperately push for higher market share than a customer-focused firm (Armstrong and Collopy 1996). Similarly, a push for higher market share may not always be productive, because Armstrong and Collopy (1996, p. 191) conclude that “many studies have found a negative relationship between market share and profits.”

H3: The synergistic benefits of both orientations will be weaker in organizations emphasizing performance goal-setting than in those not emphasizing performance goal setting.

In this study, the authors use a multi-source approach for data collection resulting in a final sample of 251 business executives as well as the publicly available profit reports for these executives’ firms. Such a multi-source approach allows for a better understanding of the interactions that may occur when firms combine strategic orientations, such as a customer orientation and a competitor orientation, while pursuing learning or performance goals.
related to competitors. Hierarchical regression was used to assess the hypotheses of the study.

Each of the three hypotheses of the study was supported. First, the results suggest that combining a customer orientation with a competitor orientation tends to bring synergistic gains in firm performance. Second, results suggest that such positive synergistic gains are amplified when the organization is intrinsically motivated through goal setting related to learning from competitors. Third, results also suggest that the same synergistic gains are reduced when the organization is extrinsically motivated through goal setting related to performance relative to competitors.

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OPENING THE BLACK BOX OF COMPETITIVE INTELLIGENCE: UNCOVERING ANTECEDENT FACTORS AND A PERFORMANCE ENHANCER

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SUMMARY

Over the years, a number of theoretical and empirical research studies have postulated conceptual models of competitive intelligence (hereafter, CI) and offered various perspectives on CI practices. Despite diversity in terms of approach and method, one common theme is visible among previous studies. The CI literature agrees on the importance of the role that firm personnel play in the CI process. Among a firm’s employees, the sales force is recognized as the single best internal source of information concerning what is occurring in the market with customers and competitors (Lambert, Marmorstein, and Sharma 1990). This recognition relies on the fact that salespeople are the boundary spanners between the firm and the outside world and have a vital role in bringing information to the firm (Rapp, Ahearne, Mathieu, and Schillewaert 2006). This is especially true regarding competitors’ information due to the fact that the salespeople’s realm is contiguous to the competitors’ domain.

Although previous studies enrich our understanding of CI, several dimensions remain unexplored and need attention. For example, the significance of CI is confined to the organizational level. To this point, the importance of CI for a salesperson’s performance has not been discussed. Addressing this limitation, this research study examines the impact of competitive intelligence (CI) within a sales context. More specifically, the purpose of this research is twofold: (1) we examine the antecedent factors that influence a salesperson’s CI level, and (2) we explore ways through which CI may affect a salesperson’s performance.

Parallel to the salesperson cooperation model proposed by Yilmaz and Hunt (2001), we characterize the antecedent factors of CI into three categories: (i) individual, (ii) organizational, and (iii) relational. We believe that these three antecedents represent separate mechanisms by which salespeople will increase their CI level. Salesperson effort represents the individual’s actions, technology resources represent an organizational capability which facilitates the salesperson’s intelligence level, and the relationship quality represents the customer half of the dyad, or person providing the information. Additionally, based on contingency theory, we propose that the relationship between salesperson CI and performance will be moderated by experience. Proposing a contingency framework of salesperson effectiveness, Weitz (1981) suggested that the relationship between salesperson behavior and performance is contingent upon or moderated by characteristics of the salesperson, the environment, and/or the work situation. In a similar vein, several researchers have demonstrated empirically that the relationship between performance and individual characteristics varies across sales circumstances (Franke and Park 2006; Weitz 1981).

Our data comes from a sample of salespeople and managers in the pharmaceutical field, along with archival measures of salesperson performance. To examine the relationships empirically, we employed structural equation modeling. Model fit for the measurement model (while controlling for common method variance) was acceptable ($\chi^2 = 295.4(94), p < .01; CFI = .95; RMSEA = .057$) as was the linear effect model ($\chi^2 (100) = 222.5, p < .01; CFI = .974; RMSEA = .04$). Our results establish the positive influence of salespeople’s effort on their CI level (H1; $\beta = .08, p < .05$); the positive impact of relationship quality on salesperson CI (H3; $\beta = .60, p < .01$); the positive relationship between salesperson CI and performance (H4; $\beta = .101, p < .05$). Notably, however, the linear effects of technology resources and CI (H2; $\beta = .028$, ns), was not significant. Also, our interaction effect model fit the data quite well ($\chi^2 (99) = 218.61, p < .001; CFI = .97; RMSEA = .04$) and was a significant improvement over the linear effects model ($\Delta \chi^2 (1) = 3.89, p < .01$). We found that the interaction between experience and CI was positive and significant (H5; $\beta = .09, p < .05$).

The findings of this study have their greatest meaning for salespeople. They need to focus on CI for their own benefit. In an era of rapidly, and sometimes dramatically, changing market environment, CI helps them recognize threats and opportunities posed by competitors. Also, a firm should ensure that its salesforce is sensitive about the external environment and possess critical competitive information. The strong relationship found stemming from
a salesperson CI suggests this to be a valuable investment. A salesperson that has high level of CI exhibits behaviors that impact the customer and ultimately organizational performance. We hope that our research provides a foundation on which future research efforts can build to address this issue. References are available upon request.

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CHEERS! A MEANS-END CHAIN ANALYSIS OF COLLEGE STUDENTS’ BAR-CHOICE MOTIVATIONS

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SUMMARY

Drinking alcohol is a major activity among college students (Levine 1980). CBS News recently reported that American college students spend $4.2 billion each year on alcoholic beverages. Most of the research on this subject has focused on students’ motivations for excessive drinking and the associated public health concerns (e.g., Hingson et al. 2005). Little research has investigated the context in which students drink alcohol (Clapp et al. 2006; Pavis et al. 1997), specifically, why students choose to drink in particular bars.

The present study uses a means-end-chain methodology to explore students’ motivation for selecting bars in which they drink. Depth interviews with 36 college students revealed the attributes of a bar that are most important to them, as well as the consequences and values that result from these attributes (Gutman and Alden 1985; Olson and Reynolds 2001). The interviews were conducted by a trained, male interviewer who was the same age as many of the students who participated in the study. The interviews were conducted just before students entered a bar in the entertainment district near the college campus. Using Laddermap 5.4 software, responses were analyzed to develop implication matrices and ultimately, the hierarchical value map. When asked to describe four attributes of an ideal bar, the students reported the following: patrons of the opposite sex, music, atmosphere, roominess, facility quality, prices, location, and service quality. The two attributes mentioned most often among the students were drink prices and music. Nearly all of the students listed these attributes.

Students reported that they anticipated the following consequences of their desired bar attributes: drinking and driving concern, accessibility, save money, buy more drinks, get drunk, approach members of the opposite sex, fast service, financial security, comfort, socialization, sexual encounters, fun, and a positive mood. The most common anticipated consequence was socialization followed closely by having fun, being in a positive mood and saving money. Surprisingly, getting drunk was mentioned by about only one third of the respondents. Interestingly, the consequences led to the same three values in most cases: happiness, quality of life, and relationships.

Overall, the empirical evidence of this study suggests that college students’ bar choices are largely driven by hedonic motivations relating to having fun and pursuing positive mood states, which are frequently facilitated by means of alcohol consumption and socialization (Shim and Maggs 2005). In doing so, social interaction tends to be regarded from a short-term perspective where students seek sexual encounters as well as a long-term perspective associated with improved and lasting relationships. Bars attempting to cater to this audience would do best to emphasize reasonable prices of beverages and admission, a good bar atmosphere including pleasant music, roomy facilities, and good service quality.

In selecting bars with these characteristics, students seek opportunities for socialization with friends and potential sexual partners, comfort, a positive mood and fun, on a limited budget. They expect that these consequences will lead to relationships, improved quality of life and happiness. While drinking is certainly a facilitating activity to many students and inebriation a goal for some, the overall emphasis is on the social and sexual human interaction that they expect to enjoy at and after the bar respectively. This is consistent with the findings of Orford et al. (2004) that students are motivated to drink by social factors. Emphasis on social interaction should be paramount in the design and operation of these establishments. References are available upon request.

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ABSTRACT

Three significantly different profiles of involvement in the purchasing of intimate apparel were identified – enthusiasts who are highly involved in purchasing a bra, pragmatists with relatively moderate interest, and realists with very limited interest. Traditional involvement theory is extended by jointly examining consumer personality, product and situational factors.

INTRODUCTION

The fundamental insights of the literature examining consumer behavior in the fashion clothing market draws on consumer involvement theory. This theory postulates that consumers engage in a range of information processing activities stimulated by their level of involvement according to the relevance of the purchase. As Martin (1998) suggests, the consumer involvement measure reflects a specific consumer response to the product. This measure of involvement is essentially determined by how consumers learn, acquire, and process information when making purchase decisions.

A significant body of research literature exists that defines and discusses the application of involvement theory in various product categories, advertising and purchase decisions (Day 1970; Krugman 1965; Bloch 1980). The question which always remains of interest is how involvement profiles differ from each other. While consumer demographic characteristics are traditionally used as descriptors of profiles, there is some agreement in findings among researchers that demographic factors are not always strong differentiators across fashion involvement profiles (O’Cass 2004; Moye and Kincade 2003). Based on previous studies, Zaichkowsky (1985) identified three alternative factors, all of which contribute to various levels of consumer involvement: individual personal characteristics, product characteristics, and situational factors.

THE BRA AS A PRODUCT CONCEPT

Very little research literature concerns bra purchasing specifically, with most focusing on clothing in general. To the best of our knowledge only one study dealing exclusively with this product is available in the marketing literature. Hart and Dewsnap (2001) conducted “An exploratory study of the consumer decision process for intimate apparel,” which outlined a number of challenges and issues associated with the decision-making process. The authors concluded that the bra shopper is a highly involved consumer who perceives a high level of risk associated with the purchase and is motivated by a range of factors such as the desire to be brand loyal, which has the added benefit of reducing the extent of the search process. However, commensurate with the exploratory nature of that study, the methodology was only based on focus groups, open discussion and a blind test experiment.

A number of factors may account for the lack of research in marketing-related literature on this topic. Firstly, bras or intimate apparel can be considered as a subset of the apparel constellation that researchers feel is a sensitive and intrusive topic, and hence difficult to research. Secondly, the nature of the product is highly gender oriented, and its function as a garment is equivocal. It is a necessary commodity which traditionally formed a discrete part of women’s clothing, yet over recent decades its fashion meaning has changed significantly. While it continues to serve its traditional functionality, modern technologies have brought variety in styles, designs and fabrics. Aided by technological advances in manufacturing, the bra is increasingly presented as a product of high fashion that has moved from private boudoirs to the public arena. In some social contexts, the bra becomes a distinguishable part of attire that indexes the increasing dominance of visual culture. This raises the question of whether the bra represents support and comfort, or allure and sex appeal – or both?

However, while the bra is often marketed as high fashion, fun, or a sensually satisfying product, actually shopping for a bra appears to be considered by many as “a necessary evil.” For example, anecdotal reflections on consumer attitudes include the notion that “shopping for a sports bra may rank right up there with a visit to the dentist” (De Moeller 2004, p. 4), or that bra shopping involves “being measured, poked, prodded and fitted by a matronly, but reassuring elderly woman” (Hall 2003, p. 45).

To further complicate this matter, choice has expanded dramatically in the last ten years, with a large number of new labels appearing, many of them from fashion designers or celebrities such as “Elle MacPherson, Oroton, Kookai, and Kylie” (Hall 2003, p. 44). While it is acknowledged that the bra potentially may contribute to
enhanced personal confidence and positive self image (Koff and Benavage 1998), it is also potentially a source of contradictory messages. All these factors contribute to consumer confusion and create some unexpected barriers in the process of bra purchasing.

**CONSUMER INVOLVEMENT**

The concept of involvement has been the topic of many consumer research studies that attempt to understand and explain consumers’ behavior (Laurent and Kapferer 1985). Consumer involvement can be broadly defined as “the degree of psychological identification, affective and emotional ties the consumer has with a stimulus or stimuli” (Martin 1998, p. 8). However, an adequate measure of consumer involvement is not easily determined. For example, O’Cass (2004) has identified the challenge of understanding purchase and consumption patterns, and consumer experiences in relation to fashion clothing. In addition, Laaksonen (1994, p. 22) has noted the elemental nature of the concept of involvement, which cannot be analyzed without taking into consideration its contextual properties. Hence, simply measuring consumer involvement is not enough to explain various facets of consumers’ behavior. According to Laaksonen both social psychological and consumer behavior researchers consider involvement as a property of product-related cognitive structure, determined either in terms of an attitude or knowledge structure in relation to the product (1994, p. 28). Based on this view, in order to better delineate involvement profiles, we took into consideration consumers’ personal characteristics, the product related characteristics of the bra, and situational factors in bra purchasing.

**SELF-CONCEPT**

The findings from the exploratory study conducted by Hart and Dewsnap suggests that bras are related to self-image or self-concept (2001, p. 115). This finding is consistent with earlier research by Gould and Stern (1989), which states that “Stereotypical biological distinctions are important in consumption spheres, especially those pertinent to socially visible products which express sexual identity: most notably, fashion apparel items” (p. 130). Malhotra (1988, p. 6) states that “consumers prefer, intend to buy or use brands/products which are more congruent with their self concepts.” The self-concept scale developed by Malhotra consists of three dimensions – ideal self, actual self and social self – with the semantic differential employed as the measurement technique. However, many studies are based on the actual self-concept since the others (ideal and social) produce equivocal results (Malhotra 1988). We hypothesize that:

**H1:** Women highly involved in the purchase of intimate apparel are more likely than less involved women to consider themselves (a) colorful, (b) vain, (c) indulgent, and (d) excitable.

**PRODUCT-RELATED CHARACTERISTICS**

Product-related attributes reflect style, design, and brand factors. Consumers vary in their approach to purchasing this product. Therefore, given the diverse motivations – from ideational to practical – involved in bra purchase decisions, female consumers may place high utility on branded products or select products with specific styles and designs. Some women actively seek to maximize their sex appeal while another group is concerned with the functionality of the garment in the support and comfort it provides. In other respects, celebrity endorsements have resulted in the constant appearance of new brands that may encourage female shoppers to explore several options on the market. Also, situations may arise when customers need to shop around to match their intimate apparel to a specific style or color of attire.

We hypothesize that:

**H2:** Women highly involved in the purchase of intimate apparel are more likely than other women to consider the importance of (a) bra style and design; (b) bra brands.

**SITUATIONAL CHARACTERISTICS**

Factors associated with specific retail situations may induce or enhance satisfaction with the purchase experience or lead one to consider shopping as a chore. A significant amount of research from various disciplines focuses on the impact of the environment upon human behavior, such as the extent to which the environment shapes approach or avoidance behavior. If the environment is considered relatively pleasing and friendly an individual is likely to exhibit approach behavior (Greenland and McGoldrick 2003). In retailing literature the main emphasis is placed on the physical attributes of the stores. Gould and Stern (1989) found “fashion conscious women will tend to look for appearance-related reinforcement in shopping activity. The presence of mirrors, flattering lighting, and sales people trained to provide positive appearances are reinforcers” (p. 142) of satisfying purchasing environments. Advice is very important to bra buyers as, in comparison to a t-shirt or dress, a bra is a highly complex apparel item with an enormous range of styles, fabrics, brands, and sizes that cannot be allowed to compromise its underlying function. We therefore hypothesize that:

**H3:** Women who are highly involved in purchase of intimate apparel are more likely than other women to consider the importance of situational factors like (a) store environment (b) ambience of the lingerie de-
METHOD

Sample and Data Collection

The population of interest in this study was Australian females over the age of 18 years. A seven-page questionnaire was designed to capture a range of issues associated with the purchase and use of a bra. Questions focused primarily on five aspects: (a) fashion consciousness; (b) attitude toward bra shopping; (c) product and situational characteristics; (d) self-concept; and (e) demographic characteristics. Six hundred questionnaires were distributed to shoppers who were approached at a variety of retail outlets: a prestigious department store; discount department stores; and an independent boutique lingerie store. Those who agreed to participate in this study were given the questionnaire with a reply-paid envelope to take home and fill out. In total 221 usable questionnaires were received, which corresponds to a 36 percent response rate. The data was entered into SPSS, noting the date the questionnaire was received. This allowed for testing non-response bias through comparing early against late respondents. Comparisons using \( t \)-tests indicated there were no differences between early and late respondents suggesting non-response bias was not a serious problem (Armstrong and Overton 1977).

DEVELOPMENT AND VALIDATION OF MEASURES

Involvement Profiles

The items for the involvement scale were developed from Laurent and Kapferer (1985) and O’Cass (2004). Four subscales were extracted through exploratory factor analysis (EFA). These were interpreted as (a) Hedonic value (Cronbach Alpha = 0.885); (b) Competent shopper (\( \alpha = 0.796 \)); (c) Interest in product (0.746); (d) Importance attached to bra as an extension of one’s identity (\( \alpha = 0.701 \)). The psychometric properties for this scale were acceptable. These four factors were used for K-means cluster analysis of the sample. Several cluster solutions were attempted; specifically, two-, three-, and four-cluster solutions. These were compared for their efficacy and the resulting distribution of respondents to the cluster cells. The three-cluster solution appeared the best representation across all measures used. In order to allow deeper examination of three clusters, other techniques such as profiling or discriminant analysis was used to see what internal variables account for the clustering. The three clusters were then subject to further detailed profiling. Results in Table 1 show the profiles of the three clusters. Cluster 1 was labeled Enthusiasts as it was characterized by high scores for hedonic value, high scores for interest in bra and very high scores on the bra as an extension of one’s identity. Enthusiasts had significantly higher hedonic value scores than both Pragmatists and Realists. Cluster 2 was labeled Pragmatists and was characterized by moderate hedonism, very low competence in bra purchase, low interest in bra and little consideration of the bra as an extension of the individual. The last cluster was labeled Realists. This group was characterized as having no hedonic association with the bra, very limited interest in purchasing the bra, and no consideration of the bra product as a projected identity of the individual. However, respondents in this group considered themselves as very competent bra shoppers. For competence in purchasing bras, the Realist buyers were surprisingly similar to Enthusiasts and significantly more competent than Pragmatists (p < .001). One major distinguishing feature of the groups is revealed in the context of the bra as an extension of the individual. The Enthusiasts scored significantly higher (p < .001) than both Pragmatist and Realist buyers.

Personal Characteristics

The 15 bipolar items of the Self-concept scale were derived from Malhotra (1981) without any modifications.

Product Related Characteristics

This section of the questionnaire was developed from an extensive fashion clothing literature review (Deeter-Schmelz et al. 2000; Hart and Dewsnap 2001; O’Cass 2000; Greenland and McGoldrick 2003) and adapted for this study.

Situational Factors

This was measured in the following subsections which were related to: store environment, ambiance, and importance of advice.

In addition, we assessed convergent and discriminant validity of dimensions of situational and product related characteristics, using AMOS 6.0. All constructs (see Table 2) had acceptable level of reliability and average variance extracted (AVE) greater than the 0.5 cut-off point.

RESULTS AND DISCUSSION

In this section we discuss the differences between involvement profiles based on demographic characteristics. We then examine the relationships between degree of involvement and self-concept, product, and situational characteristics.
One-way ANOVA was employed to examine the difference across involvement segments on consumer personality, product and situational factors.

**Involvement Profiles and Self-Concept**

The self-concept paradigm was applied to investigate differences in aspects of personality across involvement levels. The results presented in Table 3 demonstrate that the three groups defined by degree of involvement in bra purchase are not different across most of the self-concept traits. However, significant differences were found in some cases; for example, for ruggedness (p < .001), which resulted from comparisons of the highly involved (Enthusiasts) and the minimally involved (Realists) female shoppers. This finding was not previously hypothesized. The findings for colorfulness (p < .05) and vanity (p < .001) support H1a and H1b, and indulgence (p < .001) lends support to H1c. In addition, the minimally involved group (Realists) has a much higher score than Enthusiasts for perceiving themselves as unexcitable (p < .05) leading to support of H1d.

From a marketing perspective the most sharply defined profile in this analysis is that of the Enthusiast bra buyer who could be characterized as rugged, excitable, indulgent, colorful and vain. These characteristics could be used as a basis for segmentation, targeting and advertising. These findings are largely consistent with those of Goldsmith, Moore, and Beaudoin (1999) who examined customer degrees of innovativeness in fashion clothes.

**Involvement Profiles and Product-Related Characteristics**

The results in Table 3 show that there are no significant differences across the segments defined by degree of involvement in terms of bra style and design, leading to rejection of H2a. This suggests that all bra purchasers consider these characteristics to be critical (as evidenced
by the high mean values). Thus, one can argue that all females place high expectations on the functional attributes of the bra irrespective of their fashion orientation or degree of bra involvement. However, as we anticipated, significant differences emerge in the importance attached to brand names across groups. The highly involved group considers brands and brand names very important when purchasing a bra ($p < .001$). This finding supports H2b. This result highlights the increasing importance of branding for products such as intimate apparel, since purchasing is associated with high levels of risk. Attachment to brands reflects the increasing use of celebrities in bra advertising while the importance of design and style perhaps reflects an emphasis on functionality, comfort, and simplicity.

### Involvement Profiles and Situational Factors

Store attributes are essential situational factors in delivering value to the customer. These factors include the

<table>
<thead>
<tr>
<th>Table 3: One-Way ANOVA Test of Differences Across Consumer Personality, Product, and Situational Characteristics by Degree of Involvement</th>
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<tbody>
<tr>
<td><strong>Highly Involved</strong></td>
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<tr>
<td><strong>Enthusiast</strong> (E)</td>
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<td>N = 82</td>
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<tr>
<td><strong>Consumer Personality Characteristics (self-concept)</strong></td>
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<tr>
<td><strong>H1a</strong>: Colorful</td>
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<td><strong>H1b</strong>: Vain</td>
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<td><strong>H1c</strong>: Indulgent</td>
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<td><strong>H1d</strong>: Unexcitable</td>
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<tr>
<td>Rugged</td>
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<td>Uncomfortable</td>
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<td><strong>Product-Related Characteristics</strong></td>
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<td><strong>H2a</strong>: Bra style and design</td>
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<td><strong>H2b</strong>: Attachment to brands</td>
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<td><strong>Situational Characteristics</strong></td>
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<tr>
<td><strong>H3a</strong>: Store environment</td>
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<tr>
<td><strong>H3b</strong>: Ambiance of bra department/section</td>
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<td><strong>H3c</strong>: Importance of advice</td>
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general store environment, availability of professional advice from service personnel and the ambience of the lingerie department. There are no significant differences across the groups for general store environment, leading to rejection of H3a. This result perhaps suggests that most outlets provide adequate atmospherics so that this is not a distinguishing feature across outlets. However, the importance attached to ambience in the lingerie section/department differs significantly across groups (p < .001) with Enthusiasts considering ambience much more important than both the Pragmatists and Realists. This lends strong support to H3b. Finally, there is a significant difference between Enthusiasts and Realists (p < .001) in their appreciation of professional advice provided by the store. In general, H3c is supported. However, given the self-perception of the Realists as highly competent in bra purchasing, it might suggest that they perceive themselves as knowledgeable and independent customers who do not require any assistance in choosing the garment. The results suggest that despite high competence in bra purchase, the Enthusiasts still need and seek advice from sales staff. It could be speculated that perhaps this apparent “need” for advice is not practical as much as an “aesthetic” need to fulfill their sense of a satisfying shopping experience.

The results discussed so far indicate that although the bra has become increasingly a fashion accessory, it is still considered as highly personal and intimate apparel. Therefore, product characteristics and situational factors such as store attributes play a significant role for customers despite different involvement levels. A comparison of the three groups shows that Enthusiasts are a potentially exciting and dynamic market segment since members of this group love shopping for bras, they are more indulgent than other groups, they consider themselves more colorful, and the majority of respondents in this segment are younger females. This group attaches a high level of importance to branded products, they are willing to spend money for the right brands, and will consciously look for bra brands that match aspects of their self-concept.

**CONCLUSION**

While many studies focus on differentiation of various segments of female shoppers, this is the first study which attempts to segment women in relation to purchase of intimate apparel. The segments that emerged in this study clearly indicate the scope for specifically tailored retail services and offers that address the various degrees of involvement.

From the academic perspective, this study significantly contributes to the literature on consumer behavior in this specific product context. The overall goal was not only to attempt to examine the existence of various involvement profiles, but also to expand the theory of involvement through incorporating personal as well product and situational characteristics to gain deeper insights into various customer segments as it was theoretically postulated in Zaichkowsky (1985). In this study we used the paradigm of self-concept which was developed by Malhotra (1988). While the findings suggest that the primary distinguishing factor of those who are highly involved is not an overall self-concept, the individual aspects of self-concept (colorful, indulgent, etc.) that do reflect significant differences seem to form a coherent set of attributes that could be used for segmentation, targeting and promotion. In future empirical studies, a different scale for self-concept from psychology would be recommended to compare the differences.

The results of this study and the associated literature review indicate that the drivers of interest in bra purchases are only understood anecdotally. Managers of retail outlets for bras can take heart that the principal drivers of purchase are similar to those associated with fashion purchases in general. However, in probing the store-related situational factors, the results suggest managers should pay significant attention to the selection, training and employment of perceptive and customer friendly staff who are able to provide appropriate assistance in bra purchases. This type of interaction is perceived as sensitive and may be seen as an intrusion by some customers. Managers should invest in designing, locating and furnishing change rooms to provide privacy and a pleasant environment for women to fit and assess bras for purchase. There is a constant need to monitor the ambience of the lingerie department to ensure an appealing environment since this may be a source of customer satisfaction and competitive advantage.

Another noteworthy finding is that females value quality, style, and material regardless of their specific interest in this intimate product. In addition, female consumers welcomed this study and demonstrated significant and genuine interest in this topic. The researcher received numerous emails, phone calls, and notes at the end of the questionnaire in which females shared their concerns and ideas. Evidence of this active interest was also confirmed by the response rate which indicates that women are willing to engage in conversation concerning this potentially sensitive product.
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THE EFFECTS OF CONSUMER ANIMOSITY AND CONSUMPTION SITUATION ON THE PURCHASE DECISION OF NATIONALLY ICONIC PRODUCTS: A MEANS-END CHAIN MODEL

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SUMMARY

Previous consumer animosity research has focused on how animosity toward a country-of-origin affects purchasing behavior. A problem arises in the fact that many consumers are not aware of a product’s country-of-origin (Samiee, Shimp, and Sharma 2005). In fact, Samiee et al. (2005) found that consumer’s Brand Origin Recognition Accuracy (BORA) is only 35 percent. The goal of the current analysis is to contribute to the consumer animosity research stream by developing a conceptual model of how consumer animosity affects the purchase decision of nationally iconic products, or those products that are highly visible as originating from a certain country, in different consumption situations.

Previous literature has defined animosity as anger directed at a particular country due to political, economic, diplomatic, or military events (Klein, Ettenson, and Morris 1998). Also, recently religious differences have been suggested as causing consumer animosity (Riefler and Diamantopoulos 2007), as experienced in the case of Arab countries’ anger over a Danish newspaper publishing caricatures of Mohammed. Whatever the cause for feelings of animosity, previous literature demonstrates that a company’s sales can be damaged by consumers’ animosity toward the firm’s home country.

Klein et al. (1998) were the first to link consumer animosity to the willingness of the consumer to purchase products from the country for which the animosity is focused. Using the background of the Nanjing massacre (300,000 Chinese died), Klein et al. (1998) showed that animosity had a negative impact on Chinese consumers’ purchasing of Japanese products. However, the research also suggested that feelings of animosity did not affect the quality perceptions of the Japanese products. Feelings of animosity affect purchase decisions separately from consumer product quality evaluations.

Based on Samiee et al. (2005) findings the question arises: If consumer animosity negatively affects the purchase decision of a foreign product, but not the actual product quality judgments, and consumers struggle to accurately name a products country-of-origin, then what, if any, products are actually affected by consumer animosity? The logical answer would be to focus attention on products that are highly visible as originating from a certain country. The current analysis will refer to these products as nationally iconic products.

Furthermore, people consume differently based on the consumption situation. Research has shown that people consume and behave differently when the act of consumption takes place in a private situation compared to a public situation (Bearden and Etzel 1982). Fishbein’s theory of reasoned action (1975) examines both cognitive and affective components of attitude formation. Fishbein emphasizes the effects of social norms and subjective motivations of consumers to adhere to the norms of reference groups. If a consumer chooses to purchase a foreign product, they will have to deal with the potential criticism or other social consequences of the consumer’s reference group.

The goal of developing a means-end chain model that includes the consumption situation is to build a framework to examine how animosity affects purchase decisions when others are present during consumption (public), and when the consumer will be alone (private). In a private-use situation, consumption of a product allows that product to contribute and reflect our own identity (Belk 1998). Consumers seek, confirm, and ascertain a sense of belonging through what they have (Sartre 1943). In a public consumption situation, not only are consumers seeking to find a product that reflects their identity, they are also motivated to comply with the expectations of others (Lutz 1991).

In conclusion, the consumption situation, the recognition of a product as originating from a foreign country, perceived consequences, and level of animosity are all taken into account in order to give value to the consumer’s feelings of animosity. Once a consumer’s animosity has been weighted, compared to other values and considerations, a purchase decision is made. After the purchase decision is made, a consumer will face the consequences of that decision.

Based on the literature review and the development of the means-end chain model, the following hypotheses are presented:

H1: Consumer animosity will more often affect the purchase decision of nationally iconic products than other products from the same country-of-origin.
H2: Consumer animosity will have a greater negative affect on the purchase decision of nationally iconic products than on other products from the same country-of-origin.

H3: A public consumption situation will cause consumers to give greater weight to their feelings of animosity than in a private consumption situation when making a purchase decision of a nationally iconic product.

H4: Prevention focused individuals will give greater weight to their feelings of animosity than promotion focused individuals when making a purchase decision of a nationally iconic product.

H5: A public consumption situation, compared to a private consumption situation, will cause prevention focused consumers to increase their weighting of animosity more than promotion focused consumers when making a purchase decision of a nationally iconic product. References are available upon request.

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THE SPORT SPECTATOR INVOLVEMENT MODEL: A CONCEPTUAL FRAMEWORK AND FIRST EMPIRICAL RESULTS FOR UNDERSTANDING THE TEAM INVOLVEMENT OF GERMAN SPORT SPECTATORS

Klaus-Peter Wiedmann, Leibniz University of Hannover, Germany
Nadine Hennigs, Leibniz University of Hannover, Germany
Frank Bachmann, Leibniz University of Hannover, Germany

SUMMARY

Professional team sport events are getting more and more important in the planning schedules of the everyday life; the fact of being a fan and supporter of one particular professional sport team becomes generally accepted in the society. To explore the multidimensional sport spectator involvement construct, the present study replicated and extended the Team Sport Involvement (TSI) model and the Sport Interest Inventory (SII) (Funk, Ridinger, Moorman 2004), a psychometrically sound survey instrument and valuable tool for both future researchers and practitioners to examine unique motivational factors among sport consumers. Originally developed and tested on consumers of women’s sport, we adapted the TSI model on German professional men’s soccer and the FIFA World Cup 2006 to examine individual spectators’ differences referring to the interest, social, environment and entertainment dimension of sport spectator involvement.

Conceptual Model: Determinants of Sport Spectator Involvement

The primary goal of this paper was to establish a multidimensional sport spectator involvement framework and explore a related factor structure, which specifies the dimensions of individual interest, motivation, and arousal related to an individual’s involvement with a competitive sport team or event. Focusing on its potential motivational origins and with reference to the TSI model, we suggest that the sport spectator involvement can be described by four strongly correlated but not identical motivational dimensions representing emotional and cognitive features: (1) interest, environment, experience, and social value encompassing the facets interest in team, interest in sport, interest in players, and sport knowledge (interest dimension); (2) role model, socialization, bonding with friends and family, and escape (social value dimension); (3) aesthetics, drama, excitement, and entertainment value (entertainment dimension); (4) wholesome environment, community pride and vicarious achievement (environment dimension). Figure 1 shows the proposed conceptual model to investigate the strongly correlated but not iden-

tical dimensions and origins of sport spectator involvement.

Methodology

To measure the underlying dimensions of sport spectator involvement against the background of our multidimensional framework, we did both, using already existing and tested measures and generating further items resulting from exploratory interviews. As a result, the questionnaire included the items of the SII scale (Funk, Ridinger, Moorman 2004), supplemented by additional items concerning the FIFA World Cup 2006 in Germany. These additional items were added to examine the impact of this special sport event on the sport spectator involvement. The items were rated on a seven-point Likert scale (1 = strongly disagree, 7 = strongly agree). The data for the current study were collected using the following procedures: According to the spectator behavior and involvement literatures, we used a four-step procedure to develop and validate a conceptual model for examining the professional team sport involvement. The sample used in this study was defined as male or female respondents, aged 18 years and older. A total of 424 interviews were conducted in winter 2006/2007.

Main Results

The main contribution of our research was to replicate and extend the TSI model in order to enhance current understanding of consumer motives related to sport in general and soccer in particular. Our research shows that the TSI model and its extension to German soccer fans and the FIFA World Cup 2006 leads to reliable and valid results demonstrating that male and female spectator support for a soccer team differs based upon interest, social, environment, and entertainment motivational dimensions and individual involvement origins. The SII factors that were originally developed for women’s professional sport were rated favorably by all respondents in our men’s soccer research context with aesthetics, excitement and sport knowledge as the most influential factors for both, male and female sport spectators. In summary, a
comparison of male and female fans and spectator in terms of demographics showed that they are very similar what is a clear indication of the SII’s cross-gender generalizability (i.e., that the TSI dimensions are as relevant to men as it is to women). While the interest dimension was of special importance for male respondents, the other three dimensions (social, environment, and entertainment) were perceived to be more important by female respondents. References are available upon request.
ADVERTISING FOCUS AND BRAND ASSOCIATION STRENGTH: WHAT IS THE EFFECT OF CROSS-TARGET INTERFERENCE?

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SUMMARY

The advertising literature is consistent in its call for focused advertising messages (Aaker 1996; Adamson 2006; Farquhar 1989; Ogilvy 1983). To quote Ogilvy (1983) “Every advertisement should be thought of as a contribution to the brand image. It follows that your advertising should consistently project the same image, year after year” (p. 14). One of advertisings’ main goals is the construction and reinforcement of brand equity (Keller 2005). Focused advertising, therefore, has important brand management implications and should influence the building of brand meaning. There have been recent calls in the literature for research on the transfer of meaning to brands (Keller 2001, 2003). This paper begins to meet this call in the literature through an exploration of the efficacy of focused advertisement in building brand associations.

This study focuses on consumer-based brand equity using an associative network perspective, and focuses on brand associations as an indicator of the accessibility of the association for the consumer. Keller’s (1993) perspective on brand associations is rooted in associative network theory which assumes that “declarative knowledge is represented as a network of concept nodes connected by links that are strengthened each time two events co-occur” (Van Osselaer and Janiszewski 2001, p. 12). Associative networks are constructed of two key elements: (1) nodes (e.g., Coca-Cola, red, American) and (2) the links between these nodes (Henderson et al. 1998).

Advertising is often attempting to modify the associative network around the advertised brand. Advertising effectiveness, however, can be hindered by cross-target interference, i.e., the negative effect of multiple target associations on the ability to add a new association or strengthen an existing association in memory. These multiple target associations diffuse node activation across all of the associations (Anderson 1983). In the case of focused advertising messages, advertisements attempting to add or strengthen just one association will suffer from less interference than advertisements attempting to strengthen or add multiple associations.

This study also compares the relative sensitivity of two measures of brand association strength: (1) free association tasks (Keller 1993) and (2) response latency tasks (Hennessey et al. 2005). To the best of our knowledge, no study has compared them in a brand association context. The response latency task has potentially important benefits that may make it a more effective measure of brand association strength for the following reasons: (1) the implicit nature of the method may make it less susceptible to biases (Fazio et al. 1992) and (2) it is a more sophisticated and potentially more sensitive measure.

The hypotheses tested were:

H1: Focused advertising will result in a stronger link between the targeted association and brand than will a non-focused advertising.

H2: The response latency task will be a more sensitive measure of strength of association than the free association task.

The study was a 2 X 2 between subjects factorial design. The two factors were focus of advertising (one vs. five association messages) and measure of strength of association (free association vs. response latency). The dependent variable is strength of association. A total of 164 students, 26 using the response latency method, 138 using the free association method participated. A graphic artist created ten color advertisements for the brand Lay’s Potato Chips. The association “classic” was the target association to be strengthened. Two groups of subjects were shown five advertisements. For Group One, the five advertisements focused on the same single association “classic.” For Group Two five different associations were presented. After, subjects completed a memory-clearing task, the strength of the association for “classic” was measured using either the response latency or the free association method.

For response latency, focused advertising had a stronger post-exposure association than did non-focused advertising (focused mean difference = 346.09ms, non-focused mean difference = 119.73ms). A one-tailed planned contrast analysis found this difference to be significant ($t_{24} = -1.833, p < 0.05$). For free association, there was also a difference between the focused and non-focused conditions (focused mean difference = 0.2260; non-focused mean difference = 0.1077). A one-tailed planned contrast analysis found this difference to be statistically significant ($t_{24} = 4.013.833, p < 0.01$). To measure the difference between the two strength of asso-
Association measures, eta-squared scores were computed. The difference between the scores was not enough to claim any advantage for either method (response latency = 0.123, free association = 106).

This study finds that the more focused an advertising campaign, the greater the campaign’s ability to add a new association. This result was true for both the response latency and free association task measures. This study provides preliminary evidence that the interference effect influences the effectiveness of advertising. For managers this means that while maintaining the discipline necessary to maintain advertising focus may be difficult this image may then lead to a stronger brand identity (Aaker 1996). The study also compared the response latency and free association strength of association measures. The results of the eta-squared analysis found no statistical advantage for either measure. References are available upon request.

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DUAL-PROCESSING AND MESSAGE SIDEDNESS: THE EFFECTS OF INVOLVEMENT IN TWO-SIDED ADVERTISING

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SUMMARY

Theories that explain two-sided persuasion are based on the assumption that recipients carefully scrutinize and evaluate positive and negative information. Also most empirical studies investigating two-sided persuasion are based on experimental designs where participants process two-sided messages in a rather elaborate manner. This, however, may not resemble how consumers usually process two-sided messages. This study examines whether and how the underlying mechanisms of two-sided persuasion for low and high involvement consumers differ.

The theoretical argument is based on dual-processing models which provide an explanation for the different ways of message processing under low and high involvement. Recipients differing in involvement evaluate an incoming message in different profundness. They go different ways in forming their attitudes toward the message and are influenced by different aspects of the message. Whereas the effect of message sidedness is due to argument quality for high involved recipients, other factors such as the number of arguments play a more important role for low involved recipients. When recipients evaluate the message based on arguments, one-sided messages with only positive information should be evaluated more favorably than two-sided messages with both negative and positive information. An increasing proportion of negative information should enhance unfavorable evaluations of the message. However, when involvement is low, consumers are more likely to neglect the valence of the information and they rely on the mere amount of information which impacts message evaluation. Message evaluation is considered a mediator variable for the effect on attitude toward the brand.

The hypotheses were tested by way of an experiment with a 2 (high vs. low involvement) by 4 (proportion negative/all information in the message: 0/7 vs. 1/7 vs. 0/9 vs. 3/9) between-subjects factorial design. Two hundred twenty undergraduates at a German University volunteered to participate in the experiment. An advertisement for a SONY notebook was chosen for the experiment. The advertisement includes a table comparing characteristics of several product attributes of the SONY notebook with characteristics of an average notebook of the same price category. The advertisements differed in the number of attributes (seven vs. nine) and the proportion of attributes where the SONY notebook was worse than the average notebook (0/7 vs. 1/7 vs. 0/9 vs. 3/9). Involvement was manipulated according to recommendations in the literature. Attitudes toward the ad and attitude toward the brand are the dependent variables.

The results of the ANOVA show a significant main effect of proportion and an interaction effect of proportion and involvement on attitude toward the ad. For low involved participants, the effect of one-sided vs. two-sided messages with the same amount of information does not differ for both messages. However, the increasing amount of information (from seven to nine attributes) enhances attitudes toward the ad. For high involved participants, attitude differs between one-sided and two-sided messages covering nine attributes while the difference for the message covering seven attributes is not significant, though the results show the expected direction. Furthermore, the overall effect of the amount of information is not significant for high involved consumers. A path analysis supports the mediating role of attitude toward the ad on attitude toward the brand for either the proportion of negative information for high involved participants or the effect of the number of attributes for low involved participants.

Message sidedness has an effect on ad evaluation as described in previous research. However, the underlying mechanism of this effect differs for low and high involved consumers. High involved consumers are influenced by the negativity of the information provided by the message, i.e., the proportion of negative to positive attributes. Low involved consumers are influenced by the mere amount of information. Those variables impact message evaluations which in turn impacts brand evaluation. While the results do not contradict the overall effect of message sidedness as described in previous studies, they provide further insights on how two-sided messages impact low and high involved consumers in different ways. They also support the contribution provided by dual-process-models for two-sided persuasion research that has not been considered so far. References are available upon request.
UNCOVERING UNDERCOVER MARKETING: THE ROLE OF CONSUMERS’ AGENT, PERSUASION, AND TOPIC KNOWLEDGE

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ABSTRACT

The present research identifies three aspects of consumer knowledge in coping with marketers’ use of surreptitious interpersonal influence, and provides evidence for the distinctive role of each in four experiments.

INTRODUCTION

With the diminishing effectiveness of traditional marketing techniques, undercover marketing (also called “stealth marketing”) has emerged as a popular alternative method to persuade consumers surreptitiously. Undercover marketers often present a new product or service by cleverly creating and spreading “buzz” in an obtuse or surreptitious manner (Kaikati and Kaikati 2004). A marketing company could, for example, pay an actor to use a certain product visibly and convincingly in locations where target consumers congregate. The actor may also talk about their product with people they befriend in some locations, even handing out samples when it is economically feasible.

Undercover marketing aims to penetrate consumers’ defense mechanisms against marketplace persuasion. It is anchored on the premise that consumers trust genuine personal experience and unintended advice from others more than they trust marketers. However, consumers may have knowledge about tactics, acquired from firsthand experience in everyday life and secondhand experience from social interactions, media, and organizations. Such pragmatic knowledge acts as a critical moderator during marketplace persuasion episodes (Boush, Friestad, and Rose 1994). Whether because of personal experience or media coverage (e.g., Vranica 2005), this knowledge may extend to undercover marketing tactics. The present research is one of the first empirical studies to investigate how consumers cope with undercover marketers’ use of interpersonal influence. Using the Persuasion Knowledge Model (Friestad and Wright 1994), four experiments examine the effects of consumers’ agent, persuasion and topic knowledge on their judgments about this marketing tactic. This study aims to answer: (1) when consumers infer ulterior sales motives of an undercover marketer, (2) what happens when persuasion tactics are accessible, (3) how consumers respond when they detect or are informed about an undercover marketing attempt, and (4) how product quality and purchase satisfaction influence the response to an undercover marketing attempt.

THEORY AND HYPOTHESES

It has been well documented that consumer knowledge is fundamental in the formation of valid perceptions and judgments (Ratchford 2001). Consumer knowledge is a complex and multidimensional construct that has profound impacts on consumers’ attitude, judgment, and behavior (Alba and Hutchinson 1987; Brucks 1985). The challenge is to decompose the general dimensions and reconstruct the context-specific knowledge in a particular field of interest.

The Persuasion Knowledge Model (Friestad and Wright 1994) postulates that consumers’ three knowledge structures interact to shape and determine the outcomes of persuasion attempts: (1) Agent knowledge – beliefs about the traits, competencies, and goals of the persuasion agent such as an advertiser or a salesperson; (2) Topic knowledge – beliefs about the topic of the message such as a product, service, social cause, or a candidate; and (3) Persuasion knowledge – beliefs about an influence agent’s motives and tactics. Persuasion literature has provided abundant evidence of the effect of agent knowledge and topic knowledge, but less is known about the role of persuasion knowledge and the interactions among these knowledge structures.

Functionally, persuasion knowledge may influence attitude formation about an influence agent through a cognitive alarm mechanism. Persuasion knowledge alerts consumers to detect, control and resist a variety of persuasive attempts. In particular, Kirmani and Campbell (2004) argued that consumers actively attempt to manage a marketing persuasion interaction to achieve his or her own goals, rather than being a mere recipient or resister of influence. They demonstrated that consumers choose from a large repertoire of strategies (i.e., seeker strategies and sentry strategies), depending upon their goals and relationships with the influence agent.

Previous PKM research defines accessibility as how readily a construct is coded in terms of a given category (i.e., Campbell and Kirmani 2000; Kirmani and Campbell 2004; Williams, Fitzsimons, and Block 2004). Campbell
and Kirmani (2000) manipulated the accessibility of ulterior sales motives by changing the timing of remarks in an interpersonal sales interaction. A flattering remark from a salesperson before the consumer’s decision to buy a jacket was proved to activate participants’ persuasion knowledge about their sales motives. When the remarks were made after the purchase decision, in comparison, consumers were less likely to infer the ulterior sales motives.

Accessing persuasion knowledge can be thought of as raising psychological “suspicion” in the context of undercover marketing. The basic notion of suspicion is that an influence agent’s remarks, either from a salesperson or a stranger, will be judged by the target’s inference about their motives (e.g., Fein 1996; Vonk 1998). If a consumer thinks an influence agent’s positive remarks on their choices are intended to persuade them to purchase, such remarks are considered purposeful and insincere (Campbell and Kirmani 2000). For example, a typical adult consumer understands that the social role of a salesperson is to make sales (i.e., agent knowledge), and therefore, he or she is more likely to infer that a salesperson has ulterior persuasion motives and is less sincere in their positive remarks on consumers’ choices (i.e., persuasion knowledge).

In an undercover sales context, however, an influence agent by definition appears to be much less associated with sales motives and acts as a stranger or a friend. As a result, the timing of positive remarks (before or after purchase) will not change a target’s inference about an ulterior sales motive. Accordingly, we hypothesize that:

H1a: Consumers are more likely to infer to an ulterior sales motive when an influence agent is an identified salesperson than an unidentified undercover marketer.

H1b: Timing of positive remarks before (after) the purchase will increase (decrease) accessibility of persuasion knowledge when the influence agent is identified, but will not increase (decrease) accessibility of persuasion knowledge when the influence agent is unidentified.

Disclosure of Undercover Marketing

The Federal Trade Commission’s (FTC) “Endorsement Guidelines” concludes that “the failure to disclose the relationship between the marketer and the consumer would be deceptive unless the relationship was otherwise clear from the context.” However, it remains unclear how consumers respond to disclosure of undercover marketing attempts. In general, consumers tend to respond negatively toward potentially misleading persuasive attempts, as suggested in the advertising deception literature (e.g., Olson and Dover 1978; Johar 1995; Darke and Ritchie 2007). Disclosure, either from marketers (e.g., comparative advertising claims) or a third-party (e.g., media and other users), can be utilized to correct for invalid inferences. For example, Johar and Simmons (2000) found that disclosure mediates message elaboration on brand quality, given particular goals and cognitive capacity of information processing. In regular interpersonal sales interactions, an influence agent’s association with a company is self-evident and consumers’ agent knowledge leads to a higher level of skepticism toward salespersons’ positive remarks.

In the undercover marketing context, however, a lay person’s agent knowledge assumes that an influence agent has no association with a marketing purpose. When the ulterior sales motive is uncovered, consumers are more likely to feel that they are “set up” and therefore perceive the persuasion attempt as deceptive. More specifically, even if undercover promotional agents disclose that true motive, their previous interactions could be considered purposeful and therefore unacceptable. When disclosed by a third party, undercover marketers could be considered even more deceptive and their behaviors unacceptable because they intentionally hide their motives. Given this, we hypothesize that:

H2a: Consumers perceive influence agents as more deceptive when persuasion knowledge is accessible.

H2b: Consumers perceive influence agents as more deceptive and undercover persuasive attempts as less acceptable when agents’ sales motives are disclosed by a third party than by the agents themselves.

Topic Knowledge and Goal-Oriented Consumers

The PKM defines consumers’ topic knowledge as beliefs about the topic of the message such as a product, service, social cause, or a candidate (Friestad and Wright 1994). Topic knowledge could play a multiple functional role in the formation of perception and judgment, including specific source-related attributes (Crowley and Hoyer 1994; Tormala and Petty 2004), memory (Johar, Maheswaran, and Peracchio 2006), schema (Wheeler, Petty, and Bizer 2005), previous attitudes (Cohen and Reed 2006), etc. In particular, Andrews, Burton, and Netemeyer (2000) found that disclosures are particularly effective versus the control in reducing misperception when combined with the general ads claim for consumers with a high level of nutrition knowledge.

The same logic can be applied in the context of undercover marketing. The premise is that when consum-
ers are not aware of undercover marketers’ sale motives and tactics, their attitude should rely more on topic knowledge about the product (e.g., quality and satisfaction) and agent knowledge (e.g., relationship and trust). However, as Kirmani and Campbell (2004) pointed out, consumer targets can be active goal-directed individuals and their persuasion knowledge may interact with topic and agent knowledge. Along this line, for example, Xie, Boush, and Boerstler (2007) found that consumers’ attitudes toward deceptive advertisements were more negative when the expected consequences of being misled were more serious.

In coping with undercover marketing, consumers may judge the tactic partially based on the topic knowledge of potential benefits, so that the perceived deceptiveness and their willingness to buy become two related but separate constructs. If the product quality is high, they may be more willing to buy the product, despite that they consider the marketing tactic deceptive. Moreover, when they are satisfied with the purchase, they may be less resistant toward undercover marketing because they benefit from the persuasion episode. Thus, we hypothesize that:

**H3:** Consumers consider undercover marketing tactics more acceptable when they are satisfied with the purchase.

**H4:** Consumers are more willing to buy the demonstrated product if the quality is good, regardless of the potential deceptiveness of the undercover marketing tactic.

**STUDY 1**

The purpose of Study 1 was to test the hypotheses that agent knowledge could affect perceived deceptiveness. The experiment employed a 2 (Influence Agent: Salesperson vs. Undercover marketer) X 2 (Positive Remarks Timing: before vs. after purchase decision) between-subject design. A total of ninety undergraduate marketing students were randomly assigned across four experimental conditions.

**Procedure**

This experiment modified the written scenario of Campbell and Kirmani’s (2000) Study 1, and manipulated the influence agents (salesperson vs. stranger couple) as well as the flattering remarks timing (before vs. after purchase decision). All participants read a twelve-line (about 230 words) retail store shopping scenario on computer screens from a target’s perspective (you) in a computer lab. The scenario described a consumer looking for a jacket in a department store, who engaged in an interaction with either a salesperson or a stranger couple in that store. Participants were encouraged to imagine they were the consumer. After reading the scenario, they were asked questions about their perceptions of the salesperson or the couple.

Influence agent role was manipulated by changing the person whom a consumer talks with, either a salesperson who is working, or a stranger couple shopping in that store. As in Campbell and Kirmani’s (2000) Study 1, ingratiation was made either before or after the purchase decision.

**Result**

**Inference to the Ulterior Sales Motive.** Participants were asked the question “Pat (or the couple) said the jacket looked great because she/he (they) was (were) trying to make a sale” on a Likert scale (1 = completely disagree, to 7 = completely agree). As predicted, a 2 X 2 ANOVA shows significant main effects of two independent variables on accessibility of sales motives. Participants were much more likely to infer the ulterior sales motives toward a salesperson (M = 5.18, SD = 1.36, n = 50) than a stranger couple (M = 2.68, SD = 1.54, n = 40), F (1, 86) = 75.505, p < .001. Timing of the flattering remarks was also significant: when the remarks were made before the purchase decision (M = 4.35, SD = 1.94, n = 40), participants were much more likely to infer the ulterior sales motives than when the remarks were made after the purchase decision (M = 3.84, SD = 1.85, n = 50).

Further one-way ANOVA tests show that positive remarks before the purchase decision (M = 5.70, SD = 1.13, n = 20) increased accessibility of sales motives compared to after the purchase decision (M = 4.83, SD = 1.38, n = 30) when the influence agent was salesperson, F (1, 48) = 5.52, p < .05. When the influence agent was a stranger couple, timing of flattering remarks did not significantly change accessibility of sales motives, F (1, 38) = 1.81, p > .05.

Participants in this experiment were more likely to infer the ulterior sales motive when an influence agent was an identified salesperson rather than a stranger couple. H1a was supported. This is consistent with most undercover marketers’ assumption that usually consumers do not consider a “natural” conversation as a sales attempt. In line with this, timing of the flattering remarks before the purchase decision increased the likelihood to detect the ulterior sales motive when the influence agent was an identified salesperson, but it did not make a difference when the influence agent was an unidentified stranger couple. H1b was supported. The finding is consistent with the notion that during an encounter with ordinary people (who could be undercover marketers), consumers rely more on their rudimentary agent knowledge to infer the sales motive. Persuasion knowledge tends to remain inaccessible when an influence agent appears to have no selling mission.
The result suggests that consumers’ agent knowledge plays an important role to infer the ulterior motive of an influence agent. However, this experiment did not directly examine participant’s perception of undercover marketers. The scenario only identifies the couple as strangers, and it is not clear to the participants whether the stranger couple was actually carrying out a sales mission.

STUDY 2

The purpose of Study 2 was to test the hypothesis that accessibility of persuasion tactics and disclosure type could affect consumers’ perception and judgment of an undercover marketing attempt. The experiment employed a 2 (Accessibility of Undercover Marketing Tactics: priming vs. no priming) X 3 (Disclosure: no disclosure vs. marketers’ self disclosure vs. third-party disclosure) between-subject design. A total of one hundred and forty-eight students from undergraduate marketing classes were randomly assigned across six conditions.

Procedure

This experiment modified the design and the written scenario of Study 1. Half of the participants first read a 156-word short article on computer screens about undercover marketing and Sony Ericson’s 2002 undercover marketing campaign. As suggested by the accessibility-diagnosticity model (Feldman and Lynch 1988), any factor that increases the accessibility of an input should also increase the likelihood with which that input will be used. Accordingly, an exposure or experience of undercover persuasion will make the tactics-relevant memory more ready to process, and therefore more likely to influence the subsequent judgment of the persuasion attempts.

All participants then read the retail store shopping scenario as in Study 1. The scenario described the same interaction with a stranger couple when they made flattering remarks before the purchase decision. Participants then were asked two questions on the same web page that “While I read the scenario, I was thinking whether the couple are paid actors” (1 = completely disagree, to 7 = completely agree). Next, on the second page, participants in the control condition were not informed about the couple as strangers, and it is not clear to the participants whether the stranger couple was actually carrying out a sales mission.

Result

Perceived Deceptiveness was measured as an average of three seven-point items about the influence agents: sincere/insincere, honest/dishonest, and deceptive/not deceptive. Factor analysis using an oblique (promax) rotation extracted one factor solution and shows that the scale was unidimensional. The scale reliability is satisfactory, Cronbach’s alpha = 0.83. Acceptability was measured as an average of two seven-point items about the influence agents’ behaviors: reasonable/unreasonable, acceptable/unacceptable. Factor analysis using an oblique (promax) rotation extracted one factor solution and shows that the scale was unidimensional. The scale reliability is satisfactory, Cronbach’s alpha = 0.81. After reading the scenario, participants were asked on the same page that “While I read the scenario, I was thinking whether the couple are paid actors” (1 = completely disagree, to 7 = completely agree). Participants in the primed condition (M = 4.48, SD = 2.03, n = 73) were significantly more skeptical about the couple’s motive than those in the non-primed condition (M = 3.79, SD = 2.24, n = 75), t(146) = 3.68, p < .001. The manipulation was successful.

A 2 X 3 ANOVA shows significant main effects of accessibility of persuasion tactics and disclosure on perceived deceptiveness. Participants rated the couple more deceptive in the primed condition (M = 4.00, SD = 1.70, n = 75) than the non-primed condition (M = 3.32, SD = 1.79, n = 73), F (1, 142) = 7.54, p < 0.01. Perceived deceptiveness was significantly different across three disclosure conditions (Mnon-disclosure = 4.29, SD = 1.36, n = 50; MMarketer = 3.51, SDMarketer = 1.49, n = 48; Mthird-party = 3.18, SDthird-party = 1.71, n = 50), F (2,142) = 7.12, p < 0.01. Multiple comparisons (LSD) suggest that participants rated the couple more deceptive in either marketer or third-party disclosure conditions compared with the non-disclosure condition; however, marketer disclosure was not significantly different from third-party disclosure at p < .05. Regarding acceptability, neither the accessibility nor the disclosure type made any significant difference across conditions. The marketers’ self-disclosure did not make their behaviors more or less acceptable than if a third-party disclosure did. No interactions were significant at p < .05.

Study 2 examined the effects of accessibility of persuasion tactics and disclosure type on the perceived deceptiveness and acceptability of an undercover marketing tactic. The results supported the notion that when a persuasion tactic is more accessible, consumers are more likely to consider an influence agent deceptive. H2a was supported. Meanwhile, undercover marketers’ behavior was not considered acceptable no matter whether market-
ers “debriefed” at the end of the persuasion episode or a third party informed consumers the truth. In this experiment, the participants appeared to be unforgiving of the undercover marketers’ potentially misleading behaviors. The undercover marketer’s confession did not appear to help restore their credibility. H2b was not supported. The result of this experiment pinpointed the role of persuasion knowledge in the formation of perception and judgment of undercover marketing. However, neither Study 1 nor 2 controlled for the extent to which the conversation with the couple would influence consumers’ decisions. The next study addressed this concern, and explored the effect of topic knowledge.

**STUDY 3**

The purpose of Study 3 was to test the hypotheses that purchase satisfaction and disclosure would affect consumers’ judgment of an undercover marketing attempt. We speculated that acceptability also depends upon how satisfied a consumer feel about the purchase. This experiment employed a 2 (Satisfaction: satisfied vs. not satisfied) X 3 (Disclosure: no disclosure vs. marketers’ self disclosure vs. third-party disclosure) between-subject design. A total of one hundred and twenty-six undergraduate marketing students were randomly assigned across six experimental conditions.

**Procedure**

This experiment modified the written scenario in Study 2. All participants read a twelve-line retail store shopping scenario without being primed any undercover marketing tactic. The scenario described the same interaction with a stranger couple when they made flattering remarks before the purchase decision only. At the end of the scenario, half of the participants were told that “A few days later a close friend says the wool-silk blend jacket looks good on you”; and the other half were told that “A few days later a close friend says the wool-silk blend jacket does not look good on you.” Next, all participants were asked “Based on the scenario, I’m satisfied with the jacket I buy: (1: completely disagree, to 7: completely agree) and “The conversation with the couple influences my decision about the jacket (1: completely disagree, to 7: completely agree).” The reason to add the last question was to control for the extent to which the conversation with the couple would influence consumers’ decisions. As in Study 2, three disclosure types were equally applied across six conditions.

Measures were the same as those in Study 2 except the manipulation check of how satisfied consumers are with the purchase. The ANCOVA result shows that participants in the positive feedback condition (M = 5.17, SD = 1.52, n = 63) were significantly more satisfied with the purchase than those in the negative feedback condition (M = 3.39, SD = 1.76, n = 61), F (1,121) = 35.39, p < .001, controlling for the effect of how much influence the couple had on the decision (which is not statistically significant, F (1,121) = 2.18, p > .05). The manipulation was successful. Also, the dependent measure scale (Acceptability) was one-dimensional and Cronbach’s alpha = 0.81.

**Result**

The 2 X 3 ANCOVA suggests that participants rated the couple’s behavior (M = 4.58, SD = 1.46, n = 63) more acceptable in the satisfied condition than the dissatisfied condition (M = 4.05, SD = 1.41, n = 61), F (1, 117) = 5.39, p < 0.05. Participants in three disclosure conditions (M = 5.034, SD = 1.01, n = 44) perceived the couple significantly different (MMarketer = 4.00, SDMarketer = 1.60, n = 38; Mthird-party = 3.86, SDthird-party = 1.45, n = 42), F (2,117) = 10.02, p < 0.001. Multiple comparisons (Turkey’s LSD) suggest that the couples’ behaviors were less acceptable in either marketer or third-party disclosure conditions compared with the no disclosure condition; however, marketer’s self-disclosure was not significantly different from third-party disclosure at p < .05. No interactions were found significant at p < .05.

The result suggests that participants were more accepting of undercover marketing if they were satisfied with the product. H3 was supported. Participants in this experiment would not accept undercover marketers’ persuasive attempts merely because they eventually informed consumers of their sales motives. As in Study 2, the marketers’ self-disclosure (versus a third-party disclosure) did not make their behavior more or less acceptable.

**STUDY 4**

The purpose of Study 4 was to test the hypothesis that product quality would affect consumers’ judgment of an undercover marketing attempt and intention to purchase. We speculated that consumers are more willing to buy the demonstrated products if the product quality is good, despite perceived deceptiveness toward undercover marketing tactics. The experiment employed a 2 (Product Quality: high vs. low) X 2 (Influence Agent: Undercover Marketer vs. Tourists) between-subject design. A total of eighty-two students from undergraduate marketing classes were randomly assigned across four conditions.

**Procedure**

This experiment used a new scenario reflecting Sony Ericson’s 2002 undercover marketing campaign. All participants read a thirteen-line written scenario on computer screens. The scenario described a similar interaction with a couple posing as tourists when they asked people to take pictures of them in a downtown area during a tourism
The influence agent role was manipulated by the sentence at the end of the first webpage in the scenario. Half the participants read that after the interaction, “Imagine that after shopping at Nordstrom, you see that couple showing the camera to others in another street”; and the other half of the participants did not read that sentence. At the second page, half were told that “A week later you read about the camera from a credible source. The overall rating is pretty high.” And the other half were told that “A week later you read about the camera from a credible source. The overall rating is pretty high.” Next, all participants were asked “Overall, the camera is good: (1: completely disagree, to 7: completely agree).”

Result

ANOVA shows that both manipulations were successful. Participants in the experimental condition (M = 5.44, SD = 1.10, n = 41) rated the camera quality significantly higher than those in the control condition (M = 3.71, SD = 1.68, n = 41), F (1, 80) = 30.63, p < .001. Participants in the undercover marketer condition (M = 5.70, SD = 1.64, n = 43) rated that the couple has a significantly higher sale motive than those in the tourist condition (M = 3.92, SD = 2.15, n = 39), F (1, 80) = 17.90, p < .001. Perceived deceptiveness measure was the same as in early experiments, unidimensional with high Cronbach’s alpha = 0.88. Intention to buy was measured by “Based on the scenario, I’d like to buy the camera: (1: completely disagree, to 7: completely agree).”

As expected, ANOVA result shows participants in the undercover marketer condition (M = 3.56, SD = 1.31, n = 43) rated that the couple were more deceptive than those in the tourist condition (M = 5.01, SD = 1.43, n = 39), F (1, 78) = 23.57, p < .001. However, no interaction was significant at p < .05. In comparison, participants’ intention to buy in the high quality condition (M = 3.42, SD = .23, n = 41) was significantly higher than those in the low quality condition (M = 2.19, SD = .23, n = 41), F (1, 78) = 13.96, p < .001. As expected, the influence agent role was not significant, p > .05. No interaction was found significant at p < .05.

The result suggests that although participants considered the undercover marketing tactic deceptive, they were more likely to buy the product if the quality is high. H4 was supported. However, it is noticeable that the mean of purchase intention was below the scale midpoint (4), which indicates that the overall purchase intention in an undercover marketing situation was low.

**GENERAL DISCUSSION**

Combined, the four experiments suggest that a consumer is not usually ready to resist undercover marketing. Compared with a salesperson, an undercover marketer is less likely to be detected if behaving properly. However, consistent with the PKM predictions, consumer persuasion knowledge of an influence agent’s motives and tactics has a significant impact on perceived sincerity and acceptability of an undercover marketing attempt. When consumers infer an ulterior sales motive or readily access the information about undercover marketing tactics, they are more likely to detect and resist undercover marketers. Once uncovered, marketers cannot restore the perceived sincerity by fully informing consumers afterward. Further, when product quality is higher and they are satisfied with the purchase, they may be less resistant toward undercover marketing because they benefit from the persuasion episode.

There are several marketing implications from this study. When marketers consider going undercover, there could be a lot of risks: whether their target is vulnerable enough without much persuasion knowledge, whether a specific tactic is well executed to avoid inference to the sales motives, whether the product quality is good enough, and whether a prospective buyer would be satisfied with the purchased afterwards. Besides, undercover marketers face ethical challenges. Based on the finding of this study, there seems that their tactics will be perceived as deceptive and not acceptable, at least in the sample population.

The current research is subject to the usual limitations of lab experiments based on written scenarios. First, an experimental study requires us to trade off the richness of real-world persuasion with discovering a single piece of isolated effect by manipulation. An interpersonal persuasion attempt is often an iterative dynamic process. A simplified written scenario may tell us what could happen, rather than what will happen. Second, this study aims to incorporate several broad theoretical constructs: knowledge, trust, acceptability and satisfaction. The next step is to refine these constructs and better present them in an experiment setting. Third, a continuous improvement of the scenario approach to this complicated process could always be a goal of follow-up studies.
Despite the limitations, the present research is one of the first empirical studies to address basic questions about consumers’ responses to undercover marketing attempts. This is a small but important step forward in understanding the effect of rapidly changing undercover marketing techniques.

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ROCKY SALES-MARKETING INTERFACE: AN EXPLORATORY EXAMINATION OF SYMPTOMS, CAUSES, EFFECTS, AND REMEDIES

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SUMMARY

In spite of the acknowledged importance of examining the sales-marketing interface, barring a few notable exceptions, research in this area is scant. Further, scholars who have studied this area have noted that the interface between these two functions remains rocky – specifically, Dewsnap and Jobber (2000, p. 109) note, “the relationship [between these two functions] is characterized by a lack of cohesion, poor coordination, conflict, non-cooperation, distrust, dissatisfaction, and mutual negative stereotyping.”

Though we understand that this interface could be rocky, it is possible that the two functions may not feud in the open all the time. It is plausible that there might be some brewing troubles between sales and marketing that have not (yet) reached feudal proportions. These brewing troubles may hinder organizational activities such as market sensing, strategy creation, and strategy execution by hampering free flow of information and collective responsiveness. Research examining the sales-marketing interface till date has not identified the nature of such troubles and the symptoms that might manifest these brewing troubles that if not identified and looked into may reach feudal proportions in future.

This study is the first step in the exploration of this area. Using qualitative methodology and interview data collected from 38 sales and marketing managers from different industries, this study identifies six symptoms that may manifest brewing troubles between sales and marketing. The main theme of this paper – identification and explication of six symptoms is an important contribution of this study. These symptoms bring to the surface the latent tensions (Gaski 1984; Kruglanski 1970; Pondy 1967) between these two functions. In doing so, this study extends literature on sales-marketing interface and opens up a new research avenue. This study also pushes the envelop further by identifying (a) the root causes/underlying troubles that these symptoms may manifest, (b) how these symptoms may flag for marketers how strategy implementation may be affected, and (c) what remedial actions marketers may take in such situations. By providing a comprehensive picture of the causes – symptoms – effects – and remedies, this study also enriches our understanding of the sales marketing interface. Further, a look at many of the remedies indicates that they emphasize the need for greater interfunctional communication (Li and Calantone 1998; Ruekert and Walker 1987) and collaboration (Atuahene-Gima 2007). The study thus indicates that these symptoms may serve as “triggers” within organizations bringing forth the need to enhance these activities in order to increase interfunctional integration. Extant research has not examined the effect of sales-marketing interface on marketing strategy implementation. By highlighting how marketers may use certain symptoms to predict the fate of future implementation of marketing strategies, this study also helps us take the first step toward situating the literature on sales-marketing interface in the context of strategy implementation.

Managers may find the study results useful. Specifically, identification of six symptoms may help marketing managers spot the brewing troubles in the sales marketing interface and take proactive measures to address those troubles. Further, explication of how the underlying troubles may affect strategy implementation may provide them with understanding of how they may address either the root problems or work to contain its effects on strategy implementation processes. Last, the overall findings of this study may also provide them with a comprehensive picture linking the problems between sale and marketing to the symptoms, effects, and remedies.

Future research can look at many different areas such as (a) identifying a broader repertoire of symptoms and (b) examining the interaction between different causes and their symptomatic manifestation.
THE CONTINGENT VALUE OF SALES PARTICIPATION IN MARKETING DECISION-MAKING ON ORGANIZATIONAL PERFORMANCE

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SUMMARY

Aim of the Study

In market oriented companies the Sales unit participates in making most of marketing decisions. The commonly held belief says that participation is always beneficial to the firm because it increases comprehensiveness of decisions and enhances consensus and commitment to their implementation. However, organization theory, strategy making theory, and also marketing contingency theory suggest that benefits are often counteracted by detrimental effects. These effects have been traditionally overlooked by marketing scholars. In this study we explore factors that can enhance the effectiveness associated to higher participation of the Sales unit in marketing decision-making along with factors that can accentuate the limited efficiency produced by increased participation. In particular, we investigate the moderating role of organizational context – namely, organizational culture, values, and structure – on the relation between Sales participation in marketing-decision making and market performance.

Definitions and Hypotheses

Organizational culture is viewed in terms of customer oriented culture, defined as the set of beliefs that puts the customer’s interest first, while not excluding those of all other stakeholders, in order to develop a long-term profitable enterprise. We expect that customer oriented culture enhances the effects of Sales participation in marketing decision-making on organizational market performance.

We conceptualize values in terms of distributive justice defined as the perception of fairness of the allocation of. We argue that an allocation of rewards between Marketing and Sales which is not informed by the principles of distributive justice negatively impacts the effects of Sales participation in marketing decision-making on organizational performance.

Organizational structure is viewed in terms of functional specialization, namely, the clear division of labor, roles and responsibilities among different functional units. We argue that specialization prevents jurisdictional ambiguity and conflicts which make implementation of decisions suboptimal and increase inefficiencies in participative decision-making.

H1: The joint occurrence of Sales participation in marketing decision-making and customer oriented culture has a positive effect on organizational market performance.

H2: The joint occurrence of Sales participation in marketing decision-making and distributive injustice has a negative effect on organizational market performance.

H3: The joint occurrence of Sales participation in marketing decision-making and functional specialization has a positive effect on organizational market performance.

Methods and Results

A survey was conducted among 870 managers attending different courses for Marketing and/or Sales executives at a major business school in Europe the data collection resulted in 326 usable questionnaires, achieving a response rate of 37.5 percent. Informants belonged to Marketing (53.1%) or Sales (46.9%). Thirty-one point six percent of the companies sell pure goods, 17.6 percent pure services, 51.8 percent a combination of goods and services. We measured Sales participation in nine marketing decisions, ranging from new product development to tactical pricing and Promotions. The other study constructs were measured with 5-point Likert scale items drawn from the literature. We used CFA to assess the properties of the measurement model and OLS regression for hypothesis testing. We controlled firm size, long term orientation, Marketing-Sales collaboration, influence of other functional units, and superior customer value.

Although no specific hypothesis is advanced on its effect on market performance, Sales participation in marketing decision making seems to have a marginally significant negative effect on market performance, suggesting the actual presence of some “negative side” of participation itself. The interaction between Sales participation in marketing decision-making and customer oriented culture is not significant. The interaction between Sales
participation in marketing decision-making and distribu-
tive injustice has a negative and significant effect on
organizational performance. Finally, the interaction be-
tween Sales participation in marketing decision-making
and functional specialization has a positive and signifi-
cant effect on organizational performance. Thus H2 and
H3 are supported, H1 is not.

Discussion and Managerial Implications

This study contributes to the marketing literature in
several respects. First, it enriches the contingency view of
marketing organization by suggesting that organizational
context plays and important role in influencing the effects
of participative marketing decision-making. Second, we
give emphasis to organizational factors, namely, distribu-
tive justice, and functional specialization, which have
been under-investigated in prior marketing research. Third,
consistent with recent research on Marketing-Sales inter-
face, we add new evidence to the role that the interactions
of these two departments have on organizational perfor-
ance. Fourth, our results confirm that marketing activi-
ties are cross-functionally dispersed and that this disper-
sion does not imply that the influence of the two units
within the firm is being reduced. Last, we advance past
research on Sales participation in marketing decision-
making, going beyond a focus on single decisions or on
generic participation to decision-making.

Our study also has several managerial implications. Our
study informs managers that any attempt to increase
Sales participation in marketing decision-making should
be pursued after an assessment of the organizational
context where it will take place. An additional implication
for managers regards the design and management of the
relationship between the two functions. Our findings
confirm that both Marketing and Sales actively participate
in marketing decision-making, with Marketing having a
predominant influence on new product development, ex-
pansions in new geographical markets, and advertising
campaigns, whereas Sales predominates in distribution,
tactical pricing and promotion decisions. Managers re-
sponsible for the organization of the marketing function
should carefully design integration mechanisms that al-
low the effective collaboration of the two units and the
establishment of a cooperative relational atmosphere.
References available upon request.

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SUMMARY

Introduction

Consumers have been found to experience uncertainty in decision-making in terms of information, availability and choice. A fuller understanding of consumer uncertainty is necessary for manufacturers and service providers to overcome this dysfunctional state of mind which deters consumers from engaging in mutually beneficial consumption experiences. Urbany et al. (1989) examine uncertainty and its relationship with information search and postulate a two-dimensional representation of consumer uncertainty. They concluded with a call for further research to explore an additional dimension of evaluation uncertainty as well as identifying antecedents to uncertainty. To the best of our knowledge, this call has yet to be answered.

Our paper makes four contributions to the literature. First, we take up Urbany et al.’s (1989) call to develop and operationalize a new dimension of evaluation uncertainty. Second, we introduce a new conceptual model enveloping the multidimensional uncertainty constructs within a consumer decision framework, taking into account antecedents and consequences. Third, we propose a set of antecedents (complexity, ambiguity, conflict, and credibility) of uncertainty. Although some of these factors have been separately examined in the literature, this paper brings together all four of these antecedents within a single framework underpinning consumer uncertainty. Fourth, Urbany et al. (1989) examined the effect of uncertainty on information search, we extend their work by simultaneously considering the impact of uncertainty on intention to purchase.

Model Overview and Hypotheses

Consumer decision making can be conceptualized as a sequential process comprising stages from information acquisition to high order mental processing through to judgment and choice. The consumer seeks and acquires information and processes the information by interpreting, evaluating, and synthesizing it with their existing knowledge. Based on this processing, an assessment or judgment is formed regarding the relative merits of alternatives and a consumption choice is made. McGuire (1972) posits that the results of the processing at each stage have a direct impact on subsequent stages. Hence, the quality of the early stage of information acquisition is crucial to allow effective evaluation and synthesis of the information pertinent to decision making. According to Jacoby et al. (1994, p. 292), “the amount, content, and sequence of information input are expected to impact on the formation, development, and change of such higher-order processes as beliefs, attitudes, evaluations, images, impressions, and intention.” Thus factors exerting a strong influence over consumer’s ability to acquire and process information are central to understanding the consumer’s mental state of uncertainty. Factors within the first stage of information acquisition which have been identified in previous research to have a direct impact on higher order mental states such as uncertainty are ambiguity, complexity, conflict, and credibility. Specifically, we propose

H1a: Ambiguity positively impacts knowledge uncertainty.

H1b: Ambiguity positively impacts choice uncertainty.

H1c: Ambiguity positively impacts evaluation uncertainty.

H2a: Complexity positively impacts knowledge uncertainty.

H2b: Complexity positively impacts choice uncertainty.

H2c: Complexity positively impacts evaluation uncertainty.

H3a: Conflict does not impact knowledge uncertainty.

H3b: Conflict positively impacts choice uncertainty.

H3c: Conflict positively impacts evaluation uncertainty.

H4a: Credibility negatively impacts knowledge uncertainty.

H4b: Credibility negatively impacts choice uncertainty.
H4c: Credibility negatively impacts evaluation uncertainty.

Faced with multiple options and incomplete information, consumers will either proceed with the decision-making process and make a purchase decision or search for information to reduce their uncertainty to a tolerable level (Mitchell et al. 2005; Mitchell and Papavassiliou 1997). Uncertainties regarding the outcomes of purchases are perceived as risks by the consumer and likely to result in the consumer conducting information search with a view to risk reduction (Srinivasan and Ratchford 1991), however, the level of information search prompted by uncertainty is likely to vary depending on the type of uncertainty perceived. In terms of purchase decisions, Greenleaf and Lehmann (1995) also proposed that consumers would delay decision making because of uncertainties and perceived risks.

We draw on Expected Utility Theory (Savage 1954; Schoemaker 1982) to develop our consequences-related research propositions. Broadly speaking, Expected Utility Theory suggests that consumers are motivated to maximize their expected utility. The theory predicts that consumers make either risk-averse or risk-neutral choices depending upon the magnitude of the stakes relative to their total wealth. When facing uncertainty, consumers tend to evaluate the consequences both of choosing one alternative and of foregoing the other (e.g., Shafir and Tversky 1992). Expected utility theory predicts that the consumer should maximize subjective expected utility by selecting the alternative with the highest value. In order to identify that option, uncertainty must be minimized. We argue that utility can be maximized and uncertainty minimized by either increasing or decreasing information search. If the consumer perceives a necessity to engage in further information search to cope with uncertainty, a postponement of the purchase decision is likely. We therefore expect a high level of uncertainty to lead to information search and low intention to purchase. Hence

H5a: Knowledge uncertainty positively impacts consumer search behavior.

H5b: Knowledge uncertainty negatively impacts the consumer’s purchase intention.

H6a: Knowledge uncertainty positively impacts consumer search behavior.

H6b: Knowledge uncertainty negatively impacts the consumer’s purchase intention.

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CLARITY AND CUSTOMER VALUE

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ABSTRACT

Humans are driven to seek certainty and to avoid ambiguity. These objectives are often difficult to achieve in the marketplace, where there are many sources of uncertainty, particularly in markets with complex goods and services like health care, banking, and financial services. Here, we suggest that, in those basic human values, there exists an opportunity for firms to create unique, difficult-to-copy customer value by reducing uncertainty in consumption experiences. We define uncertainty broadly, and define clarity as a commodity that a firm produces in helping consumers resolve uncertainty. We consider why clarity may be an important contributor to customer value, yet undervalued by firms, who may underestimate the returns from creating clarity and focus largely on the incremental costs. Data illustrating the potential importance of clarity in consumer evaluations are presented, and research directions discussed.

INTRODUCTION

Human beings are driven to seek certainty in judgment and decision-making (Einhorn and Hogarth 1985). In both consumer and organizational contexts, more ambiguous inputs are often outweighed in decision-making by cues that can be judged with greater certainty (Deighton 1984; Hoch and Ha 1986; Montgomery, Moore, and Urbany 2005). People tend to avoid ambiguity in decision-making (Cyert and March 1992; Adams, Day, and Dougherty 1998), instead seeking more certain and easily accessible information (Culnan 1983; Day and Wensley 1988; O’Reilly 1982).

The drive for certainty often leads to frustration for consumers in a marketplace that can be confusing and unfriendly, particularly in industries such as financial services, insurance, and healthcare. Rankin (2004) notes substantially rising consumer complaints about banking services and suggests that in considering investments, “. . . decision-making is confusing and stressful (and) customers are often later surprised by the penalties incurred . . .” (see also Scott 2004). Two-thirds of commercial insurance buyers seek “better information on prices and terms being transacted” in the insurance markets (Bradford 2005). The LA Times cites a Towers-Perrin survey in stating that 80 percent of respondents questioned about healthcare desire more information about prices (Kaiser Network Daily Reports 2005), while Markard and Holt (2003) report that consumers express a significant concern for additional information in energy provider decisions.

It is the clash of humans’ desire for certainty with marketplace practices that provides the starting point for this paper. Our objective is to consider the impact for firms of seeking to reduce uncertainty for consumers. We suggest that “clarity” is a commodity that a firm may produce that represents value for customers in the reduction of uncertainty. Although the marketing discipline (modeling the foundational discipline psychology) has invested a great deal of research emphasis into the study of how consumers behave in the face of uncertainty, there has been little research to explore the effects of reducing uncertainty. Here, we first consider various definitions of uncertainty around the stages of the consumption process. Further, we consider the underlying theory for why consumers may value uncertainty-reduction, followed by an empirical exploration of one firm’s efforts to reduce customer uncertainty on several dimensions.

DEFINING UNCERTAINTY AND CLARITY

While uncertainty is generally understood to reflect the difficulty of prediction or doubt about current or future circumstances, it has a more precise meaning in consumer and choice theory. As related to consumer experiences, uncertainty has many sources. Immediately below, we consider three general categories of uncertainty, followed by a discussion of how consumers may experience these types of uncertainty in different stages of the consumption process.

Variance

The concept of uncertainty in variance is fundamental to search theory (Stigler 1961; Moorthy, Ratchford, and Talukdar 1997; see also Izquierdo and Luis R. Izquierdo 2007). The greater the expected variance in alternatives that the consumer must search across, the greater the uncertainty the consumer experiences in search. The variance concept is common to information theory, information integration theory, and other theories of human judgments. The intuition behind uncertainty in this context is that the larger the array of outcomes, the more challenging it will be to find one in an acceptable set that fits personal preference.
Uncertain or Incomplete Knowledge

There is also uncertainty caused by incomplete knowledge of a phenomenon. This may relate to missing attribute information, or potential errors in estimating that information, uncertainty about what attributes to include and the consumer’s general confidence about what they know. In the search literature, the most relevant concept within this category is the consumer’s subjective or perceived knowledge (e.g., Brucks 1985).

Uncertain Preference

There is a distinctive type of uncertainty that centers around evaluation and choice, which Wang, Venkatesh, and Chatterjee (2007) label preference uncertainty, but which is also referred to as choice uncertainty (Urbany, Dickson, and Wilkie 1989). In making a choice, a decision-maker must integrate information (complete or not) and deal with some degree of ambiguity as to which choice option they prefer. Evidence suggests that the more similar the options are (cf., Häubl, Dellaert, and Usta 2007; Lanzetta 1963) and the greater the degree of attribute conflict (superiority on some attributes but inferiority on others; Fischer, Luce, and Jia 2000), the greater the preference uncertainty exists. Further, we can extend this to suggest that uncertainty about personal values that affect decision weights, as well as a lack of knowledge of appropriate decision heuristics to use, may also produce preference uncertainty.

Table 1, patterned after the stages in the consumption process articulated by LaSalle and Britton (2003), illustrates the different types of uncertainty that may be experienced in different stages of consumption. It additionally provides examples of what some firms have done to

<table>
<thead>
<tr>
<th>Stage of Consumption Process</th>
<th>Type of Uncertainty</th>
<th>What Firms May Do to Reduce Uncertainty</th>
</tr>
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</table>
| Search                      | • Variance: perceive a wide range in available options  
• Incomplete information     | • Progressive Insurance: Provides quotes on insurance policies from competitive firms. |
| Evaluation/Choice           | • Incomplete information about attributes/brands.  
• Values/weights  
• Decision heuristics (how to choose)  
• Perceived risk | • Exempla Healthcare: publishes quality metrics (Meyers 2005)  
• Expert systems help consumers evaluate alternatives (Haubl JCR) |
| Integration/Consumption      | • Incomplete information: process, instructions, how to use the product, ongoing billing and terms | • Apple – simplicity in product design for usage  
• Cigna consumer intranet shares healthcare info (e.g., drugs) and customizing capability (Woehr 2006)  
• Healthcare firms simplifying billing, providing online account management (Hammer 2006)  
• FedEx – online tracking system (Song 2003)  
• Kemp Little (law practice that has a website allowing a client to see stage of project and current billing)  
• Ketchum PR – web site to show all stages of project execution  
• We Energies – for every service call, phoning ahead to give an estimate of arrival time and phoning to follow-up and check on satisfaction |
| Extension                   | • Incomplete information | • Southwest Airlines’ simplified loyalty program Rapid Rewards. One point for each leg flown; 16 points (8 round trips) get a free flight. |
address uncertainty. Beginning at the top of the table, the search process has been extensively modeled in the information economics literature and, as noted, the concept of uncertainty is largely a function of perceived variance in the distribution over which the consumer searches (Kohn and Shavell 1974; Ratchford 1982; Weitzman 1979). Progressive Insurance has addressed these situations by providing rate information for both itself and competitors on its web site, clarifying both the price distribution range and particular firms’ positions on that distribution (cf., Moorthy et al. 1997).

In the evaluation/choice stage, uncertainty is a function of the completeness of information available about each option (cf., Ross and Creyer 1992), as well as the attribute weights used in the assessment. In addition, consumers may lack knowledge about how to choose even if they are reasonably confident about what they know (Urbany et al. 1989). Expert systems are being offered online in many product or service categories that seek to reduce the uncertainty experienced in this stage (Urban et al. 2000; Urban 2006).

The stage integration/consumption considers that consumer’s taking possession of the product or service and the time and process over which it is consumed. Several different types of uncertainty may be experienced over this stage, surrounding product use, ongoing billing, and service interactions with the firm. Apple and others provide examples of firms that seek to simplify and provide information for consumers regarding product use and service to enhance customer value.

Finally, extension refers to a firm’s efforts to build relationships with consumers. While there may be several dimensions, it is most commonly captured today in customer relationship management programs and loyalty programs, which are often complex and frustrating (Stauss, Schmidt, and Schoeler 2005). Southwest Airlines is an exception, having created the simplest loyalty program in the industry, with 16 individual routes or legs flown (regardless of miles) qualifying the flyer for a free flight.

**CONSUMER VALUE POTENTIALLY OBTAINED FROM CLARITY**

To this point, we have identified potential sources of uncertainty at several points in the consumer’s consumption experience. Yet, we have yet to explore why consumers may value clarity. Growing evidence and discussion are leading to the conclusion that the openness and clarity of information shared are key drivers of customer satisfaction and loyalty, particularly in web-based environments (Kim and Kim 2006; Urban et al. 2000). Below, we briefly explore the driving forces behind the potential value that consumers may place on clarity.

**Economic Value**

The denominator of the consumer’s implicit calculation in judging value-for-the-money is “give,” or the consumer’s sense of the value of what she/he pays (broadly defined) for the goods or services obtained. To the extent that the firm provides greater clarity or reduces uncertainty surrounding the terms and pricing of the product or service as needed, it may enhance the consumer’s sense of overall value received in the purchase. A more confident assessment of value might be obtained as well by creating greater certainty around the numerator (i.e., the “get,” or benefits received from the product or service).

**Cognitive Value**

Cognitive returns to clarity may best be captured in understanding and control, both core human values. Providing people the reasons behind requests or actions enhances understanding and appears to have a significant impact on their responses to those efforts to enhance clarity. Taylor and Bower (2005), for example, find that compliance with instructions in product usage significantly increased in both lab and field settings when the instructions added a simple phrase explaining the reasoning behind usage instructions for a pesticide product (i.e., “you should wear gloves” vs. “you should wear gloves to prevent skin irritation or staining”). Such an effect of understanding (or the absence thereof) may explain consumers’ tendency to discount a brand on attributes for which there is missing information (Ross and Creyer 1992), and may also be reflected in Kwong and Somani’s (2006) recent findings that spending of earned loyalty points is strongly associated with the cognitive ease with which points can be translated into cash. The importance of perceived control (cf., Langer 1975; Parker 1993), is reflected in the results of Hui and Zhou (1996), who conclude that the familiar finding of increased satisfaction when given information on waiting time in service encounters is better explained by the fact that it gave the consumer a greater sense of control during the waiting time (as opposed, for example, to improving accuracy of time perception). Finally, it is possible that significant effort in seeking to provide clarity may be seen by consumers as a signal of the firm’s quality, provided it reflects a distinctive effort relative to competitors (e.g., which is assumed to be a default inference in the case of advertising spending (Kirmani and Wright 1989; Kirmani 1990) and that the signal is bonded (Ippolito 1990; Kirmani and Rao 2000).

**Relational, Affective Value**

There may be another “layer” to the effects of clarity. To the extent that a firm has undertaken an effort to provide new insight or clarity uniquely to customers, it
will often reflect a response to having listened to customer needs. That is, greater openness in a relationship may likely lead to a customer’s sense that the firm has a deeper understanding of her/his perspective, and greater perceived care and compassion about customers. There may be two underlying dimensions to the value here, each moving beyond the more functional consequences above of economic value certainty, control, understanding, and perceived quality. First is the consumer’s sense that the firm is listening and responding uniquely to the consumer’s needs; a sense of empathy and appreciation that the firm cares. Second, though, is the firm’s willingness to be open to customers about issues and concerns, some of which may not always be flattering. There is a substantial literature in psychology regarding “self-disclosure,” suggesting that even among strangers in a laboratory setting, greater disclosure of personal information produces greater liking (Collins and Miller 1994). It is in part this relational dimension of value that Eggert and Helm (2002) argue explains the positive impact of relationship transparency on customers satisfaction and value in business markets that they observe. The following section explores whether this and other potential sources of value emerge in firms’ efforts to create clarity.

**EMPIRICAL OBSERVATIONS**

The basis for the empirical observations below is an electric and gas utility that has sought to explore in several ways how clarity affects the firm’s ongoing measures of customer satisfaction and value. We consider two dimensions of clarity examined by the firm and then briefly present a follow-up study that examined the potential underlying drivers of the effects observed.

**Billing Clarity**

A critical touchpoint for consumers in the utility industry is billing. Does clarity in billing contribute to consumer’s perceptions of a firm’s value? One position is that billing is simply a supplement to the core service provided, and clarity in billing is just one dimension of it. In this view, the predictive value of billing clarity should be dominated by other, more fundamental predictors of value.

Data from two quarterly satisfaction assessments from a demographically representative sample in the midwest for the same electric utility firm provides a basis for exploring whether clarity in billing influences consumer perceptions of value. The study involved a broad range of various dimensions of satisfaction (e.g., quality, service, image, billing, price, billing), and then an aggregate assessment asking for overall value for the money. As there is a common scale, there is a significant degree of multicollinearity among the predictors. A factor analysis of the forty-one items identified a first factor that appears to be scale-related, as all items loaded highly on it. The four remaining factors with eigenvalues above 1.0 were easily interpreted as reflecting: (1) service (7 items; e.g., knowledgeable, professional, easy to do business with, responsive, concern and caring, understanding your needs, being knowledgeable, communicating with customers; \( \alpha = .96 \)), (2) the quality of power delivery (6 items; e.g., reliability, safety of power delivery, no spikes, no interruptions, supply power when needed, respond promptly to outages; \( \alpha = .93 \)), (3) clarity of billing (3 items: easy to read, easy to understand, easy to determine exact amount owed; \( \alpha = .89 \)), and (4) price (3 items: reasonable rates, firm works to control costs, firm cares about keeping prices low; \( \alpha = .95 \)).

Scales were created by averaging the items in each predictor set, and then regressing them on overall value (i.e., satisfaction with whether what you get from the company is “worth what you pay for it”). The results in Table 2 demonstrate that, consistent with the concerns of consumers expressed over time, price dominates the explanation of value. Importantly, though, holding and other factors constant, billing clarity is a significant predictor of value, providing as much explanatory power as Service. While it may in fact be a surprise that a dimension as minor as billing clarity contributes significantly to customer perceived value relative to more fundamental drivers of quality, service, and price, this phenomenon is not lost in this and other industries. Particularly given a shift toward patients paying directly, a number of firms in the healthcare industry have begun to provide online access to accounts, to eliminate paper statements, to simplify billing statements, and to consolidate bills into single statements. One CEO notes that “hospital bills are the . . . greatest PR problem for the nation’s acute care facilities” (Hammer 2006, p. 121). In the qualitative study described below, we explore what are the deeper drivers that make billing clarity important to consumers. Prior to that, however, we consider another area in which the firm under study made strides in producing clarity for consumers.

**Calling Ahead on Service Calls**

Consumers were expressing significant dissatisfaction for this firm in what might best be described as a “hostile” pricing environment, as several rate increases had been pushed through over a period of five years. During this time, the utility undertook a pilot program to make follow-up calls to customers who had experienced outages. It was discovered in this program that consumers who received a call explaining an outage, later rated the company nearly half-a scale point (about 7 percent) higher on overall customer satisfaction. Remarkably, this effect improved satisfaction with the company’s pricing even more (increasing two different dimensions 13 to 16 percent). Intrigued, the company examined calling consumers ahead of service calls and following-up to assure
satisfaction after the fact for those receiving new service, and found a similar 15 to 18 percent increase in later satisfaction ratings.

It appears that these telephone calls had weight on satisfaction disproportionate to their size/effort. We would suggest that such calls serve to reduce customers’ uncertainty about service delivery both pre-service and post-service. Why might it have such a dramatic effect on overall satisfaction?

Qualitative Follow-Up Study

Subjects. A follow-up study was undertaken with 60 adult Executive MBAs course at a major Midwestern university, averaging 36.5 years of age and 15-year work experience. In the interest of focusing on the potential importance of the different dimensions of clarity, we present subjects with scenarios designed to reflect firms’ efforts to reduce consumer uncertainty in specific stages of the consumption process. The idea is to obtain a conservative estimate of the importance of clarity and, more significantly, why clarity might be important to consumers.

Method. In this exploratory study, we examined the impact of clarity – broadly defined – at different stages of the consumer’s consumption experience (Table 1). Table 3 presents four different contexts around which short scenarios were built, and sample sizes. Each subject was presented with and evaluated two of these scenarios. Scenarios were counterbalanced.

Measurement

Importance and Laddering. Each subject was asked to read through the scenario, to envision themselves in the position of the customer described in the scenario, and then to read the scenario a second time. After completing a second reading, subjects were asked the following question:

“Think about the scenario as if you were the consumer in it. If all else were equal, why might ___ (clarity dimension in the scenario) _________ be important to you in evaluating these two different brands?”

Laddering. The particular subject pool in this study had already been exposed to training on laddering, a research method designed to understand how customers relate attributes to deeper personal values (cf., Reynolds and Gutman 1988; Wansik 2002). The firm’s approach to enhancing clarity (e.g., the serviceman called ahead) is essentially the “attribute” under study. Laddering methodology then seeks to uncover deeper evaluation drivers by drilling down into the importance of that attribute. So the questions followed:

Why might “pre-arrival phone call” be important to you in evaluating these two different brands? (The answer will tend to be a functional consequence)

What do you get from the [functional consequence] you mentioned? Why is that important to you? (The answer will tend to be a psychosocial consequence)
TABLE 3
Qualitative Study Scenarios

<table>
<thead>
<tr>
<th>CONTEXT</th>
<th>SCENARIO</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Provide competitive prices (retailer) SEARCH</td>
<td>You have recently moved to a new town and need to purchase a lawnmower. Based upon Consumer Reports, you decide upon a particular lawnmower brand and model, and then identify two stores that carry this brand. The stores are both lawn and garden stores and are equally distant from your house. You first go to store J, where you find the lawnmower you want available and the service seems acceptable.</td>
<td>20</td>
</tr>
<tr>
<td>2. Explanation of higher pricing (insurance) EVALUATION/CHOICE</td>
<td>You have recently moved to a new town and are choosing between two insurance companies for automobile insurance. The two companies – Firm A and Firm B – are very similar on rates, coverage features, location, and rated service responsiveness. For your car, the rates from each firm seem higher than for other similar makes and higher than you expected. The two firms differed very little except that Firm A gave you a brochure that contained a detailed and very clear explanation of why its rates were higher for certain kinds of cars than others. The explanation seemed satisfactory to you.</td>
<td>29</td>
</tr>
<tr>
<td>3. Clear billing (mobile phone) INTEGRATION/CONSUMPTION</td>
<td>You have recently moved to a new town and need to set up new mobile phone service. In choosing between two mobile telephone services, you get brochures from each that indicate very little difference in service between the two. Rates are fairly similar, each has a web site and customer service operations available 24 hours a day. Within the materials you receive are sample bills. Firm X, has an exceptionally clear and even interesting billing statement, giving you clear access to usage and cost information, as well as tracking of monthly billing amounts over time. Firm Y’s billing statement was less clear, even confusing at points.</td>
<td>26</td>
</tr>
<tr>
<td>4. Service: call-ahead (plumber) INTEGRATION/CONSUMPTION</td>
<td>You have recently moved to a new town. In your new house, you discover a pipe leaking. Using just the yellow pages, you call Adams’ Plumbing, explain the emergency, and await the plumber’s arrival. About 90 minutes later, you get a call from the plumber Bob Adams plumber, saying that he will be there within 15 minutes. He arrives about 10 minutes later. Mr. Adams fixes the leaky pipe. The next day, he calls back to see if the problem has been fixed and to ask if you are satisfied.</td>
<td>24</td>
</tr>
</tbody>
</table>

Finally, why is the [psychosocial consequence] you mentioned important to you? (the answer will generally be a personal value).

**Final Importance Judgment.** Once subjects had completed the laddering phase of their survey response, they were given an opportunity to provide a formal rating to indicate the importance of the clarity dimension they were evaluating: “After thinking through the importance and the laddering exercise, how important do you believe (the clarity type LABEL . . . e.g., “a pre-arrival phone call”) is to you in your evaluation of these two firms? Subjects responded on a scale of one (very unimportant) to 10 (very important).

The objective of the qualitative study is to make the clarity issue salient and to determine whether or not clarity evokes particular meaning. The laddering technique en-
encourages respondents to identify consequences and values at successively higher levels of abstraction. At the same time, the process does not impose values where they do not exist. If there are no plausible deeper values, laddering methods will reveal this as subjects will struggle with answering questions.

The goal of the qualitative study is to obtain a general sense of whether consumers believe these dimensions are important in their assessments elicited by the scenarios and potential explanations as to why different dimensions of clarity might be important to consumers. As noted earlier, our potential explanations include both standard economic explanations (e.g., more certain financial returns, time savings), as well as deeper values that have less an economic interpretation, such as empathy, understanding, self-esteem/respect, control, and empathy. In addition, potential inferences about firm “intelligence” and quality due to clarity might fit in between economic and non-economic categorizations.

RESULTS

In presenting the pilot study results, we initially consider the first level of the ladders, i.e., subjects’ first response regarding why the clarity dimension was important. Once these functional consequences of each clarity type are identified, the higher order values laddering up from those functional consequences with a high frequency of mention can be focused upon. The results first indicate that subjects were able to enumerate a variety of functional consequences regarding transparency and that there were logical patterns in laddering up to higher order values. Scenario 1 produced three predominant functional consequences, mixing economic (e.g., saves me time), with more inferential (e.g., seller is honest, is aware of the market) responses. In the other pricing-related Scenarios 2 and 3, a sense of certainty about value and knowing what one is paying for predominated. Interestingly, the insurance pricing explanation Scenario 2 also prompted some respondents to discuss inferences about the sellers’ honesty and empathy for the customer. Scenario 4 (calling ahead on a service call) also produced a mixture of functional consequences, with the most frequent focusing on the relational issue of seller care and concern. Looking across the rows, the functional consequences mentioned most frequently were “knowing what I’m paying for” (i.e., economic), and “seller is truthful/honest” (i.e., inferential, relational).

Figure A presents the key features of clarity represented in each scenario as attributes at the lowest level. The nine functional consequences that emerged from the surveys (i.e., the pentagons at the second level) contain a mixture of types of consequences. The higher-order factors—represented in the hexagons and circles in Figure A—reflect consequences and values that emerged from asking subjects to elaborate on why the lower-order consequences they mentioned were important to them.

The most frequent functional consequences for each scenario are indicated in Figure A by the percentages near the bottom of the map. The figure illustrates that the two scenarios involving price explanations (#2 insurance) and clear billing (#3 mobile phone) produced clear economic interpretations, leading to judgments of financial value. In contrast, the phenomenon of a service person calling ahead (scenario #4), rather than evoking a strictly time management value, instead produced beliefs that ultimately reflected respect and appreciation. Similarly, the notion that a retailer would provide competitors’ prices evoked a sense of time savings, and value created via time left over for other valuable sources, including family.

Rated Importance of Clarity. Following each scenario, subjects were asked to rate the importance of clarity in future choice on a 10-point scale. We do find relatively high mean importance ratings of 8.54, 8.04, and 8.04 for the insurance, mobile phone, and plumber scenarios, respectively. Yet, there was some discrimination, as respondents found the retailer providing competitive prices to be less compelling and important (mean = 6.38). One might speculate that the lower importance of Scenario 1, providing competitive prices, is due to the unusual nature of this competitive behavior, although again this is precisely the practice that Progressive Insurance has implemented in the automobile insurance market.

CONCLUSIONS

This paper offers the observation that clarity—the firm’s efforts to reduce consumer uncertainty in various stages of the consumption experience—may contribute substantially to customer value. In today’s competitive environment, firms that build deep understanding of and relationships with customers may obtain competitive advantage because the resulting assets are “relatively rare and difficult for rivals to replicate” (Srivastava et al. 2001, p. 779). Firms appear to be increasingly discovering the impact of clarity on customer satisfaction and loyalty (see Table 1).

The area of clarity provides a rich ground for study. Deep exploration of the incremental impact of clarity on consumer decision-making, satisfaction, and loyalty over time is needed. Although our evidence provides initial insight, there is work to be done in exploring the extent to which clarity rises to the surface as a driver of customer satisfaction and loyalty across industries. There are a variety of interesting and important issues in consumer psychology that may emerge as well. For example, clarity implies that the firm “opens up” about issues which may have both positive and negative impact on consumer
NOTE: On Interpretation of percentages – 46% of the subjects who saw Scenario 2 (the insurance company providing an explanation of its higher prices) mentioned “knowing the value they’re getting” as the key reason why clarity was important to them.

Clarity in the relationship between firm and consumer may provide a rare, difficult-to-copy source of competitive advantage in today’s marketplace of commoditized products and services. Although firms may perceive this to be a costly area to explore for its potential in differentiation, it in fact may create opportunities for gains in distinctive competitive position for firms willing to invest in building assets and processes that deliver unique value to consumers. There are significant contributions that researchers in marketing can make to understanding these issues.

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THE INFLUENCE OF A TENTATIVE PREFERENCE ON INFORMATION SELECTION

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SUMMARY

During pre-decisional choice processes, consumers are either engaged in the evaluation of information, the seeking of new information, or a combination of the two. Upon evaluating early information, most consumers spontaneously form a tentative preference for one of the options (this preferred option is labeled as the leader). Though research has revealed a tendency for consumers to bias their evaluation of new information to favor a leading brand (Russo, Meloy, and Medvec 1998), we are aware of no systematic exploration of how the existence of a leader influences consumers’ search for new information.

Given that consumers bias evaluations to support their leading brand, a logical prediction is that consumers will search for information that they expect confirms their leader as the best option overall, i.e., the mere tentative preference for a leader during a pre-decisional choice process will compel consumers to seek information they expect will support this preference (i.e., preference-confirming search). In contrast, it is possible that consumers may opt to focus their attention on a focal option (Buehler and McFarland 2001). Presumably, in pre-decisional choice contexts, the leading option would be focal. If so, then consumers would seek information about their leader (i.e., leader-focused search).

In Studies 1–3, participants examine a sequence of attributes, each of which presents information for a pair of products on that attribute. After participants have viewed all the attributes, and indicated a leader choice after viewing the final attribute, participants are given a choice to read one of two blogs, each of which provides information about one of the two products. When information available is positive about both products, both tendencies (i.e., tendency for preference-confirming search and tendency for leader-focused search) will result in the selection of positive information about the leader. However, when information about the products is negative, preference-confirming search predicts that consumers will seek to examine negative information about the trailing option (to confirm their hypothesis that the leader is better), whereas leader-focused search predicts that consumers will seek to examine new information about the leader, even if such information is negative.

In Study 1 (Study 2) relates to a choice between two hotels (backpacks). In each study, participants were assigned to either a positive information condition or a negative information condition. In the positive (negative) information condition, each blog provided positive (negative) news about one of the products. Blog choice data revealed that participants chose to read the blog about their preferred product more often than the blog containing information about the trailing product, and the tendency to read the blog about the leader was unimpacted by whether the information in the blog was expected to be positive or negative. Thus, it seems that consumers exhibited leader-focused search, and not preference-confirming search, when seeking new information in the presence of a leading option.

In Study 2, we also examined blog choice in an additional condition, wherein the two blogs were expected to provide comparative statements indicating that one, or the other, product was better. Since both blogs provided information about both products, consumers could not exhibit leader-focused search in this condition. We found that participants were not more likely to select the blog that was expected to cast their leader in a positive light over the blog that was expected to cast their leader in a negative light, i.e., participants did not exhibit preference-confirming search.

In Study 3, we again gave participants the option of reading two blogs, each of which provided negative information about either the leading product or the trailing product. In this case however, a pre-test rated one of the blogs as providing less diagnostic information. We still found that participants preferred to read the blog that gave information about their leader, even if this meant reading a blog that was less diagnostic. Thus the tendency to exhibit leader-focused search can have material consequences for the quality of the information search.

In Study 4, we sought to determine whether preference-confirming search (in any fashion) would emerge using the approach employed in the studies above. We reasoned that preference-confirming search would be most likely to exist when individuals had strong preferences, and found that this was indeed the case. University students in the positive (negative) information choice selected between two online columns that presented posi-
tive (negative) news about either their own basketball team or a rival school’s team. Most students in the positive information condition opted to read about the leader, i.e., their own team, whereas significantly fewer students in the negative information condition opted to read about the leader. This behavior suggests that strong preferences result in preference-confirming information search.

Overall, what we found is that leader-focused search, and not preference-confirming search, drives consumers’ information search in pre-decisional contexts. This finding has important implications for marketers seeking to influence the consumer’s choice process. References are available upon request.

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TWO-STAGE LOTTERIES AND THE VALUE OF UNRESOLVED UNCERTAINTY IN MULTIPLE CONTACTS

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SUMMARY

Many repeated contacts between firms and consumers involve delayed realization of uncertainty. As a result, new decisions are often made before complete resolution of the uncertainty associated with past decisions. For example, a consumer may have to decide about the purchase of a product before the resolution of all the uncertainty associated with similar products bought in the past. The current paper examines the effect of the timing of uncertainty resolution. It focuses on simple examples in which the uncertainty can be resolved immediately and at a delayed stage. These examples can be abstracted as two-stage lotteries.

A particularly clear example of the situations studied here is provided by prize promotion campaigns. In these cases certain actions (buying a particular product) are rewarded with a lottery ticket, and the firm determines the timing of the resolution of this lottery. A second example would be frequency programs, where loyalty points are awarded at purchase time but rewards are realized later on. Two-stage prize schemes could also be applied to Internet promotions. One could view visits to a website as a first stage in a two-stage promotion scheme. In the first stage, the consumer chooses whether or not to visit the store or website. If he visits, he may find new promotions. Entry in each of these promotions gives a very low probability of winning a large prize.

The extant literature can be used to support three seemingly contradictory predictions concerning the behavioral effect of delayed uncertainty resolution. Under the “show-me-the-money” hypothesis, immediate resolution of uncertainty is preferred to delayed resolution. Under the “frequency and anticipation” hypothesis, delayed resolution is most effective. Finally, the “contingent weighting” hypothesis predicts that a two-stage realization of uncertainty is likely to be most effective.

We consider situations in which part of the outcomes associated with a particular action can be described by the two-stage lottery. The lottery yields a positive prize if two independent events occur, and it pays nothing otherwise. The first event (E1) is realized immediately, and the second event (E2) occurs at a later stage. The probabilities of the two events are p1 and p2; thus, the probability of winning the prize is p_w = (p_1) (p_2). The current analysis focuses on lotteries in repeated contacts with different values of p_1 and p_2 and a fixed p_w value.

The current work presents three Internet studies that evaluate the effect of the timing of uncertainty resolution. The results demonstrate that when the probability of a positive outcome is low, delayed resolution may be more effective than immediate resolution of uncertainty.

Study 1 gave participants a choice between two Internet stores selling CDs. One of the stores used a prize promotion with attractive but infrequent prizes. The results suggest that the effectiveness of the prize promotion is maximized by a two-stage resolution of the uncertainty.

Study 2, also in an Internet store choice environment, seeks to establish boundary conditions when prizes are frequent. It suggests that the effectiveness of the two-stage procedure decreases when prizes are small and frequent.

In Study 3, participants were asked to visit a website as often as possible and were given monetary prizes as incentive to do so. Unlike Studies 1 and 2, where the focus was on store choice, Study 3 focused on frequency of visits to the web site. The purpose of Study 3 was to examine whether the advantage of the two-stage promotion could be replicated in this different task. It showed that two-stage promotions could significantly increase the frequency of visits to a promoted web site.

The results of all three studies suggest that two factors contribute to the positive effect of delayed resolution of uncertainty: frequency and contingent weighting. Under this interpretation, the effectiveness of the two-stage procedure is maximized when it provides frequent but surprising (not too frequent) rewards. This interpretation explains the observation that in the context of lotteries consumers behave “as if” they prefer uncertainty and delayed realization of uncertainty.
COMPANY DESIGNERS VERSUS USERS THROUGH THE CUSTOMER LENS: WHO HOLDS MORE CREATIVE POTENTIAL?

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SUMMARY

Companies have begun to harness the creative potential among user communities by allowing individual users to submit ideas for new product designs (e.g., Adidas, BBC, BMW, Boeing, Ducati). The most promising among these user designs are then taken up by the firm, reworked where necessary, and finally marketed to the masses. Thus customers (i.e., users) switch from the role of a passive consumer to that of an active collaboration partner who co-creates value with the firm (Lusch, Vargo, and O’Brien 2007; Vargo and Lusch 2004). Co-creation refers to a “collaborative new product development (NPD) activity that actively engages customers in the design and development of a new product offering” (O’Hern and Rindfleisch 2007, p. 3). In its most extreme form, as for example applied by the US fashion start-up “Threadless” (Ogawa and Piller 2006), co-creation constitutes a radical departure from conventional wisdom and common practice in NPD, as companies begin to ask their users – instead of their company designers – to come up with (ideas for) new product designs.

Whereas scholars have long explored the “direct” effects of co-creation (the creativity or commercial attractiveness of user-generated products; von Hippel 2005), the potential “indirect” effects (how consumers perceive companies which foster co-creation) have received hardly any attention thus far. The few exceptions focus on conceptual and/or empirical analyses of those consumers who have actively participated in co-creation (Berthon et al. 2007; Nambisan and Baron 2007; O’Hern and Rindfleisch 2007; Pitt et al. 2006; Prahalad and Ramaswamy 2004). As Pitt et al. (2006) argue, however, this is only one important stakeholder group. Those customers who merely observe, but are not directly involved in co-creation – the “observers” – constitute a second important segment worth investigating because they account for the bulk of the market (whereas those who actively participate are a minority).

In this context, it appears plausible that companies which focus on co-creation are generally perceived to be “closer” to their customers (i.e., more customer-oriented) than conventional companies. To NPD managers, this “closeness” might be a welcome – albeit insufficient – means of positioning the company in the market. What if, on the other hand, consumers perceive this co-creation focused company as poorly positioned to come up with truly novel and useful products? After all, research has shown that being close to one’s customers might sometimes hinder innovation (Christensen 1997; for counterarguments, see von Hippel 2005). From a marketing perspective, it is a threat to the company’s long-term success if consumers attribute inferior creative abilities to its NPD processes. In this paper, we therefore aim to explore how the “observer” consumers perceive co-creation in its most extreme form (users generating ideas for new products) versus company-creation (company designers generating ideas for new products) in relation to a firm’s ability to derive creative new products. It is important to note that we focus our analysis on consumers’ perceptions of a firm’s creative ability – not on the “objective” innovativeness of a firm’s new products (as this has been shown elsewhere; cf., von Hippel 2005).

Most importantly, we propose that consumers will perceive firms which focus on co-creation as superior to traditional creation-focused firms in terms of creative abilities. We further hypothesize that this specific perceived corporate ability will be related to the consumers’ evaluations of the firm as well as its product offerings. In particular, we conjecture that a firm’s ability to generate creative new products shows a positive link to consumers’ brand attachment (i.e., consumers will be more attached to creative companies) and to perceived product creativity (i.e., the company’s products will be perceived as more creative). Finally, we hypothesize that brand attachment as well as perceived product creativity are positively related to behavioral intentions.

In the course of an experiment in the context of t-shirts (following the Threadless-example), we find that consumers perceive co-creation as superior to a company’s ability to develop creative new products. This is an important insight, as we find a positive connection between this corporate ability association and the consumer’s brand attachment and product attitudes, both of which have an impact on favorable behavioral intentions. We thus provide initial evidence that – through the lens of customer perception – companies which foster co-creation might gain a competitive advantage over traditional firms due to the significantly higher creative potential attributed to the former.
We believe that these findings will be very useful to researchers and managers interested in understanding the enduring consequences of co-creation on a firm’s strategic positioning in the market. At the same time, we note that our study is based on only one product category (t-shirts) and we encourage future research to address the generalizability of the findings reported in this study. References are available upon request.

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EXAMINING THE INFLUENCE OF SOCIAL CAPITAL ON CORPORATE REPUTATION

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SUMMARY

Embedded in an increasing expansion and density of economic and social interactions, recognizing the existence and improving the quality of a company’s network of relations has become a critical success factor. Strongly associated with the strategic relevance of corporate reputation as a critical resource in gaining competitive advantage and maximizing a company’s economic and non-economic (social) status, a better understanding and management of a company’s social capital and the identification of those internal and external actors and relationships with the highest potential for network-related value effects is vitally important. This paper aims at developing a conceptual framework which gives reason for adding the construct of social capital to the field of reputation management.

Conceptual Framework

Defined as a characteristic or attribute ascribed to a company by its stakeholders, corporate reputation is at least in part the product of the company’s network of relations. Closely related to the network construct is the concept of social capital referring to the value that lies within and may derive from a network of relations. Understood as the awareness or perception about corporate social behavior, corporate social capital will contribute to the development of corporate image, reputation and “social legitimation” of the company in the network members’ view. Figure 1 shows our proposed conceptual framework to investigate whether and to what extent corporate social capital with its key driver’s relational and reputational capital affects corporate reputation.

Relational capital addresses the network of relations that go further the company’s organizational frontiers with the agents that are part of its closer environment or industry. Referring to the shape and extent of network links, corporate relational capital can be defined as a component of corporate social capital with special focus on the value of the network of relations that a company maintains with its stakeholders, the different environmental agents. Apart from the relational dimension in terms of the presence or absence of network relations to a company’s stakeholders, the quality and content of the relationships are important to identify, manage and control. As prerequisite for the formation of effective and stable relationships, reputational capital refers to the emotional aspects of relationships (i.e., shared norms and values, interpersonal obligations and expectations, reciprocal obligation, mutual identification, commitment, understanding, honesty and trust) which organizations or groups of individuals have developed with each other through a history of social interactions. Deriving from membership in specific networks of mutual acquaintance and recognition, social capital in the form of reputation – reputational capital – can be described as generating trust between organizations and between organizations and individuals.

An important aspect of our model is a differentiated measure of corporate reputation referring to seven interrelated characteristics – Credibility, Reliability, Responsibility, Trustworthiness, Loyalty, Satisfaction, and Accountability – which can be regarded both, goal constructs of corporate social capital and fundamental components of corporate reputation.

First Empirical Hints

Focusing on the link between corporate relational, reputational, and social capital, this paper has examined the role of social context in determining a company’s reputation. We suggest that corporate social capital is rooted in the presence and quality of a certain set of network relations in which a company is embedded. The results of our empirical pre-study in the financial services sector indicated that corporate social capital and corporate reputation are perceived at and have to be analyzed in a network-level of analysis. We found empirical evidence to believe that association with trustworthy and prestigious “others” might be status-enhancing as well as reputation-enhancing, thus, attributing reputational capital effects to a single company or type of company embedded within a certain network of relationships might be problematic. With regard to the interplay between the relational and reputational capital dimension, a lot of positive and negative correlations exist. Following a social network perspective, companies of high status and reputation are attracted to other companies of high status and reputation. Social capital and reputation can derive from the membership in a wellknown status-enhancing network;
however, the access to such a network requires a certain degree of social capital and reputation. In addition, comparing different companies and different groups of stakeholders, more or less the same social capital drivers might lead to totally different perceptions of corporate reputation. References are available upon request.

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MISSION FULFILLMENT AND THE INTERNAL AUDIENCE: PSYCHOLOGICAL JOB OUTCOMES
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SUMMARY
A stream of research in organizational psychology finds that congruence in core values between an employee and an organization is a key element of “fit” that can impact the success of an employment relationship (cf., Kristof 1996). In addition to being an important selection criteria (Kristof-Brown 2000), person-organization fit has a demonstrated influence on important employee psychological outcomes and behaviors, such as satisfaction (Cable and Edwards 2004), organization commitment (Kalliath, Bluedorn, and Strube 1999), turn over intentions (Ostroff, Shin, and Kinicki 2005), and citizenship behaviors (Cable and DeRue 2002). Given its criticality, it is important to understand how marketing actions that relate to a firm’s core values impact this “internal audience” (Gilly and Wolfinbarger 1998; Walker and Ruekert 1987).

In this paper, we argue that value congruence – normally seen as having primarily positive consequences – operates as a moderator that can actually heighten negative employee outcomes. This proposition is examined in a key internal marketing context. We draw from esteem-based theories of identity to argue that value congruence plays an important moderating role in the relationship between internal marketing activities and employee psychological outcomes. Person-organization value congruence can intensify employee reactions (positive and negative).

In short, we argue that an organization’s core values are communicated to employees, potential employees, and other stakeholders through a variety of mechanisms, including formal mission statements and other public proclamations. These statements of core values serve as referents for employees’ assessments of person-organization value congruence. The degree to which the organization proceeds to act in a manner that is consistent with the core values articulated in these symbolic statements will, in turn, impact the desirability to an employee of supporting and being affiliated with the organization. We label this value-consistent behavior mission fulfillment, defined as an organization consistently acting (publicly and privately) in a manner that is congruent with, and leads to the fulfillment of, the corporate mission statement. We expect mission fulfillment to influence affective commitment (positive) and turnover intentions (negative), both directly and through mediating variables (organizational identification and emotional exhaustion). We suggest that value congruence will positively moderate the impact of perceived mission fulfillment on psychological outcomes. If an employee’s personal values align closely with the core organization values that are embodied in a mission statement, failures by the organization to live up to those values will have implications for employee self-definition (Bhattacharya, Rao, and Glynn 1995), more strongly damaging the degree to which the employee identifies with the firm and heightening emotional exhaustion as the employee wrestles with reconciling reality with the ideal (Foreman and Whetten 2002). In turn, commitment is reduced and turnover intentions are amplified.

Mission statements and person-organization fit are traditionally seen as falling within the domain of management scholars and have received little attention in marketing. However, mission statements are similar to external advertising messages (Gilly and Wolfinbarger 1998) in that they affect employees by serving both ideological (Alvesson 1998) and identity (Poole 1998) functions, and thus are key tools at management’s disposal for internal marketing (Ireland and Hitt 1992).

Research Sample and Results
The research setting is a large, non-profit, health-care system in a major Midwest U.S. city. Surveys were distributed at work to 12,000 service employees. The mission statement of the system has a value-related theme and was inserted in the first page of the survey package. We received 3,999 usable responses (effective response rate = 33.3%).

We utilized structural equations modeling. First, while mission fulfillment’s direct influence on affective commitment is statistically significant, its impact on turnover intentions is not. Next, mission fulfillment relates positively to organizational identification and, in turn, organization identification relates positively to affective commitment and negatively to turnover intentions. Mission fulfillment relates negatively to emotional exhaustion and, in turn, emotional exhaustion relates positively to
turnover intentions, but does not relate significantly to affective commitment, although the sign of the path is negative, as predicted. Emotional exhaustion also relates negatively to organizational identification.

Value congruence moderates (intensifies) the positive impact of mission fulfillment on organizational identification. In other words, mission fulfillment has a significantly stronger impact on organizational identification when value congruence is high than when it is low. Also as hypothesized, value congruence moderates (intensifies) the negative effect of mission fulfillment on emotional exhaustion; that is, mission fulfillment has a stronger negative impact on emotional exhaustion when value congruence is high than when it is low. Contrary to expectations, value congruence does not moderate the positive direct relationship between mission fulfillment and affective commitment and the negative direct relationship between mission fulfillment and turnover intentions.

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SUMMARY

For most companies in B2C environments, developing and maintaining strong brands is traditionally a key element of their marketing strategy. In comparison, companies targeting mainly business customers have typically put much less strategic emphasis on branding. It may well be that the lack of attention for branding in B2B environments is rooted in one important view of researchers and practitioners, where organizations are seen as rational, cognitive and problem-solving decision-makers. They apply objective and economic decision criteria when making purchasing decisions. From this perspective, which we call the “full rationality perspective on organizational buying,” it can well be assumed that in many cases brands are ineffective in B2B markets.

However, the rationality of organizational buyers has been increasingly questioned in recent years. More specifically, there is a large stream of research emphasizing the role of predominantly emotional phenomena such as trust and commitment in B2B buyer-seller relationships, the role of emotions in personal selling or the role of heuristics in organizational buying processes. Although these studies do not completely deny the rationality of organizational buying processes, they show that it is much more limited than suggested by the full rationality view of organizational buying outlined above. This perspective which we call “the limited rationality perspective on organizational buying” suggests that brand functions may apply to a much larger extent to B2B buying decisions than suggested by the full rationality perspective.

Thus, there is no unequivocal view on whether and when branding will be effective in B2B environments. Interestingly, empirical knowledge on branding effectiveness in B2B markets is scarce. While first empirical results suggest that B2B brands lead to increased customer loyalty and price premiums, these studies typically focus on single industries. Against this background, we develop a branding effectiveness framework, linking branding success (i.e., brand awareness and brand liking) to market-related outcomes (i.e., sales volume development and price level) and financial outcomes (i.e., a company’s return on sales). We then draw on information economics and theories from social psychology on group-level information processing to develop hypotheses regarding the impact of branding success on market-related outcomes. According to the two distinguishable perspectives on organizational buying behavior, we submit two competing sets of hypotheses to empirical exploration: a positive impact versus no impact of branding success on market-related outcomes.

Furthermore, previous research has not analyzed which factors moderate the relationship between branding success and market-related outcomes in business markets. However, facing the large investments usually associated with establishing a strong brand, it is important for marketing managers in B2B firms to know, whether branding will be an effective marketing instrument in their particular marketplace. Consequently, we hypothesize moderating effects of product characteristics (product complexity, technological stability, and product importance) and buyer characteristics (buying center size, buying center heterogeneity, and buyer experience), again based on information economics and theories from social psychology on group-level information processing.

We empirically tested our hypotheses based on a survey among marketing and sales managers from 310 B2B firms from a broad range of industries (machine building, electronics, chemicals, automotive, and others) using structural equation modeling. In a first step, we estimated a model (M1) containing the main effects. As control variables only SBU size, brand coverage, and brand share of revenues were included. In a second step, we estimated the same model (M2), but additionally the control variables technical product quality and service quality were included in the model. Results show that brand awareness has a positive effect on volume-related success and – partially confirmed – on the effective price level. Brand liking only has a positive effect on volume-related success and on the effective price level for M1 but not for M2. To test the moderating hypotheses, we included latent interactions between the moderator and the respective independent variables in model M2 with all control variables. Results show that product complexity, technological stability, buying center heterogeneity, and buying center size moderate the relationship between branding success and market-related outcomes.
While our findings show that there is a strong effect from B2B brand awareness on volume-related success and a weak link between B2B brand awareness and price premium, brand liking has no effect on market-related outcomes. Thus, our results suggest that the effects of B2B branding on market-related outcomes are much weaker than implied by the limited rationality perspective, mostly supporting the full rationality perspective on organizational buying. Our results also demonstrate the importance of including control variables in models analyzing the effects of brands in business markets. It appears there is a danger in B2B branding research that the effects of branding are confounded with the effect of product and service quality. Furthermore, this study is also relevant from a managerial perspective. With regard to branding, increasing brand awareness is the key instrument to increasing sales and achieving higher prices in business markets. When developing a branding strategy, firms should tailor their marketing activities to increase brand awareness. By contrast, a positive attitude toward the brand does not lead to beneficial outcomes. Thus, other than in B2C markets, investing marketing resources in the creation of associations with the brands that are only loosely connected to the actual products, are most likely not very beneficial.

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AVOIDANCE, FALSIFICATION, AND PRAGMATIC CAUTION: THE IMPACT OF TECHNOLOGY COMFORT ON CONSUMERS’ ONLINE PRIVACY COPING STRATEGIES

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Kartik Pashupati, Southern Methodist University, Dallas

SUMMARY

Marketers have to maintain a delicate balance between the need to collect data, and the need to respect consumers’ privacy concerns. On one hand, Internet and Web based technologies have enabled marketers to customize their product and service offerings, and build one-to-one relationships through the use of databases. On the other hand, growing consumer concerns about privacy invasion can place severe limits on the amount of data that marketers can collect.

In order to formulate strategies that can overcome consumers’ privacy concerns, marketers must first understand the nature and determinants of strategies used by consumers to protect their privacy. Some of these strategies have been identified by previous researchers, including falsification of information, use of multiple e-mail addresses, avoidance of the Internet, use of a credit card exclusively designated for online transactions, and reliance on privacy ratings and seals provided by third-party sources such as TRUSTe and Verisign. While the use of different coping strategies has been investigated in previous research, less is known about why and when consumers choose a particular coping strategy. This leads to the question of whether consumers’ coping strategies can be predicted by consumers’ individual characteristics.

This paper has two main goals. First, it investigates the coping strategies used by consumers in the face of threats to their privacy. Second, it tries to determine if there is a relationship between consumers’ individual characteristics (specifically, their level of comfort with technology) and their likelihood of adopting different types of coping behaviors to protect their privacy.

Data were collected from an online survey of 2,545 adult consumers who had made at least one purchase on the Internet during the six months prior to the survey. We propose that consumers engage in three main privacy coping strategies, (1) internet avoidance; (2) falsification of information online; and (3) pragmatic caution. The type of strategy adopted by individuals is determined by individual characteristics such as perceived online transaction risk, attitude toward technology, apprehension about technology usage, and comfort with technology. The following three hypotheses and one research question were tested:

H1: Avoidance and denial coping strategies will be:
H1a: Used by consumers who have a higher level of perceived online transaction risk.
H1b: Used by consumers who have greater apprehension about using technology.
H1c: Less used by consumers with a positive attitude to technology.
H1d: Less used by consumers with higher levels of SPTC.

H2: Falsification coping strategies will be:
H2a: Used by consumers who have a higher level of perceived online transaction risk.
H2b: Used by consumers who have greater apprehension about using technology.
H2c: Less used by consumers with a positive attitude to technology.
H2d: Less used by consumers with higher levels of SPTC.

H3: Pragmatic caution coping strategies will be:
H3a: Used by consumers who have a lower level of perceived online transaction risk.
H3b: Used by consumers who have a lesser apprehension about using technology.
H3c: More used by consumers with a positive attitude to technology.
H3d: More used by consumers with higher levels of SPTC.

RQ1: What is the impact of age, sex, and income on the privacy coping strategies adopted by consumers?
Hierarchical regression analysis was used to test the relationships between individual characteristics and coping strategies. The key results are summarized in Table 1. The data suggest that individuals who are more comfortable with technology are more likely to use pragmatic caution in coping with threats to online privacy, whereas individuals who are less comfortable with technology are more likely to use avoidance and falsification strategies. References are available upon request.

TABLE 1
Summary of Hypotheses and Results

<table>
<thead>
<tr>
<th>Predictor Variables</th>
<th>Avoidance</th>
<th>Falsification</th>
<th>Pragmatic Caution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Online Transaction Risk (OTR)</td>
<td>H₁a supported</td>
<td>H₂a supported</td>
<td>H₃a not supported (significant relationship in the opposite direction)</td>
</tr>
<tr>
<td>Technology apprehension</td>
<td>H₁b not significant</td>
<td>H₂b supported</td>
<td>H₃b supported</td>
</tr>
<tr>
<td>Attitude toward technology</td>
<td>H₁c not supported (significant relationship in the opposite direction)</td>
<td>H₂c not supported (significant relationship in opposite direction)</td>
<td>H₃c supported</td>
</tr>
<tr>
<td>Self-perceived technological competence (SPTC)</td>
<td>H₁d not supported (significant relationship in the opposite direction)</td>
<td>H₂d not supported (significant relationship in the opposite direction)</td>
<td>H₃d supported</td>
</tr>
<tr>
<td>Demographic Variables (RQ1)</td>
<td>No effect</td>
<td>Sex has small impact (males more likely to falsify)</td>
<td>Age has small but statistically significant impact</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Age has significant impact (younger consumers more likely to falsify)</td>
</tr>
</tbody>
</table>

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ABSTRACT

In the context of a highly diagnostic product, the authors found that creating inflated (versus realistic) expectations about search attributes result in higher customer satisfaction. Moreover, inflated expectations about search attributes result in higher satisfaction than inflated or realistic expectations about experiential attributes.

INTRODUCTION

Does creating higher expectations about a product lead to higher customer satisfaction? One of the most essential goals of all companies is to satisfy their customers (Fornell 1992; Morgan, Anderson, and Mittal 2005; Oliver 1997). As a result, customer satisfaction has become one of the most widely surveyed customer issues within the past decade (Woodruff and Gardial 2001) and satisfaction research is often a firm’s largest annual expenditure on market intelligence (Morgan et al. 2005).

Customer satisfaction can be defined as “a representation of the customer’s reaction to the value received” from a product offering (Woodruff and Gardial 2001, p. 86) and arises from an appreciation of the expectancy-disconfirmation model (Olson and Dover 1979). According to this model, satisfaction feelings are the result of the perceived disconfirmation, which is the discrepancy that results from comparing the product’s performance to the expectations. Thus, high customer satisfaction or even delight is created by exceeding customer expectations (e.g., Kotler 2000, p. 36). On the other hand, dissatisfaction and deflection are the result of failure to meet or exceed these expectations, which can have negative consequences on consumer welfare. The prediction of satisfaction using the expectancy-disconfirmation model is intuitively appealing: the higher the expectations, the bigger the disappointment. But what if the perception of the product performance during trial is susceptible to the magnetic force of expectations? In fact, several studies indicate that prior expectations can shape the satisfaction with product performance (Kopalle and Lehmann 2006; Ofir and Simonson 2007; Oliver 1997; Wong 2005).

In this paper, we explore the effects of different levels of expectations (realistic versus inflated) created by advertising claims about either search or experiential attributes on customers’ post-trial satisfaction. Search attribute information (e.g., information about price, ingredients, calorie content) can be gained from secondhand sources such as advertising and word-of-mouth (versus product experience), without having to buy or try the product. Information about experiential attributes (e.g., taste, speed, softness) is effectively provided by product trial (Wright and Lynch 1995) and can be only verified by (limited) use of product.

We extend previous research on consumers’ expectations and satisfaction, as well as on advertising and product trial, in several ways. First, we focus on highly diagnostic products (i.e., products for which trial offers tangible, credible evidence of the product and its attributes) and argue that advertising can impact consumers’ post-trial satisfaction with highly diagnostic products. Whereas past research has indicated that advertising usually has an impact on subsequent trial responses for low diagnosticity products, for which trial is ambiguous, we conjecture that consumers’ post-trial satisfaction can be affected by advertising for highly diagnostic products as well. This will depend on the type of pre-trial advertising claims to which consumers are exposed (see also Micu and Coulter 2007). Second, whereas past studies provided customers with information about search and experiential attributes combined, we disentangle the effect of these two attribute types. Examining the effect of attribute types separately may be important, since previous research indicated that advertising is more effective than product trial in communicating information about search (versus experiential attributes).

Our findings indicate that advertising claims about search attributes that generate inflated (versus realistic) expectations lead to consumers being more satisfied with the product experience. The effect is not observed for advertising claims about experiential attributes. Further, inflated expectations about search attributes lead to higher satisfaction than experiential attribute information. Our findings have implications for managers (i.e., when they can overstate product information to make customers more satisfied), as well as public policy makers (i.e., when to, and when not to, regulate).

BACKGROUND LITERATURE

Consumer Expectations

Expectation has been defined in many ways. Olson and Dover (1979) defined expectations as pre-trial beliefs
about the product. Beliefs represent the subjective probability of association between the product and its attributes; i.e., the extent to which consumers “expect” the product to have specific attributes. According to the expectation-disconfirmation framework (Olson and Dover 1979), expectations are used by consumers to be compared with the actual product performance, which results in confirmation/disconfirmation (either positive or negative), which in turn determines satisfaction levels.

For expectations to dominate a satisfaction decision, the processing of expectations must be more salient to the customer than is the processing of performance or of comparing expectations to performance (Oliver 1977). For example, when consumers lack the ability to confirm (or disconfirm) the claims that an advertisement makes about certain product attributes during a trial experience (like the power of a cleaning product to kill germs), they may rely on the high expectations raised by the ad to form post-trial evaluations of the product (see Hoch and Ha 1986; Oliver 1997). This is likely to happen if products have ambiguous performance dimensions, such as “healthy” foods (Oliver 1997) or, similarly, when the information conveyed through advertising cannot be physically tested (e.g., search attribute information). When facing an ambiguous experience, consumers may have difficulty recognizing the discrepancy, if any, therefore they tend to assimilate the ambiguous stimuli in the contextual stimuli (Hoch and Ha 1986; Schwarz and Bless 1992).

On the other hand, the disconfirmation (resulting from comparing product’s performance to the expectations) dominates the expectations’ effect when performance clearly and unambiguously refutes expectations (e.g., for unambiguous product experiences, when products are rich in experiential attributes). Individuals who recognize discrepancies from expectations, and are willing to accept them regardless of the potential damage to one’s ego, should demonstrate disconfirmation influences (Oliver 1997).

Advertising and Product Trial

Several studies in the advertising-trial domain have also indicated that the assimilation bias of expectations is contingent on the noticeability of the discrepancy (Hoch and Ha 1986; Kempf and Smith 1998; Smith 1993). Specifically, the studies show that pre-trial advertising has little or no effect on consumer evaluations of highly diagnostic products (i.e., products for which trial offers tangible, credible evidence of the product and its attributes), because trial is perceived as more useful in contrast to pre-trial advertising in evaluating the product’s attributes (Deighton and Schindler 1988; Hoch and Ha 1986; Kempf and Smith 1998). However, pre-trial advertising can influence the subsequent trial of low diagnosticity products (i.e., products for which trial is not very helpful in judging the quality of the product because of the ambiguous nature of the experiential attribute information).

For example, Hoch and Ha (1986) found that post-trial self-assessment of polo shirts’ quality (considered to be a low diagnostic product because the assessment of quality during trial is open to multiple interpretations) assimilated the information from the pre-trial ad. Further, Shapiro and Spence (2002) found that the market information (i.e., Consumer Reports ratings) about the sound quality of a stereo provided during trial was assimilated into participants’ post-trial sound quality ratings when no evaluative criteria have been given. However, when participants were provided with evaluative criteria (i.e., they were told to pay attention to the sound quality, how “full-bodied” the sound is, and the range of instruments that can be heard), their post-trial sound quality ratings were not influenced by the market information. The authors argue that this occurred because the presence of the evaluative criteria clarified the nature of an otherwise ambiguous attribute (i.e., sound).

As mentioned previously, to the degree to which performance unambiguously refutes expectations, consumers’ prior expectations should lose their dominance and assimilation will not occur (Hoch and Ha 1986; Kempf and Smith 1998; Shapiro and Spence 2002; Smith 1993). This is more likely to happen for highly diagnostic products for which trial provides useful information about the product that helps consumers decide the product quality. In fact, for several highly diagnostic products, such as a grammar checker (Kempf and Smith 1998) and paper towel (Hoch and Ha 1986), no assimilation effect was found because consumers were able to verify the truth of the claims during trial.

HYPOTHESIS DEVELOPMENT

Experiential Attribute Information

When consumers are exposed to advertising and then to product trial, they tend to place more weight on the trial information than on advertising claims when evaluating the product (Kempf and Smith 1998; Shapiro and Spence 2002; Smith and Swinnyard 1988). Shapiro and Spence (2002) found that participants placed a relatively large amount of weight on the sensory attribute (i.e., sound) (approximately 70%) versus market information (i.e., Consumer Reports ratings) when making their stereo-preference decision. These results indicate that consumers weight too much the product experiential attributes during trial, thus lowering the positive effect that the ad might have on the post-trial evaluations.
For high-diagnosticity products, the focus of our research, experiential attributes provide valuable information that help consumers determine the product quality during trial. Thus, having additional information about the same attributes from a less credible source, such as advertising, cannot significantly advance consumers’ evaluations. In fact, previous studies not finding an assimilation effect of the ad-based attitudes on post-trial evaluations of highly diagnostic products (i.e., subjects in the trial and advertising-trial condition had similar responses) put perhaps too much emphasis on the experiential attributes in the ad, thereby lowering the effect that an ad could have had on a subsequent trial experience (see Hoch and Ha 1986; Kempf and Smith 1998).

If an advertisement emphasizes information about experiential attributes, according to the literature on satisfaction and disconfirmation, positive prior expectations will lose their dominance to the degree to which performance clearly and unambiguously can refute expectations. Moreover, the expectancy-disconfirmation model (Olson and Dover 1979) indicates that inflated expectations lead to less satisfaction. In the context of a highly diagnostic product, inflated expectations about experiential attributes are able to be easily disconfirmed during trial, thus leading to lower satisfaction. In conclusion, in the context of experiential attribute information, we expect consumers exposed to claims that create inflated versus realistic expectations to report lower post-trial satisfaction.

H1: In the context of experiential attribute information, inflated expectations lead to lower satisfaction than realistic expectations.

Search Attribute Information

The literature on consumer satisfaction indicates that prior expectations can dominate satisfaction decisions (e.g., higher expectations raised by the ad can lead to higher satisfaction, regardless of trial information) when products have ambiguous performance dimensions (Oliver 1997) or, similarly, when the information conveyed through advertising cannot be physically tested (e.g., search attribute information). Indeed, several studies in the advertising-trial literature (see Hoch and Ha 1986; Kempf and Smith 1998) indicate that for low diagnostic products, advertising has the power of influencing the subsequent product trial. In those studies, the advertisements emphasized the non-experiential (credence and search) rather than experiential attribute information. And because consumers lack the ability to disconfirm the claims that an advertisement makes about search attributes during trial experience, the expectations raised by the pre-trial ad were incorporated in the product’s post-trial evaluations.

In conclusion, for search attribute information, we expect higher expectations to lead to higher post-trial satisfaction.

H2: In the context of search attribute information, inflated expectations lead to higher satisfaction than realistic expectations.

Consumers are less skeptical of search than experiential attribute claims made by an advertisement (Ford, Smith, and Swasy 1990). Wright and Lynch (1995) found that advertising is more effective than product trial in communicating information about search attributes. In fact, Micu and Coulter (2007) show that, in the context of a highly diagnostic product, search attribute information generates more positive post-trial evaluations than experiential attribute information. Thus, we posit:

H3: Inflated expectations about search attributes create higher post-trial satisfaction than:

H3a: Inflated expectations about experiential attributes
H3b: Realistic expectations about experiential attributes.

METHOD

Stimulus Pretest and Classification of Attributes

Identification of a Highly Diagnostic Product.

Twenty-four undergraduates were asked to list several products relevant and familiar to them. In a second pretest, fifty-four undergraduate students were asked to rate the products’ diagnosticity by responding to two 7-point items (“Overall, if you were able to try the product, how confident would you be in your ability to judge the quality and performance of this product?”” and “Overall, if you were able to try the product, how easy do you think would be for you to judge the quality of the product?”) (Hoch and Ha 1986; Kempf and Smith 1998). The two items were combined to obtain a product diagnosticity scale. Pens and ice cream scored highest in diagnosticity and no different than each other (M = 6.05 vs. M = 5.83, p = .21). Ice cream was chosen for the experiment because of suitability to be tested in a group, laboratory setting.

Attribute Identification and Evaluation. We examined ads for ice cream, and informally solicited students’ opinions about the important attributes when buying ice cream. Using this information, we developed a list of attributes that we included in the pretest. Fifty-seven participants responded to “If you were going to buy ice cream, how important would the following attributes be for you?” on a 7-point scale (1 = “Not at all important,” 7 = “Very important”) (Darley and Smith 1993).
Six attributes scored above the midpoint ($M = 4.00$) of the importance scale: taste, how flavorful it is, creaminess, price, calorie content, and variety of flavors. Two independent judges trained in the definition of search and experiential attributes identified price, calorie content, and variety of flavors as search attributes and taste, how flavorful it is, and creaminess as experiential attributes. The agreement level between the judges was 100 percent.

**Expectation Level of Print Advertisements.** Four print advertisements, two containing search attribute information (one creating a realistic level of expectations and one an inflated level of expectations) and two containing experiential attribute information (with realistic versus inflated expectations), were developed. To assure that the expectation level manipulation is successful, expectations were first measured as expectancy values, which are the consumers’ belief strength about the six attributes multiplied by their belief confidence and summed across attributes (Marks and Kamins 1988). The second measure was an attribute-level expectation measure (Oliver 1997) and asked participants to indicate if they expect the ice cream to have each of the six attributes (1 = “Strongly disagree,” 7 = “Strongly agree”). One expectation score was calculated by averaging the expectations of the six attributes.

As expected, participants in the search-inflated expectations condition, compared to participants in the search-realistic expectations condition expressed both higher expectancy values ($M = 161.8$ vs. $M = 124.5$, $p < .001$) and higher expectation ($M = 6.53$ vs. 4.52, $p < .05$). Participants in the experiential-inflated expectations condition, compared to participants in the experiential-realistic expectations condition expressed both higher expectancy values ($M = 122.1$ vs. $M = 88.7$, $p < .05$) and higher expectancy ($M = 4.86$ vs. $M = 4.20$, $p < .001$).

**Development of Ad Stimuli**

The four print advertisements used in the pretest were used in the main experiment. The ads were designed to resemble magazine advertisements in both content and layout. A picture of the ice cream in a glass was covering most of the print ad space. The four advertisements were identical, except for the different attribute information listed below the picture.

**Experimental Procedures**

**Participants.** One hundred twelve-undergraduate students (31 participants in search-inflated expectations condition, 25 participants in the search-realistic expectations condition, 31 in the in experiential-inflated expectations condition, and 25 in the experiential-realistic expectations condition) participated in the main study for extra credit. During data collection, the maximum number of participants in a session was seven and participants were spaced apart from one another to control for potential reactance bias.

**Procedures.** Our procedures closely follow those of Smith and Swinyard (1983). Participants in each of the four conditions received an ad booklet upon entering the experimental session. The booklet contained only the target advertisement (Deighton 1984; Kempf and Smith 1998; Marks and Kamins 1988). After examining the ad, participants were instructed to complete an online questionnaire. After completing the questions about the advertisement, they were asked to stop and wait for further instructions from the researcher. Next, participants were given a sample of the ice cream to test and asked to complete the remaining of the questionnaire.

**Measurement: Manipulation Checks**

**Product Diagnosticity.** Same as in the pre-test, product diagnosticity was measured after trial using a 7-point scale of trial usefulness in judging product quality and ease-of-judging product quality (Hoch and Ha 1986). The two items were combined to give a diagnosticity score ($r = .55$, $p < .001$). The diagnosticity score was significantly above the scale midpoint ($M = 5.83$ vs. $M = 4.00$, $t(110) = 20.71$, $p < .001$).

**Experiential/Search Attributes.** To test the experientiality of product attributes, participants were asked to indicate whether each attribute they saw in the advertisement could be judged directly by product trial (7-point scale; 1 = “Trial did not enable me to judge this attribute,” 7 = “Trial fully enabled me to judge this attribute”). An ANOVA with attribute type (search versus experiential) as the independent variable and experientiality of attributes as the dependent variable shows an attribute type effect ($F(1, 101) = 494.98$, $p < .001$), which indicates that participants mentioned that trial enabled them to judge the experiential attributes ($M = 6.49$) more than the search attributes ($M = 1.90$).

**Expectation Level.** To measure whether the claims used in the advertisements are creating the realistic versus inflated expectations, two measures were used, same as in the pretest. For search attribute claims, the inflated-expectation condition, compared to the realistic-expectation condition, generated more positive expectancy values ($M = 138.5$ vs. $M = 112.8$, $p < .05$) and higher expectancy ($M = 5.74$ vs. 5.03, $p < .05$). Participants in the experiential-inflated expectations condition, compared to participants in the experiential-realistic expectations condition, expressed both higher expectancy values ($M = 117.7$ vs. $M = 89.6$, $p < .01$) and higher expectancy ($M = 6.08$ vs. $M = 5.12$, $p < .001$). Further, there was no difference between the search attribute-inflated expectations condition ($M = 6.08$) and the experiential attribute-inflated
expectations condition ($M = 5.74, t(60) = 1.19, p < .001$). Thus, the expectation level manipulation was successful.

**Measurement: Confound Checks**

Ad Likeability. Ad likeability was measured with two 7-point semantic-differential scales: “Unappealing/Appealing” and “Ineffective/Effective” (Kempf and Smith 1998). Advertisements communicating different claims should not be different from each other. An ad likeability score was obtained by averaging of the two items ($r = .80, p < .001$). An 2 (attribute type: search vs. experiential) X 2 (expectation level: realistic vs. inflated) ANOVA indicates no significant effect of attribute type [$F(1, 99) = 1.12, p = .29$] or expectation level [$F(1, 99) = 1.67, p = .20$] on ad likeability.

**Attribute Importance.** If search and experiential attributes differ in their importance, any comparison in their effectiveness will be confounded. Participants used a 7-point scale (1 = “Not at all important,” 7 = “Very important”) to answer the following question: “If you were going to buy ice cream, how important would the following features be to you?” (see Darley and Smith 1993). Two attribute importance indices were constructed by averaging the importance ratings for the three search and three experiential attributes. A 2 (attribute type: search vs. experiential) X 2 (expectation level: realistic vs. inflated) MANOVA with search attribute importance and experiential attribute importance as dependent variables indicates a significant attribute type effect [$Wilks’ Lambda = .93, F(2, 98) = 3.65, p < .05$]. Follow-up $t$-tests indicate that the experiential attributes were perceived as being more important than the search attributes [$M = 6.23$ vs. $M = 5.25, t(110) = 8.19, p < .001$], thus attribute importance calculated across the six attributes is used as a covariate in the analyses.

**Measurement: Dependent Variables**

Post-Trial Satisfaction. The post-trial satisfaction was assessed by asking subjects “Considering everything, how satisfied are you with this ice cream?” measured on a 7-point semantic-differential scale with 1 = “Very dissatisfied” to 7 = “Very satisfied.”

**RESULTS**

To test H1 and H2, a 2 (attribute type: search vs. experiential) X 2 (expectation level: realistic vs. inflated) ANCOVA, with attribute importance as a covariate, was conducted. The dependent variable is participants’ post-trial satisfaction with the ice cream. ANCOVA results indicate a significant effect of expectation level [$F(1, 98) = 9.59, p < .01$], a non-significant attribute type effect [$F(1, 98) = 1.01, p = .31$] and a non-significant interaction [$F(1, 98) = .29, p = .59$]. The effect of the attribute importance as a covariate was not significant [$F(4, 253) = .22, p = .64$]. To test the specific hypotheses, we performed post-hoc comparisons, which indicate no difference between the inflated ($M = 5.74$) and the realistic expectation conditions ($M = 5.16, t(54) = 1.65, p = .11$) for experiential attribute information. Thus, H1 is not supported. Further, participants in the search-inflated expectations condition reported more satisfaction with the ice cream ($M = 6.10$) than the participants in the search-realistic expectations condition ($M = 5.28, t(53) = 3.19, p < .01$). Thus, H2 is supported (see Figure A–1).

H3a and H3b stated that the participants in the search attribute-inflated expectations condition will report higher satisfaction than the participants in the experiential attribute (inflated or realistic expectations) condition. Planned comparisons indicate that creating higher expectations for search attributes ($M = 6.10$) indeed leads to higher satisfaction than creating realistic expectations for experiential attributes ($M = 5.16, t(53) = 2.66, p < .05$) (H3b), but only marginally higher satisfaction than creating inflated expectations about experiential attributes ($M = 5.74, t(59) = 1.77, p = .08$) (H3a).

**DISCUSSION AND MANAGERIAL IMPLICATIONS**

This research integrates and extends past findings in the expectations and satisfaction literature and advertising and product trial area in numerous ways. First, we focus on a highly diagnostic product, for which research has generally found no effect of pre-trial advertising on post-trial evaluations. Second, we distinguish between attribute type claims and suggest differential impacts of these claims on consumers’ post-trial satisfaction, depending on the claims’ generated level of expectation. This section summarizes the hypotheses and the findings, introducing explanations for the results that were not supported. We conclude with implications for managers, consumer welfare, and public policy officials, and direction for future research.

H1 predicted that generating inflated expectations about experiential attributes will result in consumers reporting lower satisfaction than creating realistic expectations about the same attributes. The results show no significant difference between the two conditions. In other words, creating inflated expectations about experiential attributes did not hurt the product. The results are similar to Marks and Kamins’ (1988) findings that indicate that slightly exaggerated (versus realistic) claims about both search and experiential attributes combined did not result in negative evaluations of the product. This may be due to the ambiguous nature of product experience, in general. As Hoch (2002) argues, “most of the experience carries with it a certain level of ambiguity” (p. 448), which means that the inflated expectations about...
experiential attributes cannot be fully disconfirmed during trial. More research is needed to find the mechanisms that lead to consumers being able or willing to assimilate the higher expectations into the performance evaluation and satisfaction.

As predicted in H2, in the context of highly diagnostic products, generating higher expectations about search attribute information results in customers feeling more satisfied with the product experience. Thus exaggeration of search attribute information in an advertisement preceding product trial may have beneficial effects on consumer welfare, making consumers more satisfied with the product. The results extend past research findings that indicate that higher expectations lead to higher satisfaction if the performance of the product is ambiguous (Oliver 1997) by showing that the effect holds true also for attribute information that is more effectively conveyed by advertising (i.e., search attribute information) (Wright and Lynch 1995).

H3a and H3b predicted that inflated expectations about search attributes result in higher satisfaction than experiential attribute information generating either inflated or realistic expectations. We found marginal support for the former and support for the latter hypothesis. The results indicate that, in the context of highly diagnostic products, managers will be able to generate a higher satisfaction level among consumers if they convey search (as opposed to experiential) attribute information that creates inflated expectations.

Thus, how can firms maximize satisfaction? The answer that results from our research indicates that management must instill high expectations about search as opposed to experiential attributes. But how high should the expectation level be? Management must decide the appropriate level of (high) expectations when communicating information about search attributes, keeping in mind that too high expectations may lead to negative disconfirmation, which results in dissatisfaction (Marks and Kamins 1988). Thus, the management of expectations is a key component of the marketing strategy.

The results have implications for public policy officials as well (when to, and when not to, regulate). The
officials have to arbitrate in the matter of exaggerated claims that produce inflated expectations, but they encourage advertising that is beneficial to customers (see comparative advertising). The results of this study help the public policy officials know under what conditions creating inflated expectations may be beneficial to consumers. For example, stretching information about health and nutritional benefits of certain foods within reasonable boundaries may make consumers more satisfied with the product experience.

Finally, several limitations need to be mentioned. First, the study was considering an attribute-based decision making. Consumers make affective- or attitude-based decision in some situations. Future research may examine how the product expectations in those types of decisions affect post-trial customer satisfaction, as well as investigate how inflated expectations about credence attributes (e.g., healthiness and freshness of food) can affect satisfaction levels.

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HOW DO INDIVIDUAL-LEVEL AND COUNTRY CHARACTERISTICS AFFECT THE INTENTION TO QUIT SMOKING?

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ABSTRACT

Whether antismoking advertising should be used for prevention largely depends on its effectiveness. However, the scarce conclusive evidence of a direct link between antismoking advertising and smoking cessation intentions has not resolved this issue. The authors develop and test a model of individual-level drivers that affect smokers’ inclination to think more responsibly about smoking and country characteristics that affect intentions to quit. They test hypotheses on data collected from more than 25,000 consumers from all 25 countries of the European Union. The results suggest that individual-level drivers influence smokers’ inclination to think responsibly and that country context engenders intentions to quit smoking.

INTRODUCTION

Social marketers try to solve social problems by changing long held, deep-seated beliefs and associated behaviors that have a detrimental effect on consumers’ well-being (Kotler and Andreasen 1996). In the United States and Europe, which host approximately 50 million and 215 million smokers, respectively, smoking represents a major social and health issue with adverse effects on consumers’ well-being (Anonymous 2007; Helliker 2007). The largest single cause of preventable death, smoking accounts for some 440,000 deaths in the United States and more than 500,000 deaths in the European Union (EU) per year (Anderson 2007; ASPECT 2004; Helliker 2007).

In response to this major cause of preventable disease and death, the EU has instituted various tobacco control directives (e.g., European Council 2001, 2003) and launched a multimillion dollar HELP antismoking advertising campaign across the 25 EU member states (European Commission 2005). The HELP campaign aims to highlight the harmful effects of both active and passive smoking and encourages smokers to think more responsibly about their habit, including the harm it can do to nonsmokers, to prompt them to consider quitting. Its principle method is a series of television advertisements that employ identical visual content with equivalent voiceover messages in the native language for each member state.

Social marketing literature contains much discussion about the use of antismoking advertisements and their effectiveness, but little evidence suggests promoting antismoking goals can succeed in getting smokers to quit (Lewit et al. 1997; Wolburg 2004). The international reach of the HELP and other antismoking campaigns make it pertinent to examine how the campaign’s effectiveness (in terms of instigating smoking cessation) may vary depending on smokers’ and country characteristics. Such an examination could improve our understanding of the factors that drive smoking cessation and also contribute to the hitherto scarce cross-cultural social marketing literature. Extant literature on drivers of smoking cessation tends to focus on individual-level drivers, such as smokers’ comprehension of and attitude toward antismoking messages (e.g., Andrews et al. 2004; Hassan et al. 2007), but, with a few exceptions (e.g., Reardon et al. 2006), largely neglects the role of culture in antismoking advertising and smoking cessation. Reardon et al. (2006, p. 116) even bemoan the “paucity of international and cross-cultural studies” in the literature on antismoking advertising.

This study makes a threefold contribution. First, we develop a conceptual model that considers mediating and direct effects and assumes that individual-level behavioral change depends on the conscious processing of a message in terms of comprehension and elaboration; it also examines the relationship between individual-level independent variables (age, message comprehension, and attitude toward the campaign) and outcome variables (elaboration and intention to quit smoking), positing that thinking more responsibly about the behavior plays a central mediating role. Second, we use insights from elaboration likelihood theory to examine how individual-level characteristics affect thinking. We also draw on institutional theory to explore the direct effect of the cultural/institutional context in which smokers live on their intention to quit smoking. To the best of our knowledge, ours is the first study to model the impact of the institutional context on smokers’ intentions to quit. Third, we test the hypotheses using data from 25 different EU countries collected immediately after the airing of the standardized EU HELP television campaign.
CONCEPTUAL MODEL AND HYPOTHESES

Our model includes three individual-level characteristics as drivers of responsible thinking: smokers’ age, message comprehension, and attitude toward the anti-smoking advertisement. In line with Hassan et al. (2007), we posit that responsible thinking is a key component of the advertising persuasion model that fully mediates the effects of age, comprehension, and attitude on intention to quit smoking. The conceptual model shown in Figure 1 delineates the drivers of responsible thinking and intention to quit smoking. Next, we discuss the rationale for each relationship and formulate hypotheses.

Direct and Indirect Effects of Individual-Level Drivers

**Age.** Social marketing literature considers age an important variable in its own right (Pechmann and Reibling 2006), and in the context of smoking, adolescents represent a particularly vulnerable group. For example, Lewit et al.’s (1997) study examines, among other aspects, the effect of exposure to pro-smoking and antismoking messages on teens’ smoking behavior. They report that frequency of exposure to both pro-smoking and antismoking messages correlates positively with increased smoking. This latter positive link between antismoking advertising and smoking seems somewhat counterintuitive but may point to a larger problem, namely, the ineffectiveness of antismoking advertisements among younger target audiences. Moreover, it challenges Romer and Jamieson’s (2001) argument that antismoking advertising operates in a similar and opposite manner to that of tobacco advertising.

Drawing on social learning theory, we expect younger smokers to be more prone to pro-smoking advertisements. Social learning theory suggests that people learn through the process of observing and imitating role models (Bandura 1977). Flynn et al. (1994) report that teens exposed to antismoking advertisements featuring non-smoking role models are less likely to smoke later in life, though recent research suggests that smoking teens tend to underestimate the chances that they will continue smoking, and nonsmoking teens underestimate the chance that they will start to smoke (Schoenbaum 2005). Furthermore, adolescents may be more receptive to the promotional practices of the tobacco industry and more prone to peer and social influences (Gilpin, Pierce, and Rosbrook 1997; Pechmann and Knight 2002), which may make it more difficult to convince them, compared with adults, of the harms of smoking through antismoking advertising. We therefore posit that younger smokers elaborate less on the merits of the antismoking HELP advertisements, which leads to our first hypothesis:
H1: Smokers’ age relates positively to their degree of responsible thinking.

**Comprehension** is well accepted as an essential first step in the persuasion process (Romaniuk et al. 2004; Wells 1964), and without it, a major opportunity to influence consumers is lost. In this study, we conceptualize comprehension as a unidimensional construct that we use to assess the amount of correctly attributed meanings derived from the advertised message. Hassan et al. (2007) emphasize the central role comprehension plays in the advertising persuasion process in an antismoking promotional context and demonstrate a direct causal link between comprehension and elaboration of the advertised message.

**Attitude.** Antismoking advertising is arguably the social marketing communications tool most frequently used to influence or change consumers’ attitude toward smoking. Therefore, we consider the central paradigm in the marketing literature regarding the impact of consumers’ attitude toward the ad on their attitude toward and intention to buy the advertised products (e.g., MacKenzie, Lutz, and Belch 1986). Furthermore, attitude has been found to be stable over time and to have a strong impact on engagement with the persuasive appeal in terms of thinking about the message and associated issues (Priester et al. 2004).

Two components underlie attitude: cognition (perceived utility) and affect (feelings). Cognitive models assume rational information processing by the receiver, whereas affect models assume that attitudes develop through emotional responses (Dabholkar 1996). In the context of social marketing, cognition gains importance because of the serious nature of the message and the intractability of the beliefs and behaviors being addressed (Borland 1997). Assessing utility is therefore vital, and attitude evaluations should seek to establish how understandable and worthwhile the campaign is.

**Responsible Thinking.** The intractability of the behaviors involved in social marketing means that a high level of elaboration — or continued engagement with persuasive and credible messages that address underlying beliefs — also is crucial. Petty and Cacioppo’s (1986) elaboration likelihood model characterizes elaboration as thinking about the message and its meanings, as well as assessing the merits of the information and the arguments presented. According to the model, a high level of elaboration would result in changes in consumer beliefs about the behavior’s attributes and benefits, which then results in greater motivation for behavioral change. In our case, we conceptualize elaboration as responsible thinking, that is, an inclination by smokers to think responsibly about their smoking.

The marketing literature primarily discusses responsible behavior in relation to organizations and in the context of ethical behavior (e.g., Lichtenstein, Drumwright, and Braig 2004; Sen and Bhattacharya 2001). Hassan et al. (2007) shift the focus from firms to consumers and argue that consumers who are highly involved with the message are more likely to engage in responsible thinking. According to Schlenker et al. (1994), responsibility makes people accountable for their actions, whether to themselves or to an audience, and depends on three conditions: a person’s social or personal standards with clear implications for a particular action, identification with these standards (identity relevance), and control over the action. The HELP campaign addresses these same issues and clearly states the consequences of tobacco use for both smokers and nonsmokers, as well as the actions necessary to mitigate these effects.

Drawing on these discussions, we make several deductions about the interrelationships of comprehension, attitude, and responsible thinking. First, comprehension is a necessary prerequisite and hence an antecedent to message elaboration (i.e., responsible thinking). Second, attitude toward the ad should facilitate or hinder mental engagement with the message and therefore also serve as an antecedent to responsible thinking. In turn, we propose the following hypotheses regarding the links between individual-level drivers and responsible thinking:

H2: Smokers’ message comprehension positively affects their responsible thinking.

H3: Smokers’ favorable attitude toward the ad positively affects their responsible thinking.

**Intention.** Finally, motivation or intention to initiate behavioral change represents a central aim of any social marketing campaign. Assessments of the motivation to alter behavior, such as quitting smoking, as a consequence of viewing the advertisement are essential for an overall understanding of the persuasion process. Without significant motivation, the consequential change in behavior either does not take place or is short lived. In line with Hassan et al. (2007), we consider responsible thinking a key component of the advertising persuasion model that has a direct effect on motivation to quit smoking. Therefore,

H4: Smokers’ responsible thinking positively affects their intentions to quit smoking.

According to Greenwald and Leavitt (1984), comprehension of a message results in memory traces at the propositional level. However, they further assert that without elaboration, receivers do not form an association between the message’s propositional content and their
existing knowledge. Elaboration thus refers to the process of relating new information in the message with existing propositional knowledge. Consistent with previous research, we argue that message comprehension in itself is not a sufficient condition to prompt behavioral change intentions. In a social marketing context, message comprehension without subsequent elaboration probably will not lead to message acceptance, without which any behavioral intention in accordance with the campaign’s goals remains weak (e.g., Areni 2002; McGuire 1985). In addition, distinct elements in a message may attract attention to the advertisement but detrimentally affect message comprehension by directing attention to the distinct elements and away from the message claims (Sternthal and Craig 1973). Therefore, we predict no significant direct relationship between comprehension and intention.

Similarly, we do not expect attitude toward the campaign to have a significant direct influence on intention to quit smoking. Depending on the attitude object and situational and consumer characteristics, the association between attitude and behavioral intention may be weak (Ajzen and Fishbein 1977). For example, a consumer may have a positive attitude toward healthy food choices and a healthy lifestyle but not intend to buy healthy food options because they are more expensive than “regular” food and the consumer cannot afford them. However, some research (Murry, Lastovicka, and Singh 1992) indicates that attitude toward the advertisement can predict behavioral intent, and Greenwald and Banaji (1995) argue that implicit cognition explains the lack of correspondence between consumers’ expressed attitudes and their behavior. The concept of implicit cognition posits that past experiences affect attitudes, even if people do not remember the influential experience. In our context, implicit cognition may suggest that some smokers remember the advertisements and form attitudes toward the campaign but cannot recall why they have formed positive or negative attitudes in the first place, which means the campaign will have a weak or negligible influence on their behavioral intentions. On balance, we predict no significant direct relationship between attitude and intention. Hence,

\[ H_3: \text{Smokers’ level of message comprehension does not affect their intention to quit smoking.} \]

\[ H_4: \text{Smokers’ attitude toward the ad does not affect their intention to quit smoking.} \]

Furthermore, we do not hypothesize a main effect of age on intentions to quit smoking, because it is not obvious why smoking cessation intention might be systematically influenced by smokers’ age.

**Direct Effects of Country-Level Drivers**

Cultural characteristics likely directly influence smokers’ intention to quit smoking. Treating cultural characteristics as drivers of consumers behavior aligns with previous research (e.g., Aaker and Maheswaran 1997; Money et al. 1998), which notes that people of a country tend to behave in accordance with that country’s cultural norms (Usunier 2000). In this section, we therefore draw on institutional theory to explore how national contextual characteristics may affect smokers’ intentions to quit smoking.

Smokers are constituents of larger institutional systems within their respective nations. Their views, attitudes, and behaviors not only stem from their own evaluative structure but also account for and reflect the conflicts and compatibilities imposed through their respective institutional systems. According to Giddens (1984, p. 24), institutions are “the most enduring features of social life . . . giving ‘solidity’ across time and space.” The fundamental issues, values, and fabric of a society manifest themselves through institutional priorities, which in turn govern citizenship behaviors. A stable and orderly society requires shared institutional priorities among constituents, reinforced by instituted social and economic reward contingencies. Thus, in some countries, smoking as an individual behavior with wider social costs probably is considered less conducive to maintaining institutional priorities than in others.

Scott (2001) sets forth three distinct pillars of institutions: regulative, normative/moral, and cognitive-cultural. That is, an institution is enforced by law (regulative), supported by societal norms (normative/moral), and culturally anchored in terms of common beliefs, values, and behaviors (cognitive-cultural). These pillars regulate society’s interactions and thus likely affect smoking-related behavior. Some key characteristics of the three pillars of institutions appear in Table 1; we choose one key component to represent each of them, namely, government effectiveness (regulative), good citizenship (normative/moral), and national-cultural individualism (cognitive-cultural).

The regulative institutional pillar represents the rules and laws of the institutional environment. Regulative institutions directly relate to rule setting, monitoring, and sanctioning activities in a society, such as laws stating which behaviors are condoned (Scott 2001). Power, authority, and coercion also play important roles in the enactment of regulative institutions. Because these institutions reflect rules and regulations, failing to obey them results in legal sanctions (e.g., not complying with a smoking ban in bars), and a country’s government effectiveness is central to its ability to issue sanctions and maintain the regulative system.

In turn, government effectiveness refers to the quality of public services, civil services, and policy formulation and implementation, as well as the degree to which services are independent from political pressures and the...
credibility of the government’s commitment to policies (Kaufmann et al. 2005). Higher levels of government effectiveness engender wider public policy and welfare activities. Because organized states offer health provisions, smokers in countries characterized by higher levels of government effectiveness may be less fearful of the consequences of smoking, and hence less inclined to quit, because they expect the government to take care of the sick. Furthermore, many smokers tend to think the government has no business telling them whether or not to smoke, particularly among citizens of the EU, who tend to view “interference” from the central “federal” EU Commission with skepticism. Because higher levels of government effectiveness likely provide more comprehensive antismoking measures, smokers may perceive that their freedom is being threatened and determine that they will resist, which makes them less likely to quit smoking as a consequence of government policies.

H7: Government effectiveness relates negatively to smokers’ intentions to quit smoking.

The normative/moral institutional pillar refers to values, beliefs, norms, and assumptions that exist in the institutional environment and thus captures prescriptive, evaluative, and obligatory dimensions in social life and provides structures of acceptable behavior (Scott 2001). Normative institutions encompass heuristics, rules of thumb, operating procedures, occupational standards, and educational curricula (Hoffman 1999). In addition, they are based on social interactions and obligations and comprise values and norms (Scott 2001; Wicks 2001). Their ability to influence smokers’ behavior stems from conformity goals, social obligations, social necessity, and shared understandings of what is proper among a cultural group. In many Western countries, the popularity of and society’s condoning of smoking has declined during the past two decades (Moore 2005; Rozin and Singh 1999), which suggests smokers have greater difficulty obtaining social legitimacy. In this context, Rozin and Singh (1999) find that over time, moral opinions and attitudes can change, a process they refer to as “moralization.” Previous research in marketing also notes the important role of one particular construct in explaining organizational behavior, namely good citizenship (e.g., Donavan et al. 2004; Piercy et al. 2006). We shift the focus to country-level citizenship behavior of individuals.

Citizenship in modern society draws from ideas such as political participation, social justice, humanitarianism, community involvement, voluntarism, and shared responsibilities (Box 1998; Fredrickson 1997). In countries in which people value good citizenship, we expect smokers to be more motivated to abide by societal norms for the greater good of society. Hence,

H8: Good citizenship relates positively to smokers’ intentions to quit smoking.

### Table 1

<table>
<thead>
<tr>
<th>Three Pillars of Institutions</th>
<th>Regulative</th>
<th>Normative/Moral</th>
<th>Cognitive-Cultural</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis of compliance</strong></td>
<td>Expedience</td>
<td>Social obligation</td>
<td>Taken-for-grantedness, shared understanding</td>
</tr>
<tr>
<td><strong>Basis of order</strong></td>
<td>Regulative rules</td>
<td>Binding expectations</td>
<td>Constitutive schema</td>
</tr>
<tr>
<td><strong>Mechanisms</strong></td>
<td>Coercive</td>
<td>Normative</td>
<td>Mimetic</td>
</tr>
<tr>
<td><strong>Logic</strong></td>
<td>Instrumentality</td>
<td>Appropriateness</td>
<td>Orthodoxy</td>
</tr>
<tr>
<td><strong>Indicators</strong></td>
<td>Rules, laws, sanctions</td>
<td>Certification, accreditation</td>
<td>Prevalence, isomorphism</td>
</tr>
<tr>
<td><strong>Basis of legitimacy</strong></td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
<td>Culturally supported, conceptually correct</td>
</tr>
<tr>
<td><strong>Primary scientific domain</strong></td>
<td>Economics</td>
<td>Sociology, Psychology</td>
<td>Anthropology, Sociology</td>
</tr>
</tbody>
</table>

Source: Adapted from Scott (2001)
Finally, the cognitive-cultural institutional pillar refers to widely shared social knowledge and cognitive categories, such as stereotypes and schemata that represent the models of “individual behavior based on subjectively constructed rules and meanings that dictate appropriate thought, feeling and action” (Wicks 2001, p. 665). Cognitive-cultural institutions represent “symbols—words, signs, and gestures—as well as cultural rules and frameworks that guide understanding of the nature of reality and the frames through which that meaning is developed” (Hoffman 1999, p. 353), which get reproduced through mimetic processes (i.e., mimicking successful practices, implementing others). Compliance with cognitive components of the institutional environment occurs because of taken-for-granted traits or routines (Scott 2001), and a key component of the cognitive-cultural pillar involves national-cultural individualism (Allik and Realo 2004).

The construct of individualism/collectivism, generally identified with Hofstede (1980), plays a prominent role in cross-cultural research (Gudykunst and Ting-Toomey 1988; Kagitcibasi 1997; Maheswaran and Shavitt 2000). This national culture dimension distinguishes between individualistic and collectivistic societies, such that people within individualistic societies tend to appreciate independence and prefer a loosely knit social framework, whereas those in collectivistic societies tend to be emotionally integrated within a tightly knit social framework (Hofstede 1980; Triandis 1995). From an antismoking perspective, people from individualistic societies often are more concerned with their own personal needs, goals, and interests than are people from collectivistic societies (Triandis 1995).

Smokers in individualistic societies therefore have greater concerns for themselves and their health, which may make them more prone to quit. In this context, Marin et al. (1990) examine cultural differences in attitudes toward smoking and smoking cessation and find that in terms of attitudes, smokers from more collectivistic cultural groups (i.e., Hispanics) are more concerned about family-related consequences and effects on others (e.g., bad smell) than are smokers from more individualistic cultural groups (i.e., non-Hispanic whites). Furthermore, drawing on Hofstede (2001), we might surmise that cultural differences with regard to internal locus of control relate to smokers’ quitting decisions, because they determine whether smokers believe events in their lives (e.g., poor health) are consequences of their own behavior. Specifically, an internal health locus of control might relate to better health and healthier behaviors in countries that score higher on individualism, compared with countries high in collectivism (Piko 2004). Therefore,

\[ H_1: \text{National-cultural individualism relates positively to smokers’ intentions to quit smoking.} \]

METHOD

Data Collection and Sample

Data was collected after two waves of the HELP campaign had been aired on national and pan-European channels across the 25 EU member states in October 2005. In 23 of the member states, telephone interviews were conducted, but in Lithuania and Portugal, personal interviews provided the responses. The target sample size in each country was 1,000, giving a final total sample size of 25,113. In response to the 10-minute survey, 6,139 respondents indicated they were smokers, and of these, 2,010 were aware of the campaign (5,189 respondents who classified themselves as nonsmokers or former smokers also were aware of it). Of these 2,010 smokers, 56 percent were men, and the average age of the respondents was 37.8 years (SD = 14.62). The country sample sizes ranged from 30 (Sweden) to 117 (U.K.), which exceed the 15 responses per country recommended in the literature (Steenkamp and Geyskens 2006) for cross-cultural studies of this type.

To explore the role of institutional theory, we also use secondary data sources. Our primary data come from the EU Commission (the executive body of the EU), and our study involves a reanalysis of these data.

IPSOS France, the research agency employed to conduct the interviews, developed the survey. Prior to its implementation, the survey instrument was sent to IPSOS’s partners in each EU nation for translation, and the European Network on Smoking Prevention in each country verified this translation to ensure the relevancy and consistency of the meanings of the phrases in the questionnaire across the 20 EU national languages. A pilot test of the survey was undertaken in France by IPSOS with respondents screened to ensure that they were aware of at least one of the three campaign advertisements. A brief description of each advertisement was read to each respondent, and in response, they indicated if they had seen it. If respondents remembered at least one advertisement, they completed the remaining survey questions. Appendix 1 provides a list of the survey items used within the model. The questionnaire also included measures of gender, age, and smoking status.

Measures

Independent Variables. Individual-level drivers. Age was measured with a single item that simply asks the respondent to report his or her age. In line with published research (e.g., Jacoby and Hoyer 1987; Thorson and Snyder 1984), we assess comprehension during post-exposure interviews that question respondents about their identification of the intended meanings. Message com-
preliminary analyses of country-level effects. To better understand the role of cultural values in smoking behavior, we exclude these three countries from our analysis. Because we lack scores for Cyprus, which are available for most countries except Cyprus, Latvia, and Lithuania, we consider these values missing. Finally, we assess individualism/collectivism using scores provided by Hofstede (2001), which are available for most counties except Cyprus, Latvia, and Lithuania. Because we lack scores for Cyprus, Latvia, and Lithuania for both good citizenship and individualism, we exclude these three countries from our analyses of country-level effects.

**Independent Variables: Cultural (Institutional-Level) Characteristics.** To gather country-level data, we rely on three sources. We capture government effectiveness according to information from the World Bank, provided by Kaufmann, Kraay, and Zoido-Lobaton (1999). Six items from the European Social Survey (ESS 2003) use an 11-point scale spanning “extremely unimportant” to “extremely important” to indicate the good citizenship ratings; we average the six items to create country scores. However, for countries with no available score (i.e., Cyprus, Estonia, Latvia, Lithuania, and Malta), we consider these values missing. Finally, we assess individualism/collectivism using scores provided by Hofstede (2001), which are available for most countries except Cyprus, Latvia, and Lithuania. Because we lack scores for Cyprus, Latvia, and Lithuania for both good citizenship and individualism, we exclude these three countries from our analyses of country-level effects.

**Dependent Variables.** To measure responsible thinking, we use four items that capture the extent to which the campaign has led consumers to think responsibly about their smoking (Hassan et al. 2007). The second dependent variable, intention to quit smoking in response to the campaign, relies on one item. The items for both dependent variables employ a four-point “yes, definitely” to “no, not at all” response scale, and we average the four responsible thinking items to form an aggregate measure.

**Measurement Validation and Analysis Procedure.** To test for convergent and discriminant validity, we conducted a confirmatory factor analysis of the individual-level constructs (excluding age). The fit of the model is good, according to the usual conventions (Hu and Bentler 1999), though the chi-square statistic is highly significant, as we expected: \( \chi^2 (184) = 1051.05, p < .001; \) comparative fit index (CFI) = .92; Tucker-Lewis index (TLI) = .90; and root mean square error of approximation (RMSEA) = .05. All indicators load significantly \( (p < .001) \) and substantively on their respective constructs with all standardized factor loadings exceeding .40. These positive results provide evidence of the convergent validity of the measures. In addition, Cronbach alpha values (and composite reliability) are acceptable with .74 (.60) for message comprehension, .81 (.80) for attitude toward the campaign, and .74 (.67) for responsible thinking. We use Anderson and Gerbing’s (1988) procedure to test for discriminant validity, examine a series of nested models of the individual-level constructs, and compare a constrained (correlation between each pair of constructs equals 1) with a free model. In all cases, we obtain significant results; therefore, the constructs of comprehension, attitude, responsible thinking, and intention exhibit discriminant validity.

We employ a path model to test the hypothesized relationships and estimate the model using maximum likelihood with AMOS 6.0. Gender appears in the model as a control variable.

**Results.** In Table 2, we list the correlations among the model indicators, and in Table 3, we present the results of the hypothesized model. All nine hypothesized paths are significant. Gender does not add to the explanation of responsible thinking, and message comprehension is fully mediated by responsible thinking, whereas attitude is partially mediated. The model fits the data very well, with all indices greater than their recommended levels \( (\chi^2 (37) = 102.31, p < .01, CFI = .96, TLI = .91, RMSEA = .05) \).

We find that age affects responsible thinking, such that older respondents are more likely to engage in thinking responsibly about their smoking as a result of the campaign, as we propose in hypothesis 1. The findings further suggest that, in agreement with hypotheses 2 and 3, comprehension of the campaign message and attitude toward the campaign have positive effects on engagement with the message in terms of thinking responsibly about smoking. The results further show that the more smokers think responsibly about smoking, the greater their motivation to quit, in support of hypothesis 4. These findings are consistent with previous research (Hassan et al. 2007).

Turning to the direct relationships between comprehension and attitude and intention to quit, we find that message comprehension has no direct effect, and therefore, comprehension is fully mediated by responsible thinking, as we propose by hypothesis 5. However, in contrast with hypothesis 6, a positive attitude toward the campaign has a positive direct effect on intention to quit, which may suggest that antismoking advertisements evoke stronger attitudes that (compared with weak attitudes) are more likely to instigate behavioral changes than are “normal” attitudes (Petty and Krosnick 1995).

For the country-level effects, we find support for all three hypotheses. Consistent with hypothesis 7, the effect of government effectiveness on intention to quit is nega-
tive; that is, smokers in countries whose citizens perceive their own government as effective are more resistant to EU-wide campaigns. In support of hypothesis 8, we find that respondents from countries that place greater importance on being a good citizen exhibit higher intentions to quit. Finally, countries with a higher level of individualism give rise to greater intentions to quit by respondents in these countries, in support of hypothesis 9.

DISCUSSION

The inspiration for this research comes partly from the calls for more empirical research into the construct of responsible thinking and additional cross-cultural research into social marketing and consumer well-being. Social marketing campaigns advocate a particular behavior and are designed to influence people’s behavior in ways that will improve their well-being. Because smoking is a major threat, researchers need a better understanding of the drivers of associated behavioral changes.

This article attempts to shed new light on the advertising persuasion process in an antismoking context, advance the process of empirically integrating responsible thinking as a relevant construct in an advertising persuasion model, and test the model relationships along with the mediating and direct effects within the model. Specifically, we formulate testable hypotheses of mediating and individual- and country-level direct effects and test the model with empirical data.

We find support for eight of our nine hypotheses in the empirical data (see Table 3). The results of this study thus suggest that individual- and country-level characteristics have differential effects on smokers’ intention to quit. Specifically, smokers’ age, attitude toward the campaign, and message comprehension relate positively to their proneness to think about the antismoking message. Moreover, responsible thinking fully mediates the relationship between the independent variable comprehension and behavioral intention and partly mediates the relationship between attitude and behavioral intention. In addition, all three country characteristics (i.e., pillars of institutions) exert a direct influence on smokers’ intention to quit smoking. We believe these findings represent an important step forward in providing the field of social marketing and communication with a parsimonious advertising persuasion model that explicitly considers responsible thinking and culture-related drivers.

Contributions and New Insights

Our findings are consistent with consumer research that suggests responsible thinking is a central catalyst for

<table>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
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Notes: N = 1749 for correlations between the individual-level variables and between individual- and country-level variables, as well as for means and standard deviations for individual-level variables; N = 20/22 for correlations between country-level variables and for means and standard deviations for country-level variables.
attitudinal and behavioral change (Hassan et al. 2007) but also extends previous work by considering age an important individual-level driver. Our contribution to theory lies in developing and testing a model that conceives of responsible thinking as an important outcome as well as a mediator variable and that notes that age, comprehension, and attitude toward the campaign have differential impacts on responsible thinking. Smokers harm themselves and endanger the health and well-being of others, so getting smokers to reflect on their abhorrent behavior seems a promising way of promoting smoking cessation.

Our findings also resonate with discussions of the effects of culture on smoking-related behavior (Reardon et al. 2006) and highlight culture’s important role in influencing smokers’ intention to quit. We agree with Reardon et al. (2006) that the importance of culture effects in an antismoking context remains under researched and therefore contribute to the expansion of the research domain by including cultural characteristics in a comprehensive advertising persuasion model. Specifically, we show that cultural characteristics directly affect smokers’ intention to quit smoking, but government effectiveness exerts a negative influence. Thus, our study distinguishes between individual-level and country-level characteristics and attempts to measure mediated and direct effects of the persuasion levels of social marketing advertising. Furthermore, we believe that integrating responsible thinking as an advertising persuasion consequence has benefits at both conceptual and managerial levels, because our resultant model enables social marketers to study and measure the persuasion effects of advertising at different levels of abstraction.

To measure persuasion effects without considering potential mediators entails losing the ability to determine how different independent variables work. Researchers and social marketers should consider individual relationships from our model (lower level of abstraction) and also look at the overall model with its mediating effects (higher level of abstraction) to learn more about the drivers of persuasion in advertising.

Limitations and Future Research Direction

As with any research, our work is not free of limitations, some of which open avenues for further research. Additional work could investigate if our advertising persuasion model is equally effective in other socially responsible behavioral contexts, such as drunk driving or healthy eating. In a similar vein, our model should be tested in non-EU countries (e.g., Norway, Russia, Switzerland), as well as outside Europe, where smoking rates are among the highest in the world. For example, the annual per capita cigarette consumption in Russia increased by 75 percent to 2,058 cigarettes from 1994 to 2004 (Johnson 2006). During the same period, the annual per capita cigarette consumption in France decreased by

<table>
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<th>Predictor</th>
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<th>p</th>
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<td>H8: Good citizenship</td>
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</table>

Notes: n.s. = not significant at 5% level. CR = critical ratio.
42 percent to 1,556 and in the United Kingdom by 40 percent to 1,448 cigarettes (Johnson 2006). Furthermore, the WHO (2002) reports that regions such as East Asia and the Pacific have the highest smoking rates in the world, with nearly two-thirds of men smoking.

Researchers also might consider adding independent variables to the model’s specification. In this study, we examine one marketing mix element, advertising, in relation to consumers’ behavioral change. However, as Cullwick (1975) stresses, the entire marketing mix plays a strategic role in demarketing (see also Gerstner, Hess, and Chu 1993), which suggests other antismoking measures, such as increased taxes (price) or fewer consumption spaces and smoking bans (place), could be included in the model as independent variables. Another extension of the model might use the variables we address, especially responsible thinking and the culture-related variables, to determine market segmentation. By taking these constructs one step further, researchers might identify differences within populations and explore the existence of national and pan-European responsible thinking segments. Because many tobacco companies have adopted the role of “good citizens” these days, in which context they provide information about the dangers of smoking and warn parents about teen smoking, it becomes even more pertinent to explore the degree of responsible thinking across different groups of smokers.

We examine smokers’ perceptions of antismoking advertisements, but the normative power of reference groups and word-of-mouth influences suggests it also might be useful to investigate perceptions of nonsmokers. Finally, we test our conceptual model and the hypotheses with cross-sectional data, so longitudinal data from a multistage survey could extend our findings even further.

REFERENCES


Money, R. Bruce, Mary C. Gilly, and John L. Graham (1998), “Explorations of National Culture and Word-of-Mouth Referral Behavior in the Purchase of In-


MEASUREMENT APPENDIX

**Individual-Level Constructs**

**Comprehension** (adapted from Hassan et al. 2007)

- It is hard to stop smoking
  - It is ridiculous to smoke to be like others
  - There is help available to stop smoking
  - There is a telephone number and/or a website that one may contact about smoking
  - Smoking is absurd
  - Smokers and non-smokers need to respect each other
  - Smoking harms the health of others around you
  - You should not start smoking

**Attitude toward the campaign** (adapted from Hassan et al. 2007)

- The campaign delivers a worthwhile message
- The campaign is interesting
- The campaign is an incentive to look for information and/or help
- The campaign is meant for people like you
- The campaign is easy to understand
- The campaign is in people’s best interest
- The campaign uses humor to convey the message
- The campaign talks about smoking in a new way

**Responsible Thinking** (adapted from Hassan et al. 2007)

- The advert/advertisements made you think about your smoking
- The advert/advertisements made you think that smoking is absurd
- The advert/advertisements made you think about the behavior of smokers in the presence of non-smokers
- The advert/advertisements made you think about the value of help in quitting smoking

**Country-Level Constructs**

**Good Citizenship** (from European Social Survey 2003)

- To be a good citizen:
  - How important to support people worse off
  - How important to vote in elections
  - How important to always obey laws/regulations
  - How important to form independent opinion
  - How important to be active in voluntary organizations
  - How important to be active in politics

**Individualism** (we used scores provided by Hofstede 2001)

**Government effectiveness** (ratings provided by Kaufmann, Kraay, and Zoido-Lobaton 1999)

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THE POTENTIAL EFFECTS OF CORRECTIVE ADVERTISING ON CONSUMER BELIEFS MANDATED BY U.S. VS. PHILIP MORRIS USA, INC. (2006)

Andrea Heintz Tangari, University of Arkansas – Fayetteville
Brook Plack, University of Arkansas – Fayetteville
Scot Burton, University of Arkansas – Fayetteville
Craig Andrews, Marquette University, Milwaukee

SUMMARY

Recently, a United States federal court has ordered the use of corrective advertising and promotion to augment consumer knowledge about smoking by targeting potential misperceptions in this area (U.S. vs. Philip Morris USA, Inc. 2006). The goal of this corrective ad campaign is to mitigate inappropriate or inaccurate consumer beliefs and to thwart any future deceptive marketing practices that could contribute to or encourage tobacco use. Drawing from this court decision and previous research, this study addresses the following questions:

1. Will the strength of the specific beliefs identified by the Court suggest that consumers have been misled or deceived by the tobacco companies for some or all of these beliefs?

2. Do the proposed corrective ads have effects and are these effects similar across all beliefs mandated in U.S. vs. Philip Morris USA, Inc. (2006)?

3. What are the effects of antismoking corrective ads that include text only versus ads that include text and graphics on the focal belief themes related to smoking?

4. Will the strength of beliefs differ for smokers and nonsmokers, and will these corrective ads influence intentions to quit smoking for current smokers?

Method

A pilot study was initially performed to develop multi-item measures of the six themes noted in the case and of interest in predictions: (a) adverse health effects of smoking, (b) smoking addictiveness, (c) lack of health benefit from smoking light/low tar cigarettes, (d) tobacco companies’ manipulation of cigarette design to ensure optimum nicotine delivery, (e) secondhand smoke effects, and (f) tobacco company deceptiveness. Items for the pilot study were generated through a review of the literature (e.g., Andrews et al. 2004; Tangari et al. 2007). Participants’ beliefs in each of the themes are assessed using multi-item seven point, Likert-type scales with endpoints of “Strongly Disagree” (coded as a ‘1’) and “Strongly Agree” (coded as a ‘7’). Both factor analyses and reliability tests were used to reduce the number of belief theme items and develop reliable multi-item measures, ranging in length from five to eight items. All coefficient reliability estimates for each of the measures exceed .70.

In the main study, a 3 (corrective ad condition) X 6 (belief themes) mixed experimental design was used. The between-subjects factor is the corrective ad condition with three levels: (1) a control with no ad; (2) a corrective ad containing copy only; and (3) a corrective ad that contained copy and two graphic visuals. The within-subjects factor consisted of the six belief themes. Participants were undergraduate students at a Southern university. The sample size was 226 participants with 40 percent males. Ages ranged from 18-36 with an average age of 23. Several measures were also included to address specific smoker reactions, such as their desire to quit smoking.

Results

The means for the six beliefs were relatively strong across all ad conditions. Means for the beliefs are particularly high for the corrective ad conditions. Even in the no ad control condition, all belief means are significantly above the scale midpoint of ‘4’ (p < .01 for all tests). All belief themes were significantly different and higher in the corrective ad conditions (p’s < .05) except for the deceptiveness belief (p = .09). Also, there was a significant interaction (F(10,1115) = 3.07, p < .01) between the ad condition and the belief themes, indicating that the effect of the corrective ads is not consistent across all beliefs. Specifically, the effect of the ad on the belief regarding the health benefits of light/low tar cigarettes is stronger compared to the ad effect on other beliefs. The addition of the graphic visuals to the corrective ads increased the overall strength of some (but not all) belief themes, compared to corrective ads without the visuals.

We also explored whether the effects of the corrective ads differ for the beliefs of smokers vs. nonsmokers. Beliefs regarding tobacco company deceptiveness, secondhand smoke and health effects of smoking were all
significantly stronger (p < .01) for nonsmokers compared to smokers. Finally, we also examined whether the ads affect smokers’ intentions to quit. Results show that corrective ad exposure does not have a significant effect on the desire to quit smoking, although the pattern of means is in the desired direction. (However, the sample size of smokers is small (n = 55); larger samples may provide a stronger test on these intention variables.)

Summary

Although most of the belief themes were significantly affected by the corrective ads, many of the mean levels for these belief themes were already high. This indicates that despite past misleading actions and marketing tactics of tobacco companies, these study participants do not appear to have high levels of “incorrect” beliefs about smoking and its consequences. There was a significant effect of exposure to the corrective ads, but the strength of this effect varied across the beliefs. Specifically, the light/low tar belief received the lowest level of agreement in the control condition, and the ad exposure had the strongest effect on this belief. Thus, the most effective approach may be to weight any corrective campaign toward the weaker beliefs, such as the light/low tar belief theme, where the opportunity to “correct” consumer misperceptions appears to be the most substantial. The findings for the addition of graphics to advertisements offered mixed results with only some of the belief themes becoming significantly stronger. The findings of this research show that, in general, consumers’ beliefs about smoking potentially can be affected with corrective advertising in a manner consistent with the objectives of the Court.

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THE IMPETUS FOR THIS STUDY COMES FROM THE FACT THAT POLICY MAKERS MAY WANT TO INCREASE THE COUNTRY IMAGE TO ATTRACTION THE FOREIGN INVESTMENTS AND TO INCREASE EXPORTS (BEVERLAND AND LINDGREEN 2002). IN ADDITION, O’SHAUGHNESSY AND O’SHAUGHNESSY (2000), PAPADOPOULOS AND HESLOP (2000, 2002) AND PASWAN ET AL. (2002) PROPOSE THAT COUNTRY IS A BRAND. SPECIFICALLY, THERE IS AN INCREASING INTEREST AMONG PRACTITIONERS AND GOVERNMENT AGENCIES IN HOW PRODUCT/BRAND QUALITY MAY INFLUENCE COUNTRY BRAND IMAGE. AGAINST THIS BACKDROP, THIS STUDY INTENDS TO INVESTIGATE THE EFFECT OF PERCEIVED PRODUCT QUALITY ON THE PERCEPTION OF COUNTRY OF ORIGIN (COO). THE ARGUMENTS PRESENTED IN THIS STUDY ARE THEORETICALLY ANCHORED IN ATtribution THEORY. THIS PAPER HAS TWO MAJOR CONTRIBUTIONS: FIRST, TO THE BEST OF OUR KNOWLEDGE, THIS IS THE FIRST ATTEMPT IN THE MARKETING LITERATURE TO EMPIRICALLY EXAMINE THE EFFECT OF PRODUCT QUALITY ON COO IMAGE; SECOND, THIS PAPER TESTS THE CONTINGENT EFFECTS OF SOME KEY VARIABLES SUCH AS CONSUMER PREFERENCE ON THE EFFECT OF PERCEIVED PRODUCT QUALITY ON COO IMAGE.

Research Method


IN ADDITION, WE CONCLUDE THAT THE PRODUCT DURABILITY, SOCIAL CLASS, NATIONALITY OF THE RESPONDENTS (ESPECIALLY U.S., CHINA, KOREA, AND MAYBE THAILAND), AND CONSUMER PREFERENCE FOR WELL-KNOWN BRAND HAVE SOME INFLUENCE ON THE COO IMAGE, PARTICULARLY ON THE COO-People dimension. THE RESULTS ALSO INDICATE THAT NATIONALITY (UNITED STATES, CHINA, AND KOREA) COULD INFLUENCE THE COO-People image in durable product (e.g., color TV). IN COMPARISON, FOR NON-DURABLE PRODUCTS (E.G., BACKPACK), SOCIAL CLASS AND NATIONALITY (UNITED STATES, INDIA, CHINA, AND THAILAND) COULD MODERATE THE EFFECT OF PERCEIVED PRODUCT QUALITY ON THE COO-People image. FINALLY, THE RESULTS SHOW THAT CONSUMER PREFERENCE TO WELL-KNOWN BRANDS MAY AFFECT THE COO IMAGE (BOTH PEOPLE AND INTERACTION DIMENSIONS) IN NON-DURABLE PRODUCTS (E.G., BACKPACK).
Discussion

The findings of this study have important managerial implications for both international marketers and international trade policy makers. We conclude that the perception of product quality is a key variable affecting the country image. The country’s reputation constitutes an asset which is of great value to all businesses from a particular country and safeguarding its reputation is a paramount obligation of these businesses. In addition, the success of Japan and South Korea suggests that country image changes over time. The marketing efforts of the businesses from a country facilitate this transition. Marketers from countries with unfavorable reputation need to be aware that their marketing activities not only promote their products, but also their countries. On the other hand, the country governments could facilitate the business activities to enhance its image in the international market. References are available upon request.

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EFFECTS OF CONSUMER ETHNOCENTRISM AND ANIMOSITY ON FOREIGN PRODUCT EVALUATION AND PURCHASE INTENTIONS: MODERATING ROLE OF CULTURAL SIMILARITY AND ECONOMIC COMPETITIVENESS

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Wei (Andy) Hao, Kent State University, Kent
Laura Lin, Kent State University, Kent

SUMMARY

This study explored the moderating effect of cultural similarity and economic competitiveness on the relationships between consumer ethnocentrism (CE)/animosity and product judgment/reluctant to buy. The effects of consumer ethnocentrism and animosity on product judgment and willingness to buy have been explicitly explained by the animosity model proposed by Klein et al. (1998). In their model, CE has a negative impact on product judgment and willingness to buy while animosity only affects willingness to buy. Product judgment also has a positive impact on willingness to buy. Klein and his colleagues collected data from adult consumers in Nanjing, China, where the Nanjing Massacre occurred 70 years ago. The effect of animosity on willingness to buy Japanese products is salient. The effects of animosity and CE on product judgment and willingness to buy may be held in a different context. This study proposed that cultural similarity and economic competitiveness moderate the relationship between CE and product judgment/willingness to buy and the relationship between animosity and willingness to buy respectively.

The level of economic competitiveness indicates the country’s “ability to manufacture products that require a certain level of skill and technology” (Verlegh and Steenkamp 1999). The level of competitiveness is represented by production technology, product uniqueness, physical capital, managerial skills, physical infrastructure, or human resources (Balabanis and Diamantopoulos 2004). When the economic competitiveness of the target country is high, the negative effect of animosity on willingness to buy may be weakened.

CE indicates that consumers have the tendency to evaluate domestic product favorably than imported products (Shimp and Sharma 1987). CE results an overestimation of the overall quality of domestic goods and underestimation of the quality of imported products (Sharma et al. 1995). When cultural similarity is high between two countries, the consumers in one country may perceive another country as in-group and feel closer to that country. As the consequence, it may create favorable attitudes and purchase intentions toward products imported from culturally similar countries (Lantz and Loeb 1996; Sharma et al. 1995; Watson and Wright 2000). Therefore, the effect of CE on product judgment and willingness to buy may be weakened when the cultural similarity is high.

We collected data in Taiwan via self-reported online survey. Respondents were asked to indicate their agreements on the seven-point of Likert scales (1 = “strongly disagree” to 7 = “strongly agree) with statements in terms of the following constructs: (1) consumer ethnocentrism, (2) product judgment, reluctance to buy, animosity toward Japanese products, (3) product judgment, reluctance to buy, and animosity toward Chinese products, (4) product judgment, reluctance to buy, and animosity toward American products. Among the three target countries, China is considered the most similar to Taiwan in terms of culture followed by Japan and the United States. According to the World Economic Forum Rankings, Japan has the highest economic competitiveness index comparing to the United States and China (Balabanis and Diamantopoulos 2004).

The results of this study partially support the moderating effect of cultural similarity on the relationship between CE and foreign product evaluation and purchase intentions. The CE does not show a significant effect on product judgment and willingness to buy when the target country is China. However, the effects for Japan were not different from that for the United States even though Japan was deemed as more culturally similar to Taiwan than the United States was. The results of this study do not support the moderating effect of the economic competitiveness on the relationship between animosity and willingness to buy. It seems that the animosity is negatively associated with willingness to buy foreign products consistently.
“MADE IN . . .” – DOES IT ALSO APPLY TO SERVICES? AN EMPIRICAL ASSESSMENT OF THE COUNTRY-OF-ORIGIN EFFECT IN SERVICE SETTINGS

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SUMMARY

The fact that the country of origin (COO) of a product has an essential influence on consumers’ quality assessments has already been proven by Schooler (1965). Subsequently, most internationalization literature has examined COO effects with respect to products, and only limited research has been conducted on such effects on services (Ahmed, Johnson, Ling, Fang, and Hui 2002). However, due to the specific characteristics of services (Zeithaml, Parasuraman, and Berry 1985) these effects may differ. It is widely acknowledged that these distinctive service characteristics affect the perceived risk related to consuming services (Zeithaml, Bitner, and Gremler 2006). In the case of a service company entering a foreign market, the ability to establish trust, and thus to lower perceived risk, seems to be crucial, because information available about the novice is less reliable and consumers cannot rely on others’ experiences to any significant degree (Coulter and Coulter 2003). Therefore, consumers rely on alternative quality indicators such as COO and brand name to diminish perceived risk. Against this background, the main objective of our study is to analyze (1) whether COO also affects consumer purchase intention of services and (2) whether negative effects in the case of a negative COO can be alleviated by providing additional information to the consumer.

Theoretical Background and Hypotheses Development

In order to analyze the COO effect on purchase intention, we base our research framework on the product-related study of Ulgado and Lee (1993). Their results support the assumption that consumers especially use extrinsic information if no intrinsic information about a product is available (Olsen and Jacoby 1972). Consequently, consumers use the brand name and the COO as extrinsic information for the product assessment if only this information is provided. Moreover, previous studies found that additional information on product features can lead to changes in consumer preferences (Ueltschy 1998). Based on these results, it can be assumed that the COO will have a weaker influence on the service assessment when additional information is provided. Thus, we hypothesize that if price, COO, and basic service information is provided to a consumer, the COO has an influence on the assessment of the service (H1). Moreover, if additional information on an offer is provided to the consumer, the impact of the COO for the assessment of the service will significantly diminish (H2).

Methodology

In order to assess the role of the COO effect for services, four experiments were conducted, using limit conjoint analysis (LCA). As service settings, direct banking and low-cost airlines were selected. For Studies 1 and 2 (banking), Switzerland (positive COO), Germany (neutral), and Poland (negative) were used as COO in the design. In addition, rate of interest (2, 3, and 4%) and the period of investment (1, 2, and 3 years) were taken into consideration as significant service features. In the second study, the indication of an “A-Ranking” by an independent agency was given as an additional quality cue. For Studies 3 and 4 (low-cost airlines), Germany (positive COO), Spain (neutral) and Czech Republic (negative) were used as COO in the design. In addition, price (50, 75, and 100 €) and the distance from the airport to the place of residence (30, 60, and 90 km) were included in the conjoint design. The age of the airplane (2 years) and the service interval were used as additional information in Study 4. We collected data from 208 students to control the sample’s homogeneity. The average age was 21.3 years.

Results and Discussion

In Study 1 (banking without additional information), relative importance of the COO was 31.14 percent (interest rate 58.58%; period of investment 10.28%). In Study 2, COO had an impact of only 28.18 percent (rate of interest 54.63%; period of investment 17.19%). Similar to the results of Studies 1 and 2, in Study 3 the price was found to be the major factor of influence on the choice of airlines (46.14%), followed by distance to airport (28.36%). In
contrast to the banking setting, COO achieved only 25.5 percent. Study 4 showed a stronger influence of COO providing additional information (27.98%), more than the influence of distance (23.84%). Again, price had the highest relative importance, with 48.18 percent.

The results of Study 4 contradict the assumption that the COO significantly loses its importance for the assessment of service when additional information is provided. In conclusion, H1 could be confirmed in all experiments, indicating that “made in . . .” plays a significant role for decision making also in a services context. H2 can only be partially confirmed, i.e., is confirmed only in the case of direct banks. In case of low-cost airlines additional information cannot eliminate the COO effect. This could be explained by the higher level of perceived risk (i.e., risk to life and health in the worst case) which is associated with the use of airlines in comparison to direct banking services. These results show that COO should also be taken into account as information that influences the consumer decision-making process in service settings. Thus, service companies can distinguish themselves from their competitors in international markets by indicating a positively perceived COO. References are available upon request.

ENDNOTE

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ABSTRACT

Atmosphere is generally viewed as a key factor to attract and satisfy customers. However, the phenomenon is considered to be vague and difficult to grasp, which represents a substantial challenge with regards to measurement, management and improvement. This paper reports an effort to capture the phenomenon of atmosphere as applied in the hospitality industry. The work was done in two phases; an inductive (collecting actual descriptions of the phenomenon) and deductive (refining these into a set of empirical indicators, first by using judgment-based criteria and secondly through empirical testing).

A field survey of hotel guests was conducted to test the applicability of these indicators, which revealed a robust and interpretable four factor structure and satisfactory model fit. The predictive power of the indicators was also demonstrated. The clear and meaningful results suggest that atmosphere is most likely not as vague and difficult to measure as commonly believed. The data also pointed to moderating effects of consumer demographics on atmosphere perception (for example female guests tend to rate the hotels as more atmospheric than is the case for male guests. However, the difference becomes non-significant as age increases). Theoretical and managerial implications are highlighted.

Keywords: Atmosphere, common assumptions, perception, measurements, stereotypes.

INTRODUCTION

The concept of atmosphere is important both in everyday life and business. Atmosphere is appreciated and consciously sought. For example, consumers often make an effort to create atmosphere in their homes. They use time, energy and economic resources to do so, involving costly activities such as decoration, purchase of art and so on. Also, in business, atmosphere is considered vital. For example, in the hospitality sector atmosphere is regarded as an essential – if not the key factor – to attract and satisfy guests.

To improve the atmosphere of their establishments, firms frequently make costly – and risky investments. Such activities are difficult to assess in particular so because the phenomenon of atmosphere is generally considered as vague and difficult to grasp, which for instance might complicate investment decisions for managers.

Despite several attempts to define the concept (see for example, Kotler(1973) who described atmosphere as “the air surrounding a sphere”) the phenomenon apparently remains ambiguous.

A review of the literature on atmosphere reveals an emphasis on elements in the environment (e.g., Bitner 1992; Mehrabian and Russell 1974). Furthermore, the literature focuses on how atmosphere is perceived by individuals (e.g., Baraban and Durocher 2001), and how it may evoke internal responses (e.g., Lin 2004). Several studies have examined atmospherics (background features such as temperature, scent, music, and lighting), social factors, and design factors as drivers of atmosphere (e.g., Baker, Levy, and Grewal 1992; Baraban and Durocher 2001; Bitner 1992; Chebat and Michon 2003; Donovan and Rossiter 1982; Gardner and Siomkos 1986; Martin 1986; Mattila and Wirtz 2001; McElroy, Morrow, and Eroglu 1990; Wilson 2003).

Lin (2004) argues that in order to create the image of a pleasant physical environment in the mind of customers, it is important to understand customers’ overall evaluation process both theoretically and practically. Kotler (1973) also emphasizes that one’s reactions to atmospheric stimuli are partly learned and may be influenced by cultural background and nationality. Consequently, it is reasonable to assume that the more dissimilar the patrons of a particular establishment are, the more varied their perceptions of the atmosphere will be.

The purpose of this paper is to examine the role of atmosphere in relation to the common assumptions discussed above, i.e., (1) whether the phenomenon of atmosphere really is vague and difficult to grasp and (2) whether perceptions of the phenomenon of atmosphere vary across individuals.

Earlier research provides few directions on how to define atmosphere conceptually, which is usually considered a prerequisite for developing adequate measurements. To overcome this challenge, we found it necessary to capture how the concept has been used, and what it subsumes, in the actual context. Consequently, we departed by collecting descriptions of how atmosphere is characterized or described in the hospitality industry (or more precisely in relation to hotels). Through such descriptions, we can get an understanding of how the concept of atmosphere is used in the studied context and what it means in this setting (Rosch 1976). Based on the collected descriptors, which were refined into a set of
empirical indicators, we were able to capture important dimensions of atmosphere, which also implies that atmosphere is a multidimensional concept. We chose the hospitality industry as our empirical context, because of its clear emphasis on atmosphere for creating a successful consumer experience, which has been highlighted by both hospitality practitioners and researchers.

The remaining part of this paper is organized as follows: In the next section we describe the process of developing the atmosphere measurement indicators, followed by a methodological description of an exploratory field survey where these indicators were tested. After presenting and discussing the empirical findings, we conclude by highlighting managerial and research implications and proposing avenues for further research.

**METHODOLOGY**

Because of the lack of a priori knowledge of what atmosphere actually is and how to capture the phenomenon empirically, i.e., what the atmosphere concept entails, we proceeded in two phases, an inductive and a deductive phase. In the inductive phase, we examined how the concept has been applied in the hospitality context and through a comprehensive search collected terms that have been used to describe atmosphere as it pertains to hotels. Consequently, the output of the inductive phase was an inventory of descriptors. In the subsequent deductive phase, we tested the relevance of each descriptor and reduced the number in order to remain with the most fundamental ones. The two phases are described below.

**Inductive Phase – Collection of Atmosphere Descriptors**

To ensure that we included all relevant items for atmosphere as pertaining to our empirical context, it was deemed necessary to first collect words that are applicable for describing atmosphere in hotel settings. Consequently, we started by generating a pool of items, which is standard procedure to cover the conceptual domain, in line with recommendations from Churchill (1979).

Several approaches for generating the item pool were considered possible, and it will always be open to debate which would be the best. The philosophy we followed was as follows: If an adjective is relevant for describing atmosphere in hotels, it has most likely already been used for this purpose. Consequently, we decided to collect all words that have been used for describing atmosphere in hotel settings. Thus, a search for the universe of relevant descriptors was launched. To avoid confusion from mixing different languages, it was decided to limit the search to descriptions in English. An internet search on “hotel” and “atmosphere” in combination yielded several million hits and a search routine was employed for identifying adjectives used for describing atmosphere. Every time a new adjective for describing hotel atmosphere was encountered, this word was registered in an inventory of hotel atmosphere descriptors. Alternative search engines were used to expand the search, as well as synonyms (ambience, charm, appeal, and resorts, motels, inns). To supplement web-based sources, we also scrutinized a large number of hotel design books, architectural books and travel magazines. All new descriptors were recorded regardless if the source was hotel managers, travel reviews, guest experiences or expert consultants/architects. When no more new descriptors were found, we concluded that the search was exhaustive. At this stage the inventory had 600 unique descriptors, which we consider as the universe of hotel atmosphere descriptors.

**Deductive Phase – Reduction from 600 to 43 Atmosphere Descriptors**

In the deductive phase, we assessed and tested the relevance of each descriptor and reduced the number in order to remain with the most fundamental ones (see Appendix A for details). The 600 descriptors were first reduced to 458 by employing judgment-based criteria. Two external experts in hospitality design and management (an architect and a hospitality manager) were consulted as part of this process. Thereafter the 458 descriptors were empirically tested using a three-stage randomized experimental design, where subjects were shown presentations of a range of hotels and thereafter rated how relevant each descriptor was for describing the hotel’s atmosphere on a seven-point Likert scale. In the first stage, the number of descriptors was reduced from 458 to 201. The second stage yielded a further reduction to 135 descriptors. These descriptors were tested in the third stage, which gave the 43 descriptors that were subsequently tested in the exploratory field survey.

**Exploratory Field Survey**

To further test the applicability of the reduced set of indicators it was deemed necessary to collect data from actual hotel guests. Since this was the first attempt to empirically test the indicators in the field, a single country environment was chosen. Consequently, an exploratory field survey was conducted in collaboration with the leading hotel chain in Norway. Six of the chain’s hotels (see Appendix B for particulars) were selected based on a priori knowledge about the hotel’s atmosphere. The main purpose of this selection was to ensure variation in perceived atmosphere.

**Procedure.** The survey was conducted during a two-month period. During check-in guests were asked if they were willing to participate in a guest survey and if so their email addresses were collected. After the guests had
checked-out, they received an email invitation with links to the electronic guest survey questionnaire (Norwegian or English according to respondent’s choice. Translation was done with utmost care by using available language expertise/dictionary sources. The descriptors loaded on the same four factors both for Norwegian and foreign guests, which suggest that semantic content was not altered in the translation process. An electronic system was used for data-recording and handling. The hotel chain’s standard incentive for customer surveys (draw for a free weekend for two persons) was used.

**Respondents.** The email invitation was sent to a total of 559 individuals of which 369 responded (i.e., a response rate of 66 percent, which we consider to be satisfactory). Experts in the hotel chain verified that the composition of the sample (gender, nationality, age, guest type) corresponded to the regular guest population of the particular hotels. Forty percent of the respondents were on a business trip, 25 percent attended a course/conference, 27 percent visited in connection with leisure/tourism and 8 percent for other reasons. Nearly two-thirds (63%) were employed in the private sector, 25 percent in the public sector, while the remainder reported other type of employer (8%) or did not work (4 percent). The median age group was 40–49. The majority (77%) of the respondents were Norwegians.

**Measurements.** In addition to characteristics about the respondent and ratings of various aspects of the hotel, the questionnaire included the 43 descriptors (in randomized order). The respondents were asked to indicate how relevant each of these was for describing the atmosphere in the hotel as experienced during their stay (on seven-point scale as earlier). The respondents were also asked to indicate how much atmosphere the hotel had overall (i.e., overall atmosphere) and compared to other hotels in the same price range. Respondents were also given the opportunity to provide comments regarding the hotel’s atmosphere.

**FINDINGS**

**Common Assumption 1: The Phenomenon of Atmosphere is Vague and Difficult to Grasp**

**Exploratory Factor Analysis.** To examine this assumption, we started out with exploratory factor analyses of the 43 descriptors. Table 1 reports the output from the four-factor solution chosen. Principal component extraction and varimax rotation was used. In order to choose the cut-off point, we inspected the scree-plot, which showed that a substantial dip followed after the fourth factor. The first four factors were easy to interpret, had eigenvalues considerably greater than one and explained most of the variance in the 43 descriptors (adding additional factors only increased explained variance marginally). Also, other rotation (direct oblimin) and extraction (principal axis factoring and maximum-likelihood) methods were employed. However, the four-factor structure was robust regardless of extraction and rotation method. This factor solution was also the most stable and robust when tested in subsample factor analyses (split half samples, males vs. females, younger vs. older respondents, etc.).

If the assumption that atmosphere is vague and difficult to grasp were valid, no clear and robust factor structure should be expected. However, the clear and stable factors identified in our analyses suggest that we have captured important dimensions of atmosphere and furthermore imply that atmosphere is a multidimensional concept.

We chose to interpret the first factor in Table 1 as distinctiveness (high loadings on descriptors like special, fascinating, and different). In our opinion, this factor implies that a hotel will only be rated high on atmosphere if it has features that differentiate it from other establishments. Thus, truly atmospheric hotels have a certain distinctiveness that separates them from the herd. The second factor may be labeled hospitality (loaded mainly on descriptors like welcoming, hospitable, and professional). Related to what was mentioned earlier about drivers of atmosphere, it is reasonable to assume that this factor is mainly driven by the social factors (particularly the staff-guest interactions). The third factor has powerful loadings on descriptors such as pastoral, resort and holiday and may consequently be interpreted as relaxation. The fourth factor loaded on descriptors like classical, traditional, and upper-class and was thus labeled refinement.

**Confirmatory Factor Analysis.** The factor structure was further tested by confirmatory factor analysis using LISREL (Linear Structural Relations, Jöreskog and Sörbom 2004). Again, if the above-mentioned assumption were correct, we would not expect to get an acceptable fit. In Figure 1, we have presented two LISREL measurement models (standardized solutions).

Our point of departure is the model to the left. This model has the same four factors as shown in the exploratory factor analysis, each with three indicators (descriptors). Model fit is fairly satisfactory (RMSEA = 0.055). Additional analyses showed that RMSEA (but not the chi square statistic) improved slightly (to 0.049) by splitting factor four into its two facets as shown on the right side of Figure 1. It should be noted that while these confirmatory factor analyses suggest that satisfactory fit can be obtained, there is a clear need to repeat the analyses with new data. We will return to this issue in the discussion section.

**Prediction.** If atmosphere is such a vague and unclear phenomenon, it could be expected that the indicators used
TABLE 1
Factor Analysis – Four-Factor Solution

<table>
<thead>
<tr>
<th>Descriptors</th>
<th>( h^2 )</th>
<th>Distinctiveness</th>
<th>Hospitality</th>
<th>Relaxation</th>
<th>Refinement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special</td>
<td>0.81</td>
<td>0.82</td>
<td>0.30</td>
<td>0.15</td>
<td>0.14</td>
</tr>
<tr>
<td>Fascinating</td>
<td>0.75</td>
<td>0.79</td>
<td>0.29</td>
<td>0.13</td>
<td>0.13</td>
</tr>
<tr>
<td>Different</td>
<td>0.69</td>
<td>0.79</td>
<td>0.15</td>
<td>0.20</td>
<td>-0.01</td>
</tr>
<tr>
<td>Unusual</td>
<td>0.73</td>
<td>0.78</td>
<td>0.19</td>
<td>0.27</td>
<td>-0.06</td>
</tr>
<tr>
<td>One-of-a kind</td>
<td>0.74</td>
<td>0.74</td>
<td>0.38</td>
<td>0.14</td>
<td>0.14</td>
</tr>
<tr>
<td>Memorable</td>
<td>0.69</td>
<td>0.73</td>
<td>0.29</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Rarefied</td>
<td>0.69</td>
<td>0.72</td>
<td>0.31</td>
<td>0.25</td>
<td>0.09</td>
</tr>
<tr>
<td>Peculiar</td>
<td>0.59</td>
<td>0.71</td>
<td>0.17</td>
<td>0.12</td>
<td>-0.21</td>
</tr>
<tr>
<td>Seductive</td>
<td>0.74</td>
<td>0.70</td>
<td>0.39</td>
<td>0.29</td>
<td>0.13</td>
</tr>
<tr>
<td>Characteristic</td>
<td>0.66</td>
<td>0.70</td>
<td>0.36</td>
<td>0.06</td>
<td>0.18</td>
</tr>
<tr>
<td>Attractive</td>
<td>0.71</td>
<td>0.70</td>
<td>0.45</td>
<td>0.01</td>
<td>0.13</td>
</tr>
<tr>
<td>Dream</td>
<td>0.69</td>
<td>0.69</td>
<td>0.30</td>
<td>0.29</td>
<td>0.21</td>
</tr>
<tr>
<td>Charming</td>
<td>0.69</td>
<td>0.68</td>
<td>0.35</td>
<td>0.21</td>
<td>0.25</td>
</tr>
<tr>
<td>Welcoming</td>
<td>0.81</td>
<td>0.12</td>
<td>0.87</td>
<td>0.08</td>
<td>0.15</td>
</tr>
<tr>
<td>Hospitable</td>
<td>0.73</td>
<td>0.20</td>
<td>0.82</td>
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<td>-0.01</td>
</tr>
<tr>
<td>Professional</td>
<td>0.75</td>
<td>0.27</td>
<td>0.81</td>
<td>0.03</td>
<td>0.13</td>
</tr>
<tr>
<td>Genial</td>
<td>0.73</td>
<td>0.23</td>
<td>0.81</td>
<td>0.16</td>
<td>0.05</td>
</tr>
<tr>
<td>Communicating</td>
<td>0.69</td>
<td>0.14</td>
<td>0.79</td>
<td>0.21</td>
<td>0.05</td>
</tr>
<tr>
<td>Effective</td>
<td>0.65</td>
<td>0.20</td>
<td>0.75</td>
<td>0.09</td>
<td>0.19</td>
</tr>
<tr>
<td>Civilized</td>
<td>0.60</td>
<td>0.32</td>
<td>0.68</td>
<td>-0.02</td>
<td>0.19</td>
</tr>
<tr>
<td>True</td>
<td>0.69</td>
<td>0.42</td>
<td>0.68</td>
<td>0.19</td>
<td>0.13</td>
</tr>
<tr>
<td>Feel-good</td>
<td>0.70</td>
<td>0.47</td>
<td>0.68</td>
<td>0.12</td>
<td>0.06</td>
</tr>
<tr>
<td>Flexible</td>
<td>0.57</td>
<td>0.25</td>
<td>0.64</td>
<td>0.19</td>
<td>0.24</td>
</tr>
<tr>
<td>Serious</td>
<td>0.54</td>
<td>0.36</td>
<td>0.64</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>Well-being</td>
<td>0.68</td>
<td>0.43</td>
<td>0.63</td>
<td>0.27</td>
<td>0.15</td>
</tr>
<tr>
<td>Pastoral</td>
<td>0.65</td>
<td>0.19</td>
<td>-0.03</td>
<td>0.78</td>
<td>0.01</td>
</tr>
<tr>
<td>Resort</td>
<td>0.67</td>
<td>0.38</td>
<td>0.13</td>
<td>0.71</td>
<td>0.00</td>
</tr>
<tr>
<td>Holiday</td>
<td>0.63</td>
<td>0.45</td>
<td>0.21</td>
<td>0.61</td>
<td>-0.05</td>
</tr>
<tr>
<td>Family-like</td>
<td>0.56</td>
<td>0.37</td>
<td>0.19</td>
<td>0.60</td>
<td>-0.13</td>
</tr>
<tr>
<td>Serene</td>
<td>0.69</td>
<td>0.48</td>
<td>0.31</td>
<td>0.60</td>
<td>0.07</td>
</tr>
<tr>
<td>Quiet</td>
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<td>0.39</td>
<td>0.18</td>
<td>0.58</td>
<td>0.07</td>
</tr>
<tr>
<td>Easy</td>
<td>0.48</td>
<td>0.13</td>
<td>0.32</td>
<td>0.53</td>
<td>0.27</td>
</tr>
<tr>
<td>Suburban</td>
<td>0.30</td>
<td>-0.16</td>
<td>0.03</td>
<td>0.51</td>
<td>0.12</td>
</tr>
<tr>
<td>Simple</td>
<td>0.35</td>
<td>-0.34</td>
<td>0.00</td>
<td>0.48</td>
<td>-0.02</td>
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<tr>
<td>Classical</td>
<td>0.73</td>
<td>0.18</td>
<td>0.28</td>
<td>0.05</td>
<td>0.78</td>
</tr>
<tr>
<td>Traditional</td>
<td>0.64</td>
<td>-0.12</td>
<td>0.15</td>
<td>0.21</td>
<td>0.75</td>
</tr>
<tr>
<td>Historical</td>
<td>0.64</td>
<td>0.49</td>
<td>0.06</td>
<td>-0.09</td>
<td>0.62</td>
</tr>
<tr>
<td>Upper-class</td>
<td>0.70</td>
<td>0.54</td>
<td>0.18</td>
<td>-0.08</td>
<td>0.61</td>
</tr>
<tr>
<td>Rich</td>
<td>0.67</td>
<td>0.59</td>
<td>0.29</td>
<td>0.04</td>
<td>0.48</td>
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<td>0.61</td>
<td>0.31</td>
<td>0.03</td>
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<tr>
<td>Modern</td>
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<td>0.26</td>
<td>0.33</td>
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<td>Tranquil</td>
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<td>0.41</td>
<td>0.47</td>
<td>0.39</td>
<td>0.11</td>
</tr>
<tr>
<td>Great location</td>
<td>0.34</td>
<td>0.42</td>
<td>0.27</td>
<td>-0.22</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Eigenvalues 18.94 3.40 3.10 2.07
Percentage of variance 44.03 7.90 7.20 4.82
Cumulative percentage 44.03 51.93 59.13 63.95

in the survey would have limited predictive power. To go one step further, i.e., move from measurement to prediction, we tested the predictive power of the atmosphere descriptors both in relation to a criterion variable (overall atmosphere) and their ability to differentiate between target objects (i.e., the six hotels).
First, regression analysis was employed with overall atmosphere of the hotel as dependent variable and the various descriptors as explanatory variables. For all six hotels combined, there were a total of eight significant explanatory descriptors ($p < 0.05$) and combined these variables explained 70 percent of the variation in perceived overall atmosphere ($\text{adjusted } R^2 = 0.70$). When separate regression analyses for each hotel were performed, even higher levels of explained variance were obtained (maximum explained variance was for Hotel #2, $\text{adjusted } R^2 = 0.87$). In our opinion, these high levels of explained variance indicate that the descriptors have predictive power in relation to the criterion variable.

Second, a fundamental property of any measurement instrument is the ability to discriminate between different objects that it is intended to measure. To test the ability of the descriptors to differentiate between target objects, we used discriminant analysis on the respondents’ ratings on the atmosphere descriptors to predict what hotel they had stayed in. The random probability of predicting hotel correctly is 16.7 percent (i.e., $1/6$). By including the responses on the atmosphere descriptors the probability increased substantially, i.e., 87.4 percent of the original grouped cases were correctly classified. Considering that a certain proportion of respondents in surveys like these most likely are characterized by a careless response style, we regard 87.4 percent as a clear indication of predictive power and consequently usefulness for measurement purposes. Thus, it seems fair to conclude that the indicators have predictive power in terms of differentiating between target objects.

**Common Assumption 2: There are Significant Differences in the Way that People Perceive Atmospheric Stimuli**

The clear differences between hotels in terms of perceived atmosphere and the robust factor structure found in the sub-sample factor analyses (males vs. females, younger vs. older respondents, etc.) suggest that people’s assessments of atmosphere, at least in hotel settings, are manifested in dimensions that are sufficiently strong to hold across individual differences. To further test the assumption, we investigated the extent to which guest characteristics explained variation in perceived atmosphere. ANOVA analyses were performed to determine whether such characteristics represented sources of systematic variation. The following characteristics were included in the analyses: Gender, age (group) and guest...
type (business, course/conference or leisure). Because some hotels had very few foreign guests, it was not possible to assess the impact of nationality across hotels. In Table 2, we have presented a summary table of the ANOVA analyses.

Table 2 clearly shows that most of the variation in perceived atmosphere (overall atmosphere and factor scores based on the measurement model) is driven by the hotels. However, there are some moderating effects of guest characteristics related to gender, age and guest type, which we will address in the discussion section.

**DISCUSSION**

In our opinion, the analyses point toward a robust and interpretable factor structure, acceptable model fit, and furthermore demonstrate the predictive power of the indicators both in relation to explaining variance in the criterion variable (overall atmosphere) and ability to differentiate between target objects, i.e., predicting which of the hotels the guest had stayed in. Our assessment is that these results challenge the common assumption that atmosphere is a vague and unclear phenomenon which is difficult to grasp and measure.

If we are correct, it should be possible to use the atmosphere descriptors to construct a diagnostic tool for mapping consumer perceptions and thereby identify differences. We have tested this by producing atmosphere profiles for the six hotels, which are displayed in Appendix B. The atmosphere profiles were produced by plotting the mean factor scores for each of the six hotels. These profiles give a visual picture of the type of atmosphere that characterizes the hotel (because factor scores are standardized, the means for all hotels are zero for all factors. Consequently, scores higher than zero signify a higher than average score on the respective factor, and scores less than zero the opposite).

A visual inspection of the profiles reveals substantial differences between the hotels in terms of atmosphere (there are highly significant differences between the hotels regarding factor scores, particularly for each of the hotels’ striking factors. Actual output from the analyses is not shown here because of space considerations). In addition to being clear, the differences between the hotel profiles are meaningful. For example, the atmosphere profile shows that Hotel #1 was perceived to have an exclusive and traditional atmosphere. Hotel #4, which is a simpler and more basic establishment located in the same city, is also considered as traditional. However, the atmosphere is perceived as considerably less exclusive and scores low on distinctiveness.

As discussed, variation in atmosphere perception was mainly driven by differences between hotels, not guests, i.e., the main features of the perceived atmosphere were the same regardless of gender, age, and guest type. These findings indicate that perception of atmosphere, at least in hotel settings, are manifest in assessments that are sufficiently strong to hold across individual differences. Nevertheless, Table 2 also showed some moderating effects of guest characteristics related to gender, age, and guest type, including a significant gender/age effect in the guests’ ratings of overall atmosphere, which was further examined.

In the upper part of Figure 2, we have presented standardized mean ratings of overall atmosphere according to gender and age of the guests (because of the significant differences in overall atmosphere between the six hotels, it was necessary to standardize scores for each hotel. This implies that each hotel will have a mean score of zero and standard deviation of one, which means that it will be possible to compare across hotels, if for example female or older guests tend to rate the atmosphere higher than male or younger guests).

We notice that across hotels, female guests tend to rate the hotels as more atmospheric than is the case for male guests. Furthermore, as guests get older, they tend to rate hotels higher in atmosphere. What is interesting is that while the increase is nearly linear for both genders, the increase is sharper for the males. Consequently, while the difference between males and females is highly significant (p < 0.01) in the below 40 group, it becomes non-significant as age increases. One possible explanation might be that females in general have a more developed ability to absorb and appreciate the atmosphere of hotels. However, as age increases, males too might learn to recognize the value of atmosphere and devote the necessary time and attention to experience it. However, it should be noted that this is a tentative explanation and that the present data set does not permit a comprehensive inquiry into alternative interpretations.

There was also a significant age effect when it comes to the perception of hospitality. The lower part of Figure 2 shows the standardized mean ratings regarding hospitality according to age. We note that across hotels, young guests rate the atmosphere as less hospitable than older guests do. The difference between the under 30 guests and those over 60 is highly significant (p < 0.01). In our view, this is not necessarily a matter of perceptual difference. It might actually be that senior guests are treated in a more hospitable manner, and thus subjected to a different atmosphere than is the case for younger guests.

Some differences were also found between guest types. Business travelers rated the hotels significantly lower with regards to overall atmosphere, relaxation and exclusiveness compared to the course/conference participants and leisure travelers. For the other factors, there
TABLE 2  
Factor Guest Characteristics\(^2\) as Sources of Systematic Variation – Summary  
Table of the ANOVA Analyses

<table>
<thead>
<tr>
<th>Perceived atmosphere</th>
<th>Source of Variation</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall atmosphere</td>
<td>Hotel</td>
<td>5</td>
<td>4.189</td>
<td>1.419</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>1</td>
<td>2.016</td>
<td>1.982</td>
<td>0.160</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>3</td>
<td>1.387</td>
<td>1.364</td>
<td>0.254</td>
</tr>
<tr>
<td></td>
<td>Guest type</td>
<td>2</td>
<td>0.926</td>
<td>0.911</td>
<td>0.403</td>
</tr>
<tr>
<td></td>
<td>Hotel x Gender</td>
<td>5</td>
<td>1.206</td>
<td>1.186</td>
<td>0.316</td>
</tr>
<tr>
<td></td>
<td>Hotel x Age</td>
<td>15</td>
<td>2.040</td>
<td>2.006</td>
<td>0.016</td>
</tr>
<tr>
<td></td>
<td>Hotel x Guest type</td>
<td>10</td>
<td>0.864</td>
<td>0.849</td>
<td>0.581</td>
</tr>
<tr>
<td></td>
<td>Gender x Age</td>
<td>3</td>
<td>3.045</td>
<td>2.994</td>
<td>0.032</td>
</tr>
<tr>
<td></td>
<td>Gender x Guest type</td>
<td>2</td>
<td>0.578</td>
<td>0.568</td>
<td>0.567</td>
</tr>
<tr>
<td></td>
<td>Age x Guest type</td>
<td>6</td>
<td>2.115</td>
<td>2.080</td>
<td>0.056</td>
</tr>
<tr>
<td>Distinct atmosphere</td>
<td>Hotel</td>
<td>5</td>
<td>8.624</td>
<td>10.952</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>1</td>
<td>0.177</td>
<td>0.225</td>
<td>0.636</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>3</td>
<td>1.091</td>
<td>1.386</td>
<td>0.248</td>
</tr>
<tr>
<td></td>
<td>Guest type</td>
<td>2</td>
<td>1.662</td>
<td>2.111</td>
<td>0.123</td>
</tr>
<tr>
<td></td>
<td>No significant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interaction effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospitable atmosphere</td>
<td>Hotel</td>
<td>5</td>
<td>1.342</td>
<td>1.456</td>
<td>0.205</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>1</td>
<td>1.101</td>
<td>1.195</td>
<td>0.275</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>3</td>
<td>2.487</td>
<td>2.698</td>
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</tr>
<tr>
<td></td>
<td>Guest type</td>
<td>2</td>
<td>0.054</td>
<td>0.059</td>
<td>0.943</td>
</tr>
<tr>
<td></td>
<td>Only significant</td>
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<td></td>
<td>interaction effect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Age x Guest type</td>
<td>6</td>
<td>2.933</td>
<td>3.182</td>
<td>0.005</td>
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<tr>
<td>Relaxing atmosphere</td>
<td>Hotel</td>
<td>5</td>
<td>7.224</td>
<td>13.184</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>1</td>
<td>0.039</td>
<td>0.071</td>
<td>0.790</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>3</td>
<td>0.696</td>
<td>1.270</td>
<td>0.285</td>
</tr>
<tr>
<td></td>
<td>Guest type</td>
<td>2</td>
<td>1.857</td>
<td>3.389</td>
<td>0.035</td>
</tr>
<tr>
<td></td>
<td>No significant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interaction effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive atmosphere</td>
<td>Hotel</td>
<td>5</td>
<td>9.288</td>
<td>14.379</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>1</td>
<td>0.563</td>
<td>0.872</td>
<td>0.351</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>3</td>
<td>1.708</td>
<td>2.644</td>
<td>0.050</td>
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<tr>
<td></td>
<td>Guest type</td>
<td>2</td>
<td>1.985</td>
<td>3.073</td>
<td>0.048</td>
</tr>
<tr>
<td></td>
<td>No significant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interaction effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional atmosphere</td>
<td>Hotel</td>
<td>5</td>
<td>3.839</td>
<td>4.689</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>1</td>
<td>1.242</td>
<td>1.517</td>
<td>0.219</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>3</td>
<td>0.713</td>
<td>0.871</td>
<td>0.457</td>
</tr>
<tr>
<td></td>
<td>Guest type</td>
<td>2</td>
<td>0.596</td>
<td>0.728</td>
<td>0.484</td>
</tr>
</tbody>
</table>

were no significant differences. Furthermore, we found no significant differences between course/conference guests and leisure travelers. Our interpretation of this finding is that available time is more important than whether the visit is in connection with work or leisure. Course and conference guests, although they are working,
FIGURE 2
Differences in the Way People Perceive Atmosphere

a) Perception of Overall Atmosphere – All Six Hotels by Gender and Age of Guests

b) Perception of Hospitality – Effect of Age
generally have more time to experience the atmosphere, than is the case for regular business travelers.

Implications, Limitations, and Further Research

Adequate measurement is a prerequisite for management. The research presented here represents a step toward developing an instrument for measuring atmosphere perceptions. Of course such an instrument needs to be tested, further refined and validated before it should enter the tool box of market research practitioners. As explained earlier, our selected approach for generating the item pool was to collect all words that have been used for describing atmosphere in hotel setting regardless of source. This approach should be supplemented by techniques to tap more directly into customers’ perception of atmosphere as a concept, through, e.g., a focus group approach or the repertory grid technique (Kelly 1955). As mentioned, the confirmatory factor analyses presented in this paper should be seen as a first step. Consequently, to be really convincing these analyses need to be done with new data. In this regard, we are planning a follow-up survey to collect data from a new sample of guests.

Even though our approach could undoubtedly benefit from being supplemented by qualitative techniques, we believe that a quantitative measurement instrument could be a useful diagnostic tool for market research and management. Given the considerable interest, and consequently the presumed value of atmosphere as an intangible asset, there are a number of areas where such an instrument would be useful. For example, the instrument could be employed to assess the extent to which the atmosphere of a particular establishment differs from that of its competitors and whether the atmosphere offered satisfies the demand of the market segment aimed at. Also, the measurement instrument could be used to explore the relationship between atmosphere and key variables like customer loyalty, word-of-mouth and repeat visits to mention a few.

Managers often have predefined goals to follow. One such goal might be to improve the atmosphere. To establish and create a desired atmosphere is often left to design experts (e.g., architects and interior designers) or handled by the owner’s gut feeling/intuition. Being involved in atmosphere measurement can help the manager to improve his or her professional judgment and consequently reduce the risk of bad investments based on feelings more than facts. The measurement instrument could also be useful in identifying gaps (e.g., areas where staff members’ perception of the atmosphere differs from that of the guests), as well as for measuring the effect of various interventions (e.g., pre- and post-measurements in connection with investments to improve the atmosphere or training programs to enhance hospitality). Finally, the instrument could be used for testing how effectively different promotional material can communicate the salient aspects of the establishment’s atmosphere to potential consumers.

Despite considerable interest in the phenomenon of atmosphere primarily among practitioners, there is still a way to go in order to address atmosphere in a systematic way from the perspective of consumer research. Instead of treating atmosphere as something vague and difficult to measure, efforts should be directed toward examining atmosphere perception more systematically. In our opinion, further work should be done to classify the wide range of atmospheres that are relevant for various types of consumer settings. An avenue which might be useful in this respect comes from the science of viticulture and enology, where the variety and complexity of wine aroma have led to the development of the aroma wheel, which has become a useful tool for wine description and classification (Noble et al. 1987). A similar approach might be useful for research on atmosphere.

Further studies should also address more specifically the combined effect of drivers to supplement the mainly monocausal studies (i.e., investigation into the effects of a single factor) that have dominated research so far. Thus, studies should be undertaken where different types of drivers (atmospheric, social, and design factors) are included and their effects measured both individually and combined.

It will be important to gain more insight into the relationship between atmosphere and affective responses, and between affective responses and outcome variables. Building on these insights it should be possible to further examine the relationship between atmosphere and operational variables (e.g., occupancy rates and repeat visits) as well as financial implications. Atmosphere investments are by no means risk free and to further examine risks in relation to atmosphere management we call for studies that assess the relationships between (i) atmosphere and functionality, (ii) various types of atmosphere and possibilities for rationalization/automation and scale expansion and (iii) investments in atmosphere and profitability.

ENDNOTES

1 The choice of varimax rotation and order of presentation of the descriptors in Table 1 have been done for the purpose of clarity and easy reading. In the questionnaire the descriptors were presented in random order.
2 Categories: Hotel (six hotels), gender (male/female), age (four age groups), guest type (business, course/
conference or leisure).  

3 RMSEA is the root-mean-square error of approximation fit index. Our assessment of fit is based on the recommendations of Browne and Cudeck (1993) and MacCallum, Browne, and Sugawara (1996), which characterize RMSEA < 0.05 as close fit, 0.05–0.08 as fair fit, 0.08–0.1 as mediocre fit and > 0.1 as poor fit.  

4 Facet identification was based on recommendations from earlier studies (see e.g., Aaker 1997). To identify facets, the set of descriptors in each of the four factors (which resulted from the principal components analysis as shown in Table 1) was factor-analyzed individually. For factor four, two sub-factors/facets had eigenvalues greater than one (default criterion for extraction). The first could be interpreted as exclusive and the second as traditional atmosphere. As shown in Figure 1, RMSEA improved slightly (from 0.055 to 0.049) when the two facets were included as separate latent variables.

REFERENCES


APPENDIX A
Detailed Description of the Deductive Phase of the Study

As mentioned, the purpose of the deductive phase was to test the relevance of each descriptor and reduce the number in order to remain with the most fundamental ones.

**Judgment-based reduction (from 600 to 458 atmosphere descriptors)**

Each descriptor was critically assessed in relation to the following criteria: (a) **Combined descriptors**: Terms that combined several descriptors were simplified. For example the term “good old-fashioned atmosphere” was reduced to “old-fashioned atmosphere.” (b) **Location specific descriptors**: Terms that were only relevant for specific places were not considered suitable to identify general dimension and were consequently deleted. For example, the term “Sorrento atmosphere” has only relevance for the city of Sorrento in Italy and was therefore excluded. (c) **Context specific descriptors**: Terms that were strictly context specific were deleted, as these were not considered particularly relevant for general atmosphere dimensions. Examples include “Sultan Ahmed atmosphere.” (d) **Vapid descriptors**: Adjectives that gave little information about the quality or type of atmosphere (for example “fine atmosphere”) were deleted. (e) **Obscure descriptors**: The same applied to descriptors with unclear meaning (such as “principal atmosphere”).

**Empirical based reduction (from 458 to 43 atmosphere descriptors)**

Due to the labor-intensive and meticulous task of testing the 458 descriptors, we were advised by hospitality experts to avoid using actual hotel guests in this early part of the work and we thus decided to use student subjects instead. A three stage randomized experimental design was employed.

**First stage (reduction from 458 to 201 descriptors)**

Subjects (n = 78, 80% female, mean age = 23.5 undergraduate students, specializing in hotel/tourism management at a leading university in Norway) were shown a ten-minute presentation of a hotel randomly selected from a total of six presentations. The hotels ranged from companies low in atmosphere (such as a Motel 6 establishment in Idaho) to truly atmospheric establishments like a tranquil countryside hotel in England and the exclusive Burj Al Arab Hotel in Dubai. The presentation was followed by a questionnaire with questions about the subjects (age, gender, etc.) and assessments of the hotel, including the extent to which the subjects believed that the hotel had a characteristic atmosphere. The last part of the questionnaire consisted of a randomly selected one-fourth of the 458 descriptors (i.e., four versions of the questionnaire were used. This decision was based on a pretest of respondent burden). The subjects were asked to rate how relevant each descriptor was for describing the hotel’s atmosphere. Based on previous studies (Aaker 1997 and Schall 2003) a seven-point Likert-type scale was used, ranging from 1 = Not at all descriptive to 7 = Extremely descriptive. The procedure was repeated twice, i.e., each subject rated three randomly assigned hotels each followed by a questionnaire (i.e., 78 subjects x 3 questionnaires = 234 observations).

**Manipulation check**: The degree to which the hotels were assessed to have a characteristic atmosphere was as expected, with Motel 6 having the lowest mean score and Burj Al Arab the highest. Analysis of variance indicated a highly significant difference in scores among the six hotels, F(5, 228) = 66.46, p < 0.001.

**Outcome**: The low number of ratings for each descriptor-hotel combination (less than 10 on average) represented an obstacle to using multivariate analysis in the first stage. To isolate the most relevant indicators, descriptors that were not among the top 50 most relevant descriptors for any hotel (which amounted to 257 descriptors) were removed, leaving 201 (458–257) for further testing. Consequently, the outcome of the first stage was a reduction in the number of descriptors from 458 to 201.

**Second stage (reduction from to 201 to 135 descriptors)**

This stage (n = 77, 82% female, mean age = 24.0, different sample from the same student population) yielded a further reduction to 135 descriptors. A total of six new hotel presentations were used, representing a broad range of hotels (difference in perceived atmosphere was confirmed by the same type of manipulation check as in the first stage). The procedure was identical to the first phase except that only two versions of the questionnaire were used (i.e., subjects rated the relevance of a randomly selected one-half of the 201 descriptors, i.e., 101 descriptors in the first version of the questionnaire and 100 in the second). The significantly higher number of ratings for each descriptor-hotel combination allowed for a more refined set of criteria to be employed. It was decided to retain descriptors that: (a) Discriminated between hotels, (b) Explained whether the hotel was perceived to have a characteristic atmosphere, (c) Had high relevance for at least one hotel (i.e., high mean score).
APPENDIX A (CONTINUED)
Detailed Description of the Deductive Phase of the Study

The rationale for including criterion (a) is that the ability to discriminate is a fundamental property of measurement instruments. Analyses of variance identified a total of 21 variables with substantial ($F > 25$) discriminatory power. These include descriptors like airy and idyllic, which are highly relevant for some hotels and not relevant for others.

The rationale for including criterion (b) was to test the descriptors in relation to a criterion variable (characteristic atmosphere). Separate regression analyses were performed for each version of the questionnaire, where extent to which the hotel was perceived to have a characteristic atmosphere was used as dependent variable and the various descriptors were tested as explanatory variables. There were a total of 10 significant explanatory descriptors ($p < 0.05$) in the first version of the questionnaire and combined these variables explained more than 75 percent of the variation in the dependent variable (adjusted $R^2 = 0.762$). In the second version of the questionnaire there were also 10 significant explanatory descriptors, with slightly higher combined explanatory power (adjusted $R^2 = 0.775$).

Criterion (c) is the same pragmatic criterion that was used in the first stage. To avoid that too many descriptors were kept for further testing, the cut-off point was set at 40 (i.e., descriptors needed to be among the most 40 most relevant descriptors for at least one of the hotels to qualify under this criterion).

Sixty-six descriptors failed to meet any of the three above-mentioned criteria and were therefore eliminated. A total of 135 descriptors met at least one of the criteria (several of these satisfied more than one criterion) and were consequently kept for further testing.

The use of a factor analytic approach was ruled out in the second stage because of the fairly low ratio of number of observations to variables (77 subjects x 3 questionnaires = 231 observations further divided by 2 versions of the questionnaire, meant that there were on average 115.5 observations to test the 100 or 101 descriptors in each version, representing a ratio of 1.15, which we considered inadequate for factor analysis).

As is common in most countries, the majority students who specialize in hospitality management and tourism are female. However, we decided to use this group because their particular interest and expertise in the topic being researched was considered to outweigh the potential problem of gender and subject bias. To check for a possible gender effect, analyses of variance were performed for each of the 201 descriptors, with gender and hotel as independent variables. While almost all variance was driven by hotel, gender had a significant main effect ($p < 0.05$) on 13 of the 201 descriptors. This is most likely mainly due to random effects (expected random number = 201 x 0.05 = 10.05). However, to rule out possible biasing effects it was decided to employ a more heterogenic sample in the third and final stage.

**Third stage (reduction from to 135 to 43 descriptors)**
This stage employed a more varied sample of students ($n = 278$, 59% female, mean age = 23). To improve gender balance, students from several male dominated areas were included (accounting, IT, petroleum technology, engineering and chemistry). This was also done to increase the heterogeneity of the sample and thus reduce any possible bias from particular disciplines of study.

Each subject rated three randomly assigned hotels (from a total of 12, i.e., the six from the first stage and the six from second). After each presentation the subjects completed a questionnaire as in earlier stages, except that this time there was only one version of the questionnaire, which included the 135 descriptors under scrutiny.

The considerably higher number of observations for each descriptor compared to the earlier stages enabled a factor analytic approach (the number of observations, i.e., 278 subjects x 3 questionnaires = 834 observations, was considered adequate for using a factor analytic approach on the 135 descriptors, i.e., ratio of 6.2).

Different factor models and descriptors were tested by confirmatory factor analysis using LISREL. In order not to “throw the baby out with the bath water” (i.e., accidentally delete descriptors that would be relevant for testing in the field, we decided on the most elaborate model with acceptable fit ($RMSEA = 0.050$). In addition to the descriptors included in this model, six additional descriptors that came out as significant explanatory variables in the regression analysis were also kept. In total, 43 descriptors were retained in the inventory and subsequently tested in the exploratory field survey.
APPENDIX B
The Six Hotels that Participated in the Field Study

Hotel #1

This is a deluxe, full-service, hotel, centrally located in the capital, between the parliament building and the Royal Palace, within walking distance of the main shopping and cultural areas, as well as its sights. The hotel was opened in 1874 and is one of the best-known hotels in the country. Prices are upper-range and the hotel caters mainly for high-class business travelers.

Hotel #2

This is one of the most original hotels in chain, located next to a famous amusement park/zoo in the Southern part of the country. Motifs and effects from the animal kingdom are a main feature of the rooms and communal areas. During summer the hotel is geared toward families with young children. Outside the summer-season, the hotel mainly focuses on the course and conference market.

Hotel #3

The hotel is situated next to the market, set among charming old timber houses in a coastal town in Southern Norway, which is the town in Norway with most days of sunshine per year. The hotel has a high standard of service and a particular southern, maritime feel. There is a variety of restaurants and entertainment available, just a walk away from the hotel.
APPENDIX B (CONTINUED)
The Six Hotels that Participated in the Field Study

**Hotel #4**

This is a standard business and conference hotel located in the outskirts of the capital. The hotel is basic but functional. Public transport is within walking distance and the airport bus stops five minutes away from the hotel, on its way to and from the main airport.

**Atmosphere profile:**

**Hotel #5**

Located in the North-Western part of the country, this hotel has been called Norway’s most complete and flexible hotel for culture and conferences. The hotel is designed to look like a huge sail, and the rooms have a superb view to the nearby fjord and surrounding mountains.

**Atmosphere profile:**

**Hotel #6**

This hotel is surrounded by mountain terrain. In winter, there is skiing for all abilities, while the water, wide open spaces and mountains make it an ideal place for hiking, riding, and fishing during summer. The hotel is a popular venue for courses and conferences.

**Atmosphere profile:**
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RETURN ON SERVICESCAPE INVESTMENTS: DOES REMODELING MAKE A DIFFERENCE?

Dwayne D. Gremler, Bowling Green State University, Bowling Green
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SUMMARY

Service managers expend a large amount of resources on designing, building, and furnishing the servicescapes of their establishments. Although the importance of the servicescape within the service encounter has been established, little research has examined the impact of a significant remodeling or redesign of a service facility. This study examines the impact of the major remodeling of a service environment (a fast food restaurant); of particular interest is the short- and long-term impact of significant changes in the servicescape on customers’ affective responses, cognitive responses, and approach behaviors.

Service providers spend millions of dollars per year to design, build, and furnish their service establishments to create “physical evidence” of the provided service quality (Bitner 1992). Cutthroat competition has led service providers to employ the service environment as a source of differential advantage. The importance of the servicescape – defined as the environment where the service is delivered and where the customer and the firm interact – within the service encounter has been established (e.g., Bitner 1992). Numerous empirical studies have investigated different aspects of the servicescape such as music (e.g., Baker, Levy, and Grewal 1992; Milliman 1986, 1982), lighting (e.g., Baker, Grewal, and Parasuraman 1994; Baker, Levy, and Grewal 1992), and odors (e.g., Mitchell, Kahn, and Knasko 1995; Spangenberg, Crowley, and Henderson 1996). However, most servicescape research is cross-sectional and studies differences in the servicescape in a “timeless” setting; that is, it does not consider changes in an existing service environment nor does it investigate the effects of such changes over time. In addition, while most studies focus on minor changes in particular servicescape elements, little research addresses the impact of a major remodeling. Finally, extant research is often conducted in merchandise-oriented retail contexts, although changes in the servicescape are arguably more important for service-oriented retailers.

The purposes of this study are twofold. First, we extend marketing theory by investigating the effects over time of a significant remodeling of a service provider’s facility. The impact of a significant, major remodeling of the servicescape has, to our knowledge, not been investigated in the marketing literature. Second, building on Bitner’s framework (1992), we develop a complete set of questions to measure customer perceptions of ambience factors, servicescape design, and related social factors. We test how changes in the servicescape influence servicescape perceptions, affective and cognitive responses, and approach behaviors by collecting data before a major remodeling effort, right after the remodeling, and five months after the remodeling. Our dependent measures include key customer consequences of interest to service firms, including satisfaction, service quality, value, image, loyalty, desire to stay, and to spend more money, future share of wallet, repatronage intentions, and positive word-of-mouth communication.

The impact of significantly remodeling the servicescape is investigated with a field experiment in a European fast-food restaurant. This restaurant (part of an international chain) underwent a major remodeling effort in September 2006, in which the store atmosphere, lighting, spatial layout, furnishings, symbols, artifacts, color schemes, and other factors were significantly changed. We employ a longitudinal design to capture customer attitudes and behavioral intentions at three points in time, including: two months before the remodeling (T1), right after the remodeling (T2), and five months after the remodeling (T3). To control for seasonal effects or general changes in customer attitudes and behavior due to advertising campaigns, the economic situation, or other external factors, data were also collected at another fast-food restaurant of the same chain in the same general region of the country. This second restaurant is similar in size and customer structure, but did not undergo any changes to the servicescape.

Our analysis of data gathered from a field experiment (i.e., a significant remodeling of a servicescape) revealed (1) increases in respondent perceptions of the servicescape, (2) short-term, positive increases in customers’ affective and cognitive responses and approach behaviors, and (3) mixed results with responses over a longer period of time.

In particular, we find customer perceptions of the servicescape dimensions to increase as a result of a significant servicescape remodeling in the short-term (i.e., from T1 to T2) for nearly all of the dimensions we measured, indicating that respondents find the new environ-
ment more welcoming and pleasing. Five servicescape items (external appearance, exterior colors, outside furniture, warm atmosphere, and vibrant atmosphere) increase even further in the long-term. Thus our findings suggest that significantly changing such environmental elements as lighting, music volume, layout, furnishings, paintings, furniture materials, and exterior and interior color schemes can be successful from a design perspective since they are well perceived by customers. Overall, we also find that there is an immediate positive effect of remodeling the servicescape on customers’ affective responses, cognitive responses, and approach behaviors. That is, a significant remodeling of a servicescape positively influences customer affective responses (in terms of their attitudes, pleasure, and arousal) in the short-term, implying that a change in the servicescape activates positive emotional responses in consumers. We also find that a remodeled servicescape leads to more positive immediate cognitive responses in the short-term. Finally, an improved servicescape encourages approach behaviors in the short term, as the data indicate that customers are more likely to spend more money, return to the store, stay longer, and promote the store to friends and family. Hence, positive changes in the store environment influence short-term approach behaviors in a way that is beneficial for the firm.

However, our research shows that positive perceptions of a remodeled servicescape to do not necessarily lead to strong positive results in the long-term. Surprisingly, most affective responses to significant changes in the servicescape, as well as several cognitive responses and approach behaviors, return to their original (base) levels over time. Indeed, for variables such as attitude and arousal, overall satisfaction, service quality, value, word-of-mouth communication, and repatronage intentions, it seems that the novelty stimulus from the new design does not last very long. We do find that a few variables (brand image, store image, desire to stay, and future share of wallet) stay at the new, higher level in the long-term. References are available upon request.

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THE STRUCTURE AND FUNCTION OF LANGUAGE IN THE STRATEGIC RITUALS OF SERVICE PROVIDERS

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Behice Ece Ilhan, University of Illinois at Urbana-Champaign
Atul Kulkarni, University of Illinois at Urbana-Champaign

ABSTRACT

As part of its “Sleep Advantage™” program, guests who check into the Crowne Plaza hotel find on their beds a burgundy drawstring bag containing earplugs, an eye mask, a plastic bottle of lavender linen spray, and a CD with the words “Sleep soundly” on its cover. Inside the CD case, the text explains the Sleep Advantage™ program and lists the amenities the hotel provides that are designed to help guests sleep. The case also lists ten “Sleep Tips,” and the CD itself includes eight different tracks combining music and sonorous instructions that guests are supposed to play in order to help them relax, and ultimately, to sleep.

As a marketing program, Sleep Advantage™ clearly is designed to differentiate the Crowne Plaza brand in the highly competitive business-oriented hotel category. But with its gifts, elaborate descriptions, and scripted instructions, it is also an excellent example of what we describe elsewhere as the use of a “strategic ritual,” or the use of a ritual by a marketer to achieve specific firm- and/or customer-oriented objectives (Authors’ citation here, 2007). Rook (1985, p. 252) defines rituals as multiple symbolic and expressive behaviors “that occur in a fixed, episodic sequence and that tend to be repeated over time . . . [that are] dramatically scripted and . . . performed with formality, seriousness, and inner intensity.” Although Rook’s definition originally pertained to the types of rituals that consumers create and in which they engage, it is intuitively obvious that marketers often employ rituals in their interactions with customers, even if they do not label these activities as such. Such rituals can range from the relatively self-contained greetings offered by doormen when they welcome customers into a hotel, to more elaborate offerings such as the “Saturn delivery ceremony” – where staff at the dealership thank, cheer, and take pictures of customers acquiring their new cars (www.saturnfans.com).

Most research that explores the role and impact of rituals in marketing focuses on consumers’ experiences of rituals such as holidays (e.g., Wallendorf and Arnould 1991), life passages (Bonsu and Belk 2003), gift giving (e.g., Lowrey, Otnes, and Ruth 2004), and extraordinary consumption experiences (Kozinets 2001). Fewer studies do explore how service providers facilitate or hinder consumers’ ritual experiences (e.g., Arnould and Price 1993; Sherry and McGrath 1989; Otnes, Lowrey, and Shrum 1997; Sandikci and Ilhan 2007). Thus, the emphasis on rituals in marketing clearly privileges consumer-to-consumer versus business-to-consumer experiences. As part of a stream of research that explores how service providers and consumers understand the strategic rituals that marketers can employ, in this paper, we pivot the lens of ritual research to examine how service providers strategically employ a specific aspect of strategic rituals to achieve specific customer- and firm-oriented objectives. Specifically, we explore the structure and function of one ritual element that is overlooked in the literature – the role of language in these rituals. In another paper, we believe this topic is important to academics and practitioners for at least three reasons. First, language [START HERE] although providers do create and offer strategic rituals, they may not be familiar with the structure, function or boundaries of ritual behavior. Unpacking the nature of strategic service rituals will enable providers to create more meaningful and successful experiences for customers. Second, research within and outside of marketing consistently demonstrates that rituals provide meaningful structure to existence, enhance social bonds and can transform people’s lives (Driver 1991). Exploring strategic rituals can help retailers assess whether the experiences they offer customers fulfill such functions. Third, services researchers often hint at – and even directly mention – the potential of rituals and ceremonies to enhance customer relationships (e.g., Czepiel 1990; Siehl, Bowen, and Pearson 1992; Price, Arnould, and Tierney 1995). But to our knowledge, ours is the first study to specifically unpack how service providers implement these elements into their customers’ experiences.

We began by asking a general, discovery-oriented question: “How do service providers use rituals when interacting with customers?” Interviews with providers soon revealed that one key ritual element – and one overlooked in the scholarship on ritual – is language. Given that communication is crucial in delivering a satisfactory service encounter, we narrowed the focus for this paper to address these questions: (1) What types of ritual language emerge in the strategic rituals of service providers? (2) What objectives do providers try and achieve with ritual language? After explaining our research methods, we will discuss the theoretical frameworks that inform our analysis.
METHOD

This study is part of a larger research project that explores the strategic use of rituals by service providers. We chose an interpretive approach in order to explain the social and cultural events of interest from the perspectives and experiences of those being studied (Nobit and Hare 1988). We conducted depth interviews with 23 service providers in a small Midwest city (pop. about 100,000) and surrounding communities from September to December 2006 (see Table 1). We screened providers in various categories, selecting those who incorporated customer-oriented rituals into their services. Informants varied across service target, type of customer relationship, degree of customer contact, ability to satisfy peak demand and location of service delivery (Lovelock 1983).

We began by presenting Rook’s definition of rituals to informants and asking them to describe any specific rituals they used. We then used prompts to elicit information on the services our informants provide, the structural and functional elements of the rituals they offer, their strategic purpose for including rituals, perceptions of how their competition uses rituals, and perceptions of customers regarding what types of rituals they expect from providers in this category. Interviews ranged from 45 minutes to 2 ½ hours, were audio-taped and transcribed, and yielded approximately 800 pages of text. In analyzing our text, we sought emergent themes while engaging in dialectical tacking, immersing ourselves in the interdisciplinary literature on rituals to seek out consistencies and/or inconsistencies with our text. Once we realized the salience of ritual language, we broadened our literature review to include studies from linguistics. This search led us to research in speech act theory, which we believe is a valid and useful theoretical scaffold for our interpretation. After describing Rook’s structural ritual framework, we provide an overview of speech act theory below.

THEORETICAL BACKGROUND

Rook’s (1985) Structural Typology of Ritual Elements

Rook argues there are four essential elements to ritual: artifacts, or the tangible objects used (e.g., clothing and candles); scripts, or the norms that “guide the use of the various artifactual materials” (p. 253), performance roles, or the explicitly or vaguely scripted parts people play in rituals, and the audience, or the wider constituency that may experience the ritual, but may not take part in it. Although this typology has proven to be a useful starting point for much ritual scholarship, it does not recognize the importance of ritual language. Rather, Rook limits the discussion of language to the section on ritual scripts where he observes that norms are sometimes highly codified, and “may appear in a written document” (p. 253). We believe our text offers sufficient evidence that language should be regarded as a stand-alone, highly salient ritual element whose impact extends beyond merely serving as a vehicle to communicate ritual norms. In the next section, we describe speech act theory, which Robbins (2001) argues is highly applicable to understanding language in ritual contexts, because both speech act and rituals share performative qualities.

Speech Act Theory

Speech act theory (SAT) is a reaction to the logical-positivist philosophers who claim language is primarily composed of declarative statements that can be assessed as true or false. In their seminal works outlining SAT, Austin (1962) and Searle (1969) argue that many utterances (such as prayers, and phrases like “thank you”) cannot be assessed in this manner, and that the real purpose of an utterance (a term used for both oral and written language) is primarily to perform some action or create some reality within a social context (Cline 2002). Smith (1990) argues that even utterances that do not seem performative, such as “Is John sitting down?” do perform an act – in this case, stating indirectly, “I am asking whether John is sitting down.”

Speech act theory is rooted in pragmatics, a branch of linguistics that explores “how people comprehend and produce a communicative act or speech act in a concrete speech situation” (Liu 2007). Speech acts are best understood as deliberate performances by speakers or writers, designed to accomplish specific objectives and to elicit some reaction in the receivers of messages (Saeed 2003). Speech acts are composed of three structural elements: the locutionary act (the “grammatical” or actual utterance), the illocutionary act (the sender’s intent when making an utterance), and the illocutionary effect (the receiver’s perceived understanding of the intent of the utterance; Hamermesh 1981). This emphasis on understanding the social function of utterances, and the possible contradictions between the intent and interpretation of an utterance, distinguishes speech act theory from more structural approaches to language that have been applied to marketing (e.g., semiotics; Mick 1986).

Most SAT scholars adopt Searle’s (1969) typology that classifies utterances into one of five categories. With hypothetical examples from service contexts, these are: (1) assertives: acts that “commit the speaker to the truth of an expressed proposition” (e.g., if a clerk says, “I have that dress in a Size 5,” she must produce the dress when asked); (2) directives: acts that try to convince the recipient to act in some way (e.g., “Please refrain from smoking in the restaurant”); (3) commissives: acts committing the speaker to a future course of action (e.g., “I’ll have your car ready tomorrow by 5 p.m.”); (4) expressives: acts expressing a psychological state such as regret (e.g., “I’m sorry your car wasn’t ready as promised”) and (5) declarations: acts
<table>
<thead>
<tr>
<th>Type of Service Provider</th>
<th>Services Offered</th>
<th>Yrs. In Business</th>
<th>Type of Provider</th>
<th>No. of Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art Museum</td>
<td>Exhibition of art works, tours, workshops, lectures, concerts</td>
<td>40+</td>
<td>State institution</td>
<td>1</td>
</tr>
<tr>
<td>Bank</td>
<td>Financial services, wealth management</td>
<td>139</td>
<td>Corporation</td>
<td>22</td>
</tr>
<tr>
<td>Beauty Salon/Spa</td>
<td>Hair, nails, massages, aesthetics</td>
<td>32</td>
<td>Sole proprietor</td>
<td>3 to 4</td>
</tr>
<tr>
<td>Bed and breakfast</td>
<td>Accommodations, meals</td>
<td>16</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Bookstore</td>
<td>Selling books, CDs, DVDs, gifts.</td>
<td>19</td>
<td>Family partnership</td>
<td>1</td>
</tr>
<tr>
<td>Car dealership</td>
<td>New/used cars; maintenance and service</td>
<td>14</td>
<td>Franchise</td>
<td>Chain – Multiple locations</td>
</tr>
<tr>
<td>Destination Spa</td>
<td>Spa services, yoga, recreation, massage</td>
<td>23</td>
<td>Partnership</td>
<td>1</td>
</tr>
<tr>
<td>Home cleaning</td>
<td>Housecleaning</td>
<td>28</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Limousine/bus</td>
<td>Transportation services</td>
<td>21</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Massage therapist/ yoga instructor</td>
<td>Massage therapy/private yoga sessions</td>
<td>3</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Premium dessert retailer</td>
<td>Ice cream, cakes, shakes, smoothies.</td>
<td>1 (this location); 15 whole (co.)</td>
<td>Franchise</td>
<td>1,400+</td>
</tr>
<tr>
<td>Private middle school for girls</td>
<td>Education</td>
<td>13</td>
<td>Non-profit; board-governed</td>
<td>1</td>
</tr>
<tr>
<td>Realtor</td>
<td>Assist buyers/sellers</td>
<td>20</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Restaurant</td>
<td>Full-service fine dining</td>
<td>3</td>
<td>Partnership</td>
<td>1</td>
</tr>
<tr>
<td>Restaurant</td>
<td>Full service restaurant</td>
<td>30</td>
<td>Partnership</td>
<td>1</td>
</tr>
<tr>
<td>Restaurant</td>
<td>Steakhouse dining</td>
<td>Approx 12</td>
<td>Franchise</td>
<td>Chain</td>
</tr>
<tr>
<td>Tree service</td>
<td>Tree care; landscaping</td>
<td>16</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Univ. athletic dept.</td>
<td>In-game promotions</td>
<td>100+</td>
<td>State institution</td>
<td>1</td>
</tr>
<tr>
<td>Univ. office of undergraduate affairs</td>
<td>Advise undergraduate students</td>
<td>Unspecified</td>
<td>State institution</td>
<td>1</td>
</tr>
</tbody>
</table>
that create a new state of reality (e.g., “I appoint you Customer of the Month”) (Winograd and Flores 1986).

SAT scholars are also interested in determining the conditions under which utterances are felicitous, or understood by the receiver in the way the sender intends (Austin 1962). If this understanding does not emerge, it is important to identify the type of breakdown that occurs (e.g., a “misfire,” where a recipient dismisses an utterance, or a breakdown because an utterance is inappropriate in a particular social context; Austin 1962). Unpacking the contradictions between a sender’s illocutionary act and the illocutionary effect on the receiver within ritual contexts should enable service providers to better understand the power of language.

**INTERPRETATION**

Because our data focuses on services providers, and not provider/customer dyads, this paper explores only the first two aspects of speech act theory – the actual (locutionary) a speech act and the intended (illocutionary) act. We organize our interpretation around unpacking these two elements. Table 2 summarizes the locutionary and illocutionary speech acts that emerge in our text. We organize our discussion around these linguistic units because our informants identify them as the units of analysis that were performative (e.g., that contain the ritual-related meaning they are trying to impart).

**Neologistic Phrase**

A neologistic phrase contains an entirely new word that the service provider creates. The use of neologisms in marketing is a relatively common practice, because it is assumed coining a novel word for a product, service or experience can differentiate these entities from the competition immediately. For example, “Fourthmeal,” a neologism currently touted by Taco Bell, actually encourages consumers to add a new meal, one “between dinner and breakfast” (www.fourthmeal.com), to their existing dining rituals. One informant, Kay, prominently features a neologistic phrase in her greeting ritual:

**TABLE 1 (CONTINUED)**

<table>
<thead>
<tr>
<th>Type of Service Provider</th>
<th>Services Offered</th>
<th>Yrs. In Business</th>
<th>Type of Provider</th>
<th>No. of Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veterinary clinic</td>
<td>Preventive wellness, vaccinations, boarding, euthanasia</td>
<td>48</td>
<td>Family partnership</td>
<td>3</td>
</tr>
<tr>
<td>Voice teacher</td>
<td>Singing instruction</td>
<td>30</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Wine merchant</td>
<td>Retail, wine bar, café</td>
<td>4</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
<tr>
<td>Yoga Studio Owner</td>
<td>Yoga classes, private instruction, massage</td>
<td>10</td>
<td>Sole proprietor</td>
<td>1</td>
</tr>
</tbody>
</table>

Kay’s greeting ritual not only accomplishes the illocutionary act of welcoming her guests to her Bed and Breakfast, but also helps her craft a unique, premium identity for her town, and hopefully instill positive attitudes in visitors about the locale. As such, this neologism helps Kay sacralize her community (Belk, Wallendorf, and Sherry 1989).

**Mantra**

While the power of a neologistic phrase stems from its novelty, a mantra typically is a word or phrase with old (perhaps even ancient) spiritual or religious roots. Repeating a mantra is supposed to connect an individual to spiritual beliefs or a spiritual entity. Because spirituality and religion are deeply personal, providers recognize that their decision to incorporate mantras into their service
could be controversial. Donna describes how she says the sacred Hindu syllable Aum (pronounced “Ohm”) in her yoga classes. She recognizes not everyone will want to reciprocate, as is the yogic custom:

We say “Aum,” and that is a ritual in a sense . . . I do not do it in all classes because some . . . intro classes, it is a little too early in their experience – people have some conflict with their religion, you know . . . [in classes where she says “Aum”], there is probably half, maybe two thirds that still won’t do it. But I close my eyes [when uttering “Aum”] . . . I feel it is your own personal experience that you don’t have to need me looking. I have no idea how many people are saying it . . . you know, you’ve got some loud folks and [in] other classes, they’re real soft, but I can tell they are doing it . . . And I figure over time let them start that . . . even if they just think it.

Donna’s reflection on “Aum” reveals she uses the mantra to try and help her customers become open to the spiritual and possibly transforming nature of yoga. Nevertheless, she is clearly cognizant of the fact that this illocutionary act may not have the desired illocutionary effect. Likewise, as the owner of a day spa, Megan comments that she cannot say religious-holiday mantras in greeting rituals, because she might offend her customers: “I can’t say Merry Christmas, but I can say Happy Holidays.”

Thus, while service providers might find mantras appealing to achieve specific goals, the decision to include them must take into account whether customers will deem a particular utterance as appropriate in a particular social context (Austin, 1962) – and if not, how using a mantra might impact provider/customer relations.

The Slogan

A slogan shares particular characteristics with a mantra, in that it is often short, repeated over time, and may take on important and maybe even transformational cultural connotations (e.g., Nike’s “Just Do It.”). However, most slogans are created by an advertiser to position a product or service (Slogan: Define). Advertisers recognize slogans can help them solidify rituals in a culture, and enact changes in ritual participation (e.g., De Beers’ “A Diamond Is Forever” campaign; Otten and Scott 1996). Similarly, Joe uses slogans to assist him in building customer interest in sports rituals:

We’ve got written up there [on his whiteboard] “Tailgating is game day, all day” and “The greatest tailgating environment in [the conference].” So clearly these are two tag lines . . . that we feel are a big part of what a football game day is all about. . . . So, it’s a big focal point for us . . . So obviously we are really pushing the tailgating atmosphere . . .

I: What benefits are you hoping the program will glean from this?

R: The revenue aspect, the attendance aspect, the branding and image . . . and it makes it more of a destination for a football Saturday . . . and it becomes even a greater point not even for the Athletic department but for the University as well.

Joe’s attempt to boost the tailgating ritual reveals his clear understanding that within American culture, sports are valorized occasions that possess their own unique rituals. Belk, Wallendorf, and Sherry (1989, p. 12) observe sports fall into the venue of sacred experiences, where “stadiums are temples that may be the site of pilgrimages . . . and fans participate in pre- post, and during-game rituals.” In addition, Joe recognizes that by issuing a directive designed to persuade consumers of the quality of the tailgating experience, they are likely to want to repeat this event, and such desires will be reflected in increased ticket sales and revenue for the University.

Prescription

Prescriptions are rules or laws for behavior, which can both be used to encourage a particular type of behavior, or to discourage activities. As previously stated, this speech act is the only element of ritual language Rook (1985) mentions, and it is synonymous with ritual scripts. Our informants often create “initiation” rituals (those designed to familiarize customers with the scope and quality of their services), such as tours and orientation sessions. Although these often fulfill the roles of educating consumers, it is equally important to providers that these rituals serve as vehicles to teach customers to comply with particular rules or requirements the provider wishes to enforce. Joe mentions he stresses the rule “Wear [A Color]” to football games. In so doing, he believes the identity of the university is collectively enforced, because “the thing about the [color] is that within [Conference] . . . we are the [color]. If you wore blue, you could be [University X], you could [also] be [University Y] . . . nationally it is a rare color . . . it makes our [fans] stand out more clearly.” By emphasizing this rule, Joe specifically directs his customers’ use of clothing, a key artifact in the ritual celebration (Rook 1985), while targeting key institutional objectives.

With respect to prescriptions that forbid behavior, service providers recognize such rules may conflict with consumers’ own sense of agency, a problem naturally compounded by the fact that customers are paying for a service. Meg, who runs a destination day spa, notes she
<table>
<thead>
<tr>
<th>Locutionary Act</th>
<th>Definition</th>
<th>Example from Text</th>
<th>Type of Ritual</th>
<th>Ilocutionary Act</th>
<th>Marketing Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neologistic phrase</td>
<td>Phrase containing any new word introduced into a language by whatever process.</td>
<td>“Welcome to Superbia” (B&amp;B Owner)</td>
<td>Greeting</td>
<td>Expressive</td>
<td>Build Identity; Reassure Customer, Differentiate</td>
</tr>
<tr>
<td>Mantra</td>
<td>A commonly repeated word or phrase, often with sacred or spiritual connotations.</td>
<td>“Namaste” (Yoga instructor)</td>
<td>Parting</td>
<td>Expressive</td>
<td>Enhance Relationship/ Loyalty</td>
</tr>
<tr>
<td>Slogan</td>
<td>“Memorable motto/phrase used in political, religious or commercial contexts...repetitive of an idea or purpose.”</td>
<td>“Tailgating is Game Day, All Day.”</td>
<td>Pilgrimage</td>
<td>Assertive</td>
<td>Increase repeat behavior/loyalty/ Build excitement</td>
</tr>
<tr>
<td>Prescription</td>
<td>The act of establishing official rules, laws, or directions.</td>
<td>“Wear Orange”; “No swimming alone”</td>
<td>Grooming, Orientation Rituals</td>
<td>Directive</td>
<td>Encourage customer compliance</td>
</tr>
<tr>
<td>Song</td>
<td>Relatively short musical composition for the human voice...the words of which are typically of a poetic, rhyming nature.</td>
<td>Sing songs when receive tips; (Premium Dessert Store)</td>
<td>Ritual socialization</td>
<td>Expressive, but also directive (encourages future tips)</td>
<td>Enhance relationships with customers; enhance employee morale</td>
</tr>
<tr>
<td>Text</td>
<td>Levels of linguistic analysis higher than a sentence...connected to explicit and often formulaic linguistic representation, whether written or verbally ritualized.</td>
<td>Poem from veterinarian after pet euthanasia</td>
<td>Rite of Passage</td>
<td>Expressive</td>
<td>Relationship building/loyalty</td>
</tr>
<tr>
<td>Conversation</td>
<td>Social action that is spontaneous and not constructed, but governed by some rules (e.g., turn-taking, sequences of utterances).</td>
<td>Discussion of physical/Emotional state of customers (Spa, voice teacher)</td>
<td>Orientation</td>
<td>Directive, Commissive</td>
<td>Enhance provider effectiveness, which enhances satisfaction/decreases complaining behavior.</td>
</tr>
</tbody>
</table>

4. dictionary.com, June 26, 2007;
6. [http://neohumanism.org/s/so/song.html](http://neohumanism.org/s/so/song.html);
conducts a thorough orientation with her guests in order to familiarize them with the rules. By couching these rules in an initiation ritual of orientation, and in customer-oriented language, she tries to make them more palatable. At the same time, she makes clear that the illocutionary effect she desires goes beyond delivering a good customer experience. She begins her rules with these words:

R: “For your safety, for your best interest, for your well-being. To create a positive vacation, please follow the following instructions…” When they come into the door we do an orientation . . . sit down with all of guests at the same time, and say “welcome. . . .” And because we’re small . . . we pre-schedule [massages and or facials] . . . Some will say, “Well, maybe I don’t know if I want it then. . . .” Once in a while they’ll go, “there might be too many rules.” Well, that’s how I keep my price down and I can be affordable . . . and do positive things. I always try to put a spin on it, but if I don’t run efficiently, I won’t be here next year.

In sum, the locutionary act of the prescription is often subsumed within a ritualized context in order to soften the blow of asking consumers to give up freedoms (Author’s cite here). By using greetings and orientation as vehicles for communicating rules, service providers believe they gain consumer compliance, and achieve corporate-related goals such as minimizing costs and running efficiently.

Song

Another form of ritual language – one involving more of a performative element – is the song. In other studies that identify service rituals, songs are seen as linguistic devices that can cast spells and enhance bonds between providers and customers (e.g., singing “Kodachrome” so clouds will disappear while river rafting; Arnould, Price, and Otnes 1999). However, our providers use songs both as teaching tools and as means of enhancing atmospheres. Bill, who owns a dessert store, observes:

We sing for tips, but . . . [also] for the ambience and for the experience. If people have not been tipping for a long time, people sing a song, and . . . systematically they are supposed to say “Thanks for the tip” at the end . . . everyone who is potentially standing in line will know that the crew can earn an extra dollar tip . . . It’s a corporate initiative that helps with crew member satisfaction . . . and it helps build a happy, enthusiastic environment in the store, and an entertainment factor.

In this case, songs not only serve as elements of ritual socialization (teaching customers that tips are expected and acceptable) but also as a way to effect the mood and personality of the provider as an element of atmospheres – itself deemed a form of language (Kotler 1973).

Text

A more complex locutionary act that providers incorporate into rituals is text, typically a one-way communication to a recipient that is not altered or alterable once appearing in its final, mediated form. Our informants rely on many types of commercially-available text to enhance the quality of their consumers’ ritual experiences. Donna often offers readings as part of her parting ritual in her yoga class, noting that after the final relaxation posture, “the body, the spirit, is in an open state and kind of ready to listen a little bit more . . . it is a teaching experience . . . I have had people in class cry during the readings . . . and say, “Oh my God, that was so perfect for me.” As such, Donna’s intent is to use an expressive text to create a psychological connection with her students, which she hopes will then translate into increased customer loyalty.

Likewise, Stan’s veterinary practice sends both a gift and a poem to customers when after euthanizing a pet: “There is a ‘Rainbow Bridge,’ it’s a poem about death . . . We attach that to the paw print. So we feel it sort of says, ‘That relationship is over, the memories are there, maybe hopefully someday we will see that pet again.’” Interestingly, over time this ritual has grown from sending a card, to sending the more elaborate paw print and poem. When asked to explain this transition, Stan observes:

I: You see, the client bond has grown so much since I began practicing.

R: With you guys?

I: No, with their pet . . . it really is truly part of the family . . . When my dad started practicing in 1959 . . . basically they would drag the pet on a chain from the back yard . . . he’d give a rabies shot, and they’d go home . . . [They’ve] go[ne] from this backyard pet to family member.

By coupling a meaningful commercial text with a gift, Stan’s intent is to demonstrate that his practice is aware of the pet-as-family metaphor (Hirschman 1994), and that this bond deserves ritual commemoration. He further hopes the ritual enables him to build trust with his customers, and build loyalty among them: “If this . . . is handled properly, then when they get a new pet they’ll still feel like we did a good job even with that aspect of it . . . they [customers] could easily leave you and go.”

Conversation

The final locutionary act we discuss is the conversation, which is a two-way, relatively more spontaneous interaction between the service provider and the customer. Although conversations may obviously occur in non-ritualized contexts between parties, some service
providers specifically mention they deliberately incorporate ritualized (e.g., highly structured, important, often-repeated) conversations in their customer interactions. The importance of conversation as a ritual element is captured in a recent ad campaign by Hair Cuttery, the nation’s largest franchise hair salon, which features the headline: “A good haircut starts with a good conversation.”

Many informants believe conversations to be key elements in greetings and orientations. Jane, a massage therapist, keeps the frontstage/backstage nature of the conversational act (Goffman 1959) squarely in mind, noting when her customers arrive, “I always walk them back and we talk. I ask them how they’re doing. I don’t really ask them out here. I sort of keep this [living room for] public talk. Essentially keep the [massage] room private talk because sometimes my husband is here and that’s private conversation.” Likewise, Don observes the importance of having a conversation with his voice students when they arrive: “That ritual . . . begins with a greeting . . . and most often, an inquiry into how the student is feeling. Because if they’re not well, either physically or emotionally, it has an impact on how well they can sing. So, that’s kind of an invitation to share what’s going on in their lives.”

Sometimes, the conversation with a customer is even more formalized, and the service provider uses specific, often elaborate sequence of utterances within the conversation in order to perform desired objectives. Jan, a realtor, describes this behavior:

R: [With] either buyer or seller, I like to sit down with them for at least an hour and say, just to get to know them, “What are you looking for?” “How do you like to do this?” and “How do you like to do that?” . . . so it’s really good for me to be in contact with them beforehand, and in a way that’s a ritual because I have to do it with every client.

I: Is there a defined set of questions you make them go through?

R: Yes . . . but I do not make them go through the list. I have the list but I cover them in conversation.

In sum, ritualized conversations can help service providers accomplish specific objectives. First, they can help providers better enhance the service they offer, and provide a level of customization that would be impossible without such ritual conversation. Second, they can help providers demonstrate their sincere desire to build and maintain relationships with customers.

**FUTURE RESEARCH**

One limitation of our data stems from our sample, which consists primarily of one-location service providers. To build on our findings, future research should include a greater range of providers in various geographic settings. A more diverse sample – e.g., one with global franchises, or internet-only providers – is likely to offer richer insights in the strategic use of rituals to increase the quality and quantity of our knowledge of the use of speech acts in service rituals. Future research should also take a dyadic approach of analyzing interactions between both service providers and customers to unpack the understanding of illocutionary effects. This approach can enable us to reach beyond the service organizations where strategic rituals are rooted, and unveil the positive and negative effects of characteristics of rituals on consumers.

Another interesting avenue for future research would be to study the boundaries of strategic rituals. The issue of ritual boundaries with speech acts emerges numerous times in our data (e.g., mantras). Future research could specifically focus on studying the ways service providers may navigate possibly controversial speech acts, and how customers perceive these vis-à-vis their service experience. Finally, future research may investigate the differences in speech acts across customer segments. For example, providers may interact differently with experienced customers as compared to novices because different assumptions may govern the use or non-use of utterances as familiarity with a customer increases.

In conclusion, we unpack how service providers implement strategic, customer-oriented rituals. The findings suggest language is a highly salient, impactful element of strategic rituals, and an element that can help service providers accomplish (or fail to accomplish) specific marketing objectives. Although we identify the structure and function of specific speech acts, our goal is to continue exploring the relationship between the utterances service providers execute in ritual contexts, and the impact of these utterances on customer/service provider relationships.

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COMMUNICATION OF PRICE INCREASES: HOW CAN NEGATIVE CONSUMER REACTIONS BE REDUCED?

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SUMMARY

Price increases seem to be an adequate way to improve the earnings of companies. This fact becomes especially crucial because of an increased price competition in many markets. Price increases might lead to negative customer reactions such as a lower perceived utility or a lower loyalty intention. Therefore, the question for managers remains how prices can be increased without losing customers. Results of our experimental study suggest that customers of energy suppliers rate the perceived utility of the offer relatively better, when the price increase is combined with an additional modification of the product or accompanied by a new service.

Theoretical Background

In retailing and behavioral pricing literature mostly price reductions are discussed and very little research has been devoted to price increase strategies (e.g., Homburg, Hoyer, and Koschate 2005; Homburg, Koschate, and Hoyer 2005). Managers need to decide through which strategy price increases are least harmful in terms of negative reactions from consumers. When customers experience an increase in the outcome for the supplier as consequence of a price increase, they perceive a reduced utility. This gap in perceived utility increases, the bigger the difference is. The perceived inequity produces negative affective states that motivate people to take actions to reestablish equity (Adams 1963, 1965; Ajzen 1982; Austin and Walster 1975). Therefore, we can assume that perceived inequity affects behavioral intentions negatively, because consumers may change their input to reestablish equity. It can be assumed that (1) passing on the responsibility for the price increase to a third party, (2) a modification of the product offer, and (3) an additional innovative service offer are suitable instruments to reduce the perceived inequity due to a price increase.

Methodology

An experimental study was conducted, examining the impact of communication of an external cause, a modified product, and an additional service combined with a price increase on perceived utility and loyalty intentions with a 2x2x2 between-subjects design. The between-subjects factors were the communication of an external reason for the price increase (two levels – communicated vs. not communicated), a modified product (two levels) and an additional service (two levels). The experimental conditions were manipulated with scenarios that were sent out by means of a written questionnaire to customers of a large energy supplier. We decided against using a student sample because we want to ensure external validity of our results by using real customers of an energy supplier. Therefore, only subjects between the age of 40 and 60 who currently have a contract with the particular supplier were considered in the study. The sample for the experiment comprises 254 adult subjects, equalling a return rate of 9.5 percent. Thirty nine-point eight percent females and 60.2 percent males between 40 and 60 years of age (average age = 50.33 years) participated in this study. The dependent variables are measured using seven-point Likert-type scales, which range from “1” = “strongly agree” to “7” = “strongly disagree.” Utility was measured with three items stating “the new offer is attractive,” “the new offer is better than the old offer,” and “the change in the product offer is positive.” The measure of repurchase intention incorporates three items, “I would intend to stay a customer of ENERGY Inc.,” “I would not search for an alternative energy supplier,” “I would not boycott ENERGY Inc.” All scales display good reliability, and discriminate validity is given as well.

Results

Results of MANCOVA show that all direct effects except the external reason are significant as well as two first-order interaction effects. The second-order interaction effect is not significant. The follow-up ANCOVAs more clearly show a significant interaction effect of external reason and product as well as a significant interaction effect of external reason and service for “utility.” None of the effects is significant for the dependent variable “loyalty.” The interaction effect between external reason and personalized tariff on utility shows that the utility of the offer is rated most favorably if the price increase is combined with the personalized tariff or it is combined with both the tariff and the external reason. Communication of the external reason only leads to a significantly worse evaluation of the utility, in comparison to the offer of the personalized service. Hence, we see an overall support for a positive influence of the product manipulation on the perceived utility, whereas the external reason
alone does not show a significant effect. The interaction effect between external reason and service on utility indicates that the additional service offer is evaluated significantly better than the sole communication of the external reason. There is no benefit of combining the external reason and the additional service offer. Customers evaluate additional offers (product, service) more favorably and rate the perceived utility of the offer relatively better than when no reason for the price increase is given.

Implications

The above findings suggest that the implementation of a price increase in conjunction with appropriate instruments (e.g., product and service offers) might reduce the risk of negative consumer reactions. It could be demonstrated that the additional value offered by a product change or additional service offer may compensate to an extent the decreased utility due to a price increase. Results indicate that companies should, however, avoid blaming external reasons alone for the price increase, since this is not seen as a plausible reason by the customers. The fact that loyalty intentions are not affected by the manipulations is two edged. On the one hand, this could be an indicator for loyalty that is resistant against short term changes in pricing. On the other hand, existing or perceived switching barriers could be due to the fact that customers are contractually tied and not emotionally connected to their existing energy suppliers. References are available upon request.
MEDIA COMPETITION FOR NATIONAL ADVERTISING IN THE ERA OF NEW MEDIA, 1997–2006

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SUMMARY

The authors are grateful to Robert J. Coen, Senior Vice President, Universal-McCann for providing the advertising expenditure data used in this paper.

Since the beginning of what we call in this paper the “newer media” era, 1997–2006, media channels available to consumers have increased significantly. Beginning in the mid 1990’s, Internet, cable channels, and satellite radio services have added complexity to the media landscape. This abstract seeks to ascertain the effects of competition between newer and older media for advertising revenues, beginning in 1997, the first year for which Internet advertising revenues are available. The diffusion of cable and satellite TV and the evolution of the Internet may have made an impact during the past decade on advertising spending in the U.S. The framework containing the set of constructs appropriate for analyzing such competition is the theory of the niche. Our study focused on media purveying information or entertainment content, but we will include advertising-only media such as yellow pages or direct mail in our analyses where appropriate.

The Niche

The theory of the niche (Dimmick 2003) states that when a new medium – sometimes called an invader – enters a guild of industries which use the same resources competition for resources become more intense. The media compete for a number of resources including advertising, the subject of this paper, as well as for consumer time and attention and consumer dollars. If resources increase when an invasion occurs, the result will be the industries continue to coexist without mutual harm. If resources do not increase, the result is intensified competition which may eventuate in displacement or exclusion of one or more industries. In a situation of constrained resources the new, if they succeed, succeed at the expense of the old. Displacement is the appropriation of some resources formerly utilized by an older industry by a new competitor. Exclusion is the extinction of one or more competitors. In the history of media industries, displacement is the common result of the entry of a new competitor. Based on this, we ask the following:

RQ1: Has the rise of the newer media, cable and the internet, resulted in the displacement of older media on the national advertising resource dimension?

In the case of advertising resources (McCombs 1972), researchers suggest the state of the national economy is a strong influence on the availability of advertising dollars. McCombs found what he called “relative constancy” in advertising spending, that advertising represented a constant proportion or percentage (around 2%) of the GNP. Thus, this body of research leads to the second research question:

RQ2: Has the growth of the national economy in the last decade, when both cable and the internet were growing, resulted in a greater number of dollars being allocated to advertising and, if so, to which media have these dollars been allocated?

Method

Data were obtained from Robert J. Coen, Senior Vice President of Universal McCann. Universal McCann is responsible for compiling advertising expenditures on media. The media analyzed in this paper include older media such as newspapers, network radio, network TV and magazines as well as newer media, cable and the Internet.

Results

Addressing RQ1, time-series regression analyses were performed using both internet and cable network shares as the independent variables and magazine and network TV shares individually as the dependent variables. This displacement analysis indicates that while the internet and cable networks have played a role in the decline of network TV shares, only cable is related to the downturn in magazine shares. Hence, the results indicate that both cable and the Internet have had a significant displacing effect in the last decade on TV networks share of national advertising while cable has had a significant displacing influence on magazine shares. Addressing RQ2, the first step in answering the question was to replicate McCombs’ (1972) analysis for national advertising. Data indicate the
trend for national advertising as a share of GDP is flat over the period 1997–2006, hence, advertising as a share of GDP does not increase during the decade under study. Further, the majority of the “new” national advertising dollars made available by economic growth have been spent on cable networks and the internet, although magazines also show a gain in constant dollars. Apparently, economic growth during the period of strong growth of cable and the internet has cushioned the effect of the cable networks and the internet on magazines and network television in constant dollars. The share displacement coupled with economic growth has resulted not in fewer (constant) dollars allocated to network TV but, instead, has allowed network TV budgets to remain rather stable.

Discussion

While the internet and cable networks demonstrated a statistically significant impact on network television, a pattern consistent with displacement, only cable was found to significantly demonstrate potential displacement patterns with magazines. Additional analyses demonstrated that while economic growth between 1997 and 2006 allowed network television advertising expenditures to remain stable, the competition for new ad dollars was won by newer media. This suggests that if the economy stalls, media such as network television may be faced with fewer constant dollars. References are available upon request.

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EXPLORING THE MARKET STRUCTURE OF ONLINE AUCTIONS

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SUMMARY

When developing and marketing a product, it is of great use to know how the product relates to the other products in the marketplace. One may want to know how close a product is to the competing products in the market. This closeness can be modeled in terms of “distances” between items, and then using the distances to create some sort of visualization of the relative brand positions. Alternatively one could group the most closely related products into clusters or latent segments, where competing products are assigned so that the products competing most closely with one another are in the same group. Products are not the only entities that can be segmented; e.g., we can create latent classes of consumers, attempting to group consumers with the most homogeneous product preferences/purchase patterns.

Market structure can be modeled from a variety of sources, including perceptual data, behavioral data, and product attributes. Perceptual data will typically be gathered using questionnaires or a user panel; information can be elicited and recorded in different ways, including direct preferences between brands, comparing brands on different attributes, and using a Likert scale questionnaire for measuring latent attributes. Behavioral data will typically be gathered from Point of Sale (POS) purchase data, from which we can derive brand loyalty and brand switching data.

Both the gathering of behavioral data and the gathering of perceptual data are expensive in terms of time and money. A retailer may have data from POS terminals available and have some method (i.e., a loyalty card scheme) of tracking customer purchases. A manufacturer may not have available purchase information across competing brands, and may have to purchase such information from a data provider such as AC Nielsen, who gather data from multiple retailers. The uses of behavioral data to determine market structure is usually limited to high volume, frequent purchase items; academic examples include coffee and frozen foods. Given a high value, rare purchase items such as a car, it is not feasible to use purchase information to model market structure. Years worth of historical purchase information would be required to get information for multiple purchases by a single consumer, and a consumer’s purchase intension and behavior may have changed drastically in the intervening period between purchases. The gathering of perceptual data, usually via marketing research, requires great effort and expense to run the surveys or panels, and only a small number of consumers can participate, possibly leading to a small, unrepresentative sample of consumers.

Market structure research typically concentrates on the sale of new products, i.e., the primary market. For many products, typically high value, infrequent purchase items, there is an important resale or secondary market. Online auctions provide an important part of the secondary market.

In this paper we propose a method of using online auction data to determine market structure. By using available auction data we create a visual product mapping. We concentrate on the visualization of market structure; we also briefly discuss how other types of structure can be determined. By using freely available auction data the cost of obtaining market structure analyses is much lower than when perceptual or behavioral data are used. As previously described, it is difficult to analyze primary market structure for infrequent purchase items. Even if primary market structure data are available (i.e., new product purchases data or a questionnaire on product preferences), the secondary data provides valuable extra structure information. In this paper we concentrate on auctions processed through one particular website, that of eBay.com. eBay.com has the largest auction volume of any online auction website. We choose a particular high volume product class, that of mobile phones, on which to demonstrate the analysis of market structure.

For our analysis of auction data, we explore the idea of bidding patterns for brands. We define a similarity relation between each pair of brands. The relation is symmetric and we do not calculate same-brand similarity, so if there are brands 1, . . ., k then there are k×(k-1)/2 relations. We define S as a k×(k-1)/2 lower triangular similarity matrix and denote sij as the similarity relation between brand i and brand j. If a user bids on two items then these items are both in his or her consideration set. We consider this to be a measure of similarity between the items. This is analogous to the idea of similarity used when analyzing brand switching matrices. Rather than similarity between two brands being defined by a consumer purchasing these brands in subsequent periods, similarity is defined by a consumer bidding on these different brands within a certain time period. If a user bids on a pair of products then we add one point of similarity to those pairs of items. We then normalize the similarities
relative to the expected similarities given independent heterogeneous probabilities of bidding for different brands (i.e., there is no association pattern). The normalized similarities and be converted into dissimilarities and thus distances. The resulting distance matrix can be used as input to a multidimensional scaling procedure, or any other procedure that requires a distance matrix (e.g., clustering, latent class analysis etc.).

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EXPLORING CONSUMER MOTIVATIONS FOR CREATING
USER-GENERATED CONTENT

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SUMMARY

Over the last several decades, the media landscape has evolved into a complex and dynamic conglomeration of both traditional and interactive media that seek to serve the needs of today’s fast-paced lifestyles. While traditional media are struggling under the weight of increased segmentation, the interactive environment has shown the capacity to capitalize on this fragmented market by offering niche media vehicles that give consumers a voice amidst the whirlwind of information and advertising. In the online world, these niche media markets are being driven increasingly less by publishers and more so by user-generated content (UGC) (Morrissey 2005). UGC refers to media content that is created or produced by the general public rather than by paid professionals and is primarily distributed on the Internet. Examples of prominent websites and web-based applications that support the creation and consumption of UGC include, but are not limited to, YouTube, Facebook, Wikipedia, Flickr, Blogger, and personal Web pages.

Beginning in 2004, with the explosion of the Web 2.0 market, UGC has formed a plethora of markets within the media landscape, attracting more than 69 million users and generating $450 million plus in advertising revenues (Verna 2007, p. 2). To date though, little research has been undertaken on UGC and its perceptions amongst both the consumers and creators of such content. This exploratory study is designed to test the core relationship between consumer attitudes and behaviors toward experiencing UGC. Specifically, we sought to confirm the relationship between attitude and behavior within the realm of the creation and consumption of UGC as the survey was closed after being open for the designated duration. Nonetheless, the completion rate, which is defined as those who completed the survey divided by those who accessed it, was 77 percent.

Results

A series of regression analyses were undertaken to determine if a relationship exists between attitude and behavior within the realm of the creation and consumption of UGC. Hypothesis I predicts that a consumer’s attitude toward UGC would be positively related to their consumption of UGC, i.e., attitude would predict behavior. In this case, a regression analysis proved to be significant in that a consumer’s attitude toward UGC successfully predicts their experiencing of UGC ($\beta = .37, t(71) = 7.52, p < .01, R^2 = .15$). Therefore, this data further confirms the positive relationship that exists between attitude and behavior as it can be applied to UGC. Hypothesis II posits that a consumer’s attitude toward UGC will mediate the relationship between their consumption and creation of UGC. To determine whether attitude mediates the relationship between the consumption and creation of UGC, a mediation analysis was conducted, as specified by Baron and Kenny (1986). The first analysis indicated that the type of experience positively influenced exposure to UGC ($\beta = .33, t(71) = 2.93, p < .01, R^2 = .15$) The second analysis confirmed that the type of experience positively influenced a consumer’s attitude toward UGC ($\beta = .34, t(71) = 3.02, p < .01, R^2 = .11$). Finally, the third analysis supports attitude as a mediating variable between the consumption and creation dimensions for UGC ($\beta = .25, t(2,68) = 2.01, p < .05, R^2 = .16$). Accordingly, the effect of consumption on the creation of UGC weakens when included in the analysis with attitude ($\beta = .23, t(2,68) = 1.88, p > .05$) indicating attitude indeed serves as a mediator in the relationship. Hypothesis III predicts that a consumer’s attitude toward UGC would vary by their functional source of motivation for the creation of UGC. Multiple regression was employed to test this relationship within the realm UGC and found to be significant ($F(5,70) = 5.19, p > .01; R^2 = .29$), supporting the hypothesis. Examining the contribution of each individual function though revealed significant relationships for only three out of the five motivational sources. Specifically, creators of UGC rely predominantly upon the ego-defensive function ($\beta = .42, t(5,70) = 2.38, p < .05$) and social
function ($\beta = .34, t(5,70) = 2.54, p < .01$) as motivational sources of influence in forming their attitude toward UGC. In contrast, a negative relationship was identified with the value-expressive function ($\beta = -.43, t(5,70) = -2.89, p < .01$).

Conclusions

With the consumption and creation of UGC becoming more prevalent, understanding why consumers are drawn to consume and create such content becomes increasingly important. As such, understanding people’s attitudes toward UGC, and especially the functional sources of their attitudes, will result in a better model for predicting behavior, which is increasingly important to both scholars and industry professionals interested in UGC. The findings of this research were successful in connecting functional theory and the subsequent sources of motivation to attitudes toward creating and consuming UGC. Opportunities abound for both advertisers and marketers in this burgeoning information space as evidenced by a forecasted $4.3$ billion in advertising revenues by 2011. Consumers are increasingly in control of their media landscape with UGC becoming a larger part of the puzzle. As such, marketers must seize the opportunity to communicate relevant content to niche audiences via this channel. References are available upon request.
AN INNOVATIVE DATA COLLECTION METHOD FROM THE
INTERNET FOR MARKETING RESEARCH:
COMPUTER SPIDERS

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SUMMARY

Data collection is a fundamental step in marketing research. For certain marketing research projects, particularly, those which are empirical, data collection is critical for testing research hypotheses, and/or validating propositions. Traditional methods for data collection include surveys, data recordings, observations, and experiments, etc. Among these, surveys and data recordings are the most popular. Surveys include personal interviews, telephone interviews, mail surveys, self-administered surveys, fax surveys, e-mail surveys, and online surveys. Data recordings refer to the processes of collecting business transaction data over time, such as sales, costs, market shares, etc. Collecting and analyzing business transaction data is crucial for understanding consumer behavior, measuring marketing effectiveness, and forecasting market demands, which ultimately enhance the effectiveness and efficiency of marketing strategies.

As the Internet is widely used, and e-commerce is embraced by businesses and individuals, more business activities and consumer behaviors are carried out in the virtual environment of the Internet. Correspondingly, more business transactions and consumer data (generally, e-commerce data) is being generated online. The Internet and information systems allow businesses to accurately record business transactions and consumer behavior data in real-time. Unlike online experiment data, the e-commerce data is actual business transaction data without the presence of data collection design bias.

However, we are now facing new challenges in the information age—collecting and taking advantage of the overwhelming e-commerce data online. Although researchers in computer science and information systems understand information technology (IT) very well, they often do not understand business and marketing languages. On the other hand, marketing researchers and educators realize the existence of huge amounts of valuable e-commerce data online for many potential research topics and marketing education, but they are unlikely to be fully equipped with sufficient IT knowledge to collect these data-sets, or train their students to do that. As far as we know, little research has been done about how to effectively and efficiently collect e-commerce data from the Internet in marketing research.

In this study, we introduce an innovative tool for online data collection to marketing researchers and educators. We wish to share our experience in creating and using computer spiders to collect online e-commerce data. At least two primary reasons may be given for collecting e-commerce data online: (1) collecting data for current usage in marketing research projects to test research hypotheses, and validating marketing theories; and (2) collecting online data that is temporarily available for future usage in potential marketing research. We emphasize the effectiveness and efficiency in data collection since, even though the data is freely available online, the workload associated with manual data collection might be substantial. For example, every day, millions of online auctions take place on eBay.com and Amazon.com. Manually collecting the data would be time-consuming and, at times, impossible. The spiders discussed in this study are powerful tools for collecting online data. Within a few minutes, the spiders can collect thousands of online auction lists. These thousands of auction lists might require a researcher to spend a month collecting them manually. We believe that our approach for online data collection through computer spiders can promote marketing research, especially for research projects involving e-marketing or research projects requiring huge data-sets such as Web-based database marketing studies. For marketing education, we believe that using spiders for data collection in class will benefit students in their data collection skills.

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A MEASUREMENT SCALE FOR CUSTOMER CO-PRODUCTION (CCP) OF SERVICES

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SUMMARY

It is now widely recognized that customers play an active role throughout the marketing process (Vargo and Lusch 2004; Wikstrom 1996a), defined as activities that make possible the conception, design, production, delivery, purchase, consumption, and disposal of offerings. Value is co-created by customers, marketers, and other stakeholders during these stages (Wikstrom 1996b). This research developed a culturally informed, reliable, and valid scale to measure Customer’s Co-Production (CCP) role in the production and delivery stages.

Marketing literature contains multiple scales tapping concepts that are similar to CCP. The closest conceptualization is incorporated in the servuction framework (Langeard et al. 1981). Since all of these scales consist of formative measures, there is an opportunity to develop a new CCP scale that (a) is culturally informed; (b) includes formative as well as reflective measures; and (c) could be applied in various service industries with minimal modification. Starting from the extant scales, this research employed ethnography, EFA and CFA in three services including self check-out at grocery stores, toy assembly workshops, and meal assembly centers.

The ethnographic project started with semi-distanced participant observation and shadowing of customer experiences during naturally occurring service encounters (Kvale 1983). After these research activities were completed, a brief analysis of the data necessitated a set of in-depth interviews and focus groups. The chief result of ethnography was a 5-dimension, 19-item CCP scale. Since almost all of the participants alluded to a frame of reference when discussing their CCP role, the scale involved a comparison between two comparable versions of the same service core. Accordingly, the 19 items were anchored on a 5-point semantic differential scale representing a lot less, somewhat less, to the same extent, somewhat more, and a lot more. The comparison points for self check-out, toy assembly workshops, and meal assembly centers were regular check-out, regular toy stores, and frozen meals, respectively.

Data for EFA was collected from 50 graduate and 50 undergraduate students per service. The instrument, which was customized per service, included (a) the 19-item CCP scale; (b) the 25-item version of “self-empowerment” scale (Bramucci 1977); (c) the 9-item “authoritarian personality” scale (Adorno et al. 1950); and (d) the 19-item submissive patient behavior. Relying on the reviewed literature, it was posited that the CCP scale would correlate significantly positively with the self-empowerment and authoritarian scales and significantly inversely with the modified submissive scale. These posits helped examine construct and nomological validities of the CCP scale (Hair et al. 1998).

In all three services, EFA identified five underlying dimensions and confirmed the findings of the ethnographic investigations. Each of the 19 items showed high loadings (.78-.93) on one of the five factors and low loadings (<.43) on the other four factors. Across the three services, the patterns of loadings and communalities exhibited adequate stability; and Cronbach’s ranged between .88 and .96. Therefore, the five CCP dimensions enjoyed a sufficient degree of reliability. All of the 19 items were retained.

The average of each set of concentric scale items was computed and a complete correlation matrix was prepared. Since the correlations between each two factors under the same construct were significantly lower than corresponding factor reliabilities represented by α values, the convergent validity of each construct and its dimensions was reasonably satisfied (Churchill 1979). Comparing within-construct correlations to inter-construct correlations indicated that the former were significantly larger than the latter. This pattern held for all of the within- and inter-construct comparisons across the three services. Therefore, the CCP dimensions had acceptable discriminate validity (Churchill 1979). The correlation of CCP with self-empowerment, authoritarian personality, and modified submissive scales were .76, .69, and -.71, providing support that the CCP construct as construed and measured here enjoys nomological validity within the network of related constructs.

Data for CFA was collected from 218, 199, and 187 professional adults. The resultant λ, δ, and φ estimates and their respective standard errors were all in order, and each of the three CFA runs exhibited an acceptable fit. CFA findings were generally in agreement with those in EFA. In conclusion, these empirical investigations provide support that the CCP scale is a culturally informed, reliable, and valid measurement tool.
CUSTOMER CO-DESIGN COMPETENCE: MODEL DEVELOPMENT AND INFLUENCE ON CUSTOMER SATISFACTION WITH MASS CUSTOMIZATION OFFERINGS

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ABSTRACT

Mass customization is a concept that describes the production of goods and services to meet an individual customer’s needs. The production and provision of the custom solution takes place with an efficiency that can be compared with that of mass production. From the customers’ perspective, the defining element of mass customization is the interactive sales and co-design process. Within this process customer and company (represented by a salesperson) create or specify the individual customer solution. Based on research from the area of service marketing, we argue in this paper that the quality of fulfillment of the co-design task of a customer is highly dependent on the competence of the particular customer performing this task. We assume that this customer co-design competence comprises four facets: the customers’ product and application competence, social skills, methodological knowledge, and personal motivation. Based on a large-scale customer survey in four industries (517 respondents) we show that customer co-design competence is multi-dimensional and is an important antecedent of perceived service quality and customer satisfaction with mass customization offerings.

INTRODUCTION

Mass customization is a concept that describes the production of goods and services to meet an individual customer’s needs. The production and provision of the custom solution takes place with an efficiency that can be compared with that of mass production (Tseng and Jiao 2001; see also Duray 2002; Piller 2003; Pine 1993; Rangaswamy and Pal 2003). This degree of efficiency is possible solely because all operations are conducted within a fixed solution space characterized by stable, yet flexible and responsive processes. As a result, the costs associated with customization allow a price level that does not imply switching to an upper market segment. A mass customization strategy seems to be promising in various markets, as many of today’s customers want to express their personality, e.g., by means of a custom product, and because of their simultaneous price consciousness (see e.g., Prahalad and Ramaswamy 2004).

This paper addresses the mass customization concept from the perspective of the customer who experiences the interface of the mass customization sales system by participating in a co-design process. This process is the defining element of a mass customization strategy (Piller 2003); it allows customers to configure their custom product from a list of pre-defined options and components (Tseng and Du 1998; von Hippel 1998). The customer co-design of (tangible) products corresponds to a phenomenon that has been previously discussed in service marketing and B2B literature, but it is new for consumer product markets: the active integration of customers in the supplier’s value creating activities (“customer integration,” Prahalad and Ramaswamy 2004). Co-design activities are performed in an act of interaction and cooperation between the customer and the sales system of the product provider (Franke and Piller 2003, 2004; Franke and Schreier 2002; Khalid and Helander 2003; von Hippel 1998).

Customer related aspects of mass customization offerings have only recently been addressed in the literature (see Dellaert and Stremersch 2005; Franke and Piller 2004; Huffmann and Kahn 1998; Liechty et al. 2001; Wind and Rangaswamy 2001). Therefore, we argue in this paper – based on research from the area of service marketing – that the quality of fulfillment of the co-design task is highly dependent on the skills and competence of the particular customer performing this task. We assume that this customer co-design competence comprises four facets: the customers’ product and application competence, social skills, methodological knowledge, and personal motivation. Using data (customer surveys, 517 respondents) from four different mass customization providers, we show that customer co-design competence is multi-dimensional and is an important, not yet recognized antecedent of perceived service quality and customer satisfaction with mass customization offerings.

After the description of the underlying principles of mass customization in the introduction, we present the relevant theoretical background. In a next step, we build on our understanding of customer co-design competence. The results of the construct validation process and the
influence of customer co-design competence on the perceived service quality and customer satisfaction are then elaborated on. The paper concludes with fundamental implications for theory and practice derived from our analysis.

LITERATURE REVIEW AND MODEL DEVELOPMENT

In service marketing, company-to-customer interaction and cooperation during the co-design process is intensively discussed (see e.g., Bettencourt 1997; Bitner et al. 1997; Bowen 2000; Honebein 1997; Mills and Morris 1986; Gouthier 2003). Authors agree that customers contribute to the service and influence the success of the offering (see e.g. Honebein 1997; Mills et al. 1983). Several authors emphasize the importance of the customer as an important resource of the company in this context (Bowen and Schneider 1985; Canziani 1997). Bitner et al. (1997), for example, call the customer a “productive resource.” The same argumentation is relevant for the mass customization context: because customers are deeply involved in the co-design process of their individual product, they can be regarded as a resource of the firm. The supplier has to make sure that its customers are prepared to properly fulfill the co-design process. They must be able to provide the necessary information in regard to their customization demands, transfer this demand to a product specification, and also be informed about the possible solution space of the offerings and the range (and constraints) of the configuration possibilities available. Furthermore, customers need to have certain social and/or methodological skills and motivation if they are to make successful contributions to the process.

We use the term “competence” to refer to a consumer’s knowledge, skills, and motivation relevant for the successful provision of a mass customization offering (for the definition of the term competence, see e.g., Gouthier 2003). Based on the understanding that competence is an individual factor, Kaiser (1982) describes competence as the ability of a person to solve a certain problem. Following this understanding, we define customer co-design competence as the competence of a customer to perform co-design tasks. Using a framework from service marketing (Gouthier 2003), we distinguish between four dimensions of customer co-design competence:

- **Product and application competence** is based on customers’ knowledge of and experience with the offering. This facet includes knowledge about the product, as well as knowledge that supports customers in successfully dealing with the requirements of the co-design process. We also include product and process experience in this dimension.
- The facet **social skills** comprises customers’ skills in regard to the task, respectively social skills to interact with the employees of the mass customization provider.
- **Methodological competence** is a secondary skills category. This includes the skill to use technical equipment, e.g., a configurator.
- The facet **personal motivation** comprises all aspects that motivate the consumer to participate in the co-design process, e.g., product and purchase involvement or shopping enjoyment. We are aware that the consideration of motivation into competence models is controversial; however, consider it as important besides knowledge, experience and skills.

We regarded perceived service quality, customer satisfaction with the individual product and customer satisfaction with the supplier as dependent variables in our study, as a customer’s integration competence might have direct consequences for both aspects. Service quality is defined as the customers overall impression of the relative inferiority/superiority of the organization and its services (Bitner and Hubbert 1994). Satisfaction is defined as the result of a customer’s comparison of expectations and experiences (cf., e.g., Oliver 1980, 1981; Olshavsky and Miller 1972). A consumer perceives satisfaction if a given standard is reached or exceeded by the consumer’s actual experiences (see e.g. Oliver 1980, 1981; Westbrook and Reilly 1983). In this study customer satisfaction is considered as a consequence of perceived service quality and is influenced by all the experiences a customer has with the company and its offering: product, sales process, after sales services or other experiences (Anderson and Fornell 1994; Giering 2000; Homburg and Giering 2001; Yi 1990). We assume that customers with a higher degree of competence, i.e., more product and application competence, higher social and methodological skills, and a higher personal motivation, perceive a better quality and are more satisfied than consumers with less competence. This leads to an initial set of three hypotheses:

H1: The higher a customer’s integration competence, the higher the perceived service quality is.

H2: Higher customer co-design competence leads to more customer satisfaction with the customized product.

H3: Higher customer co-design competence leads to a higher customer satisfaction with the supplier.

Furthermore, we considered one antecedent of a customer’s integration competence on the consumer side that seems especially important in the context of mass
customization offerings: the desire for unique consumer products. It can be described as consumers’ motivation to find offerings that truly meet their needs and to differentiate themselves from others, for example via the products they wear (Lynn and Harris 1997; Snyder and Fromkin 1977; Tian, Bearden, and Hunter 2001). Consumers’ desire for unique products influences their willingness to adopt new products and processes like interacting in a co-design environment. We presume that consumers with a greater desire for unique products are more likely to have a higher level of integration competence, and thus propose the following hypothesis:

H4: The greater a consumer’s desire for unique consumer products, the higher the customer co-design competence is.

Furthermore, we assume a relation between service quality and customer satisfaction:

H5: The higher a customer’s perceived service quality, the higher the satisfaction with the custom product.

H6: Higher perceived service quality leads to more satisfaction with the supplier.

H7: The higher the satisfaction with the custom product, the higher the satisfaction with the supplier.

MEASUREMENT DEVELOPMENT

Based on our definition of customer co-design competence, we conceptualized and operationalized this construct using existing scales from the literature. The four facets of customer co-design competence are the anchor of our theory-driven approach. However, we conducted exploratory research because existing scales had to be adapted for the special case of a mass customization offering (see next chapter). Table 1 summarizes all considered scales from literature used in our study (see also Appendix 1 for a description of the different factors).

Perceived service quality and satisfaction as dependent variables, consumers’ desire for unique consumer products as an antecedent.

As mentioned above, service quality and customer satisfaction are the dependent variables in our study. To measure service quality, we used six items of the scale of Parasuraman, Zeithaml, and Berry (1988, we reduced the initial set of 21 items based on the results of the pre-test). We measured satisfaction with the supplier and the custom-made product with four items for each aspect based on the scale developed by Giering (2000). Consumers’ desire for unique products is considered an antecedent variable in our model by using the 8-item scale developed by Lynn and Harris (1997).

RESEARCH METHOD

Several steps were applied to develop a scale of customer co-design competence. First of all, qualitative semi-structured interviews with mass customization experts were conducted in order to discuss the phenomenon of mass customization offerings and the necessary customer competences.

Next, three exploratory surveys with customers of different mass customization companies were organized in order to consider the customer perspective of the phenomenon. The starting point of interviews and focus group discussions was the four-dimensional classification of customer co-design competence adapted from Gouthier (2003) and the existing scales introduced above.

Based on the literature review and the exploratory research activities, an initial set of 60 indicators for measuring customer co-design competence was developed and evaluated in the item-reduction process. A survey with 157 students from a German business school was conducted to pretest the scale. Multi-item measurements of the constructs were applied. All measurements were conducted with a 7-point rating scale (“strongly agree” and “strongly disagree” as anchors) except for the four items for measuring the attitude toward technology. For these items, a 7-point semantic differential scale was used. Because all of the implemented scales were originally in English, they were translated to German and then translated back to English in order to ensure that the original meaning was not distorted through the translation.

By means of exploratory factor analysis, coefficient alpha and item-to-total correlation, the scale was purified. This led to a set of 45 items to measure customer co-design competence (plus 22 items to measure the dependent variables and the antecedent). Based on this final item set, we conducted a survey of the customers of four real-life mass customizers that operate in an offline (brick-and-mortar) retail environment. We surveyed all customers who had bought a mass customized item during the last two years. Our fields of research were:

• A company offering individual shirts: At first, customers choose the shirt’s color and size. Then they select a motif from a collection and add a personal message.

• A retailer offering mass-customized suits: Consumers are measured (using a 3D scanner) and are able to co-design a classic men’s suit according to their fabric and cut preferences.

• A company offering custom bicycles: Customers can select different colors and functional options for a custom mountain, trekking, city or racing bike.
Custom-made house components: Customers can configure custom-made winter gardens and sun blinds according to their needs.

RESULTS

We received completed questionnaires from a total of 530 customers. Response rates were very satisfying and over 24 percent in all cases. Because of some missing values, we had to exclude 13 questionnaires, which led to a total of 517 customers who were ultimately included in the final study. All items related to customer co-design competence were integrated in an exploratory factor analysis in SPSS 13.0 using a principal axis analysis with direct oblimin rotation in order to identify the data structure and relevant factors. The measure of sampling adequacy for the overall data set achieved a score of 0.903 (Kaiser and Rice 1974). Nine factors could be identified using factor analysis (eigenvalue >1). Next, exploratory factor analysis and coefficient alpha were calculated for each factor. The results lie in all cases above the threshold value of 50% (AVE) and 0.70 (Cronbach Alpha) respectively. In a next step, a confirmatory factor analysis was conducted for all factors using the common criteria. The calculations were repeated for the assumed four dimensions and the overall model. Finally, exploratory and confirmatory factor analyses led to a final set of 18 items and five factors (overall model fit: GFI: 0.929; AGFI: 0.903; RMSEA: 0.058; Chi-Square/df: 2.823; NFI: 0.949; CFI: 0.967):

- The factor product knowledge could be confirmed.
- The factors product experience and involvement formed one common factor called product experience and involvement.
- The new factor process knowledge and experience evolved from the two factors process knowledge and process experience.
- The factors need for personal interaction and communication style formed a new factor social skills.
- The factor purchase involvement was the second factor that could be confirmed.

The factor attitude toward technological products could not be confirmed in the item reduction process which can be traced back to the fact that technological tools and systems were mainly steered by the employees in our research setting. Furthermore, in our study shopping enjoyment seems to be unimportant for a consumer’s integration competence.

In a next step, we analyzed the influence of customer co-design competence in the context of the dependent variables and the antecedent. The influence of customer co-design competence on perceived service quality and customers’ satisfaction with the custom product and the

<table>
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<tr>
<th>TABLE 1</th>
<th>Overview of Used Scales to Conceptualize Customer Co-Design Competence</th>
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<tbody>
<tr>
<td>(1) Product and application competence</td>
<td><strong>Product knowledge</strong> (Flynn, Goldsmith 1999): 5 items</td>
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<tr>
<td></td>
<td><strong>Product experience</strong> (Griffin et al. 1996): 4 items</td>
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<tr>
<td></td>
<td><strong>Process knowledge</strong> (Adapted by Flynn, Goldsmith 1999): 5 items (+ 1 specific item)</td>
</tr>
<tr>
<td></td>
<td><strong>Process experience</strong> (Adapted by Griffin et al. 1996): 4 items (+ 1 specific item)</td>
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<td></td>
<td><strong>Communication skills</strong> (Adapted by Williams and Spiro 1985): 6 items</td>
</tr>
<tr>
<td>(2) Social skills</td>
<td><strong>Need for interaction with salesperson</strong> (Dabholkar 1996): 4 items</td>
</tr>
<tr>
<td>(3) Methodological knowledge</td>
<td><strong>Attitude toward technology</strong> (Dellaert et al. 2004): 4 items</td>
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<tr>
<td></td>
<td><strong>Product involvement</strong> (Laurent, Kapferer 1985): 16 items (+ 1 specific item)</td>
</tr>
<tr>
<td>(4) Personal motivation</td>
<td><strong>Purchase involvement</strong> (Lockshin et al. 1997): 5 items</td>
</tr>
<tr>
<td></td>
<td><strong>Shopping enjoyment</strong> (Sproles, Kendall 1986): 4 items</td>
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</table>
suppliers could be confirmed. Furthermore, our analyses showed an influence of consumers’ need for individual products on customer co-design competence (overall model fit: GFI: 0.860; AGFI: 0.839; RMSEA: 0.053; Chi-Square/df: 2.451; NFI: 0.911; CFI: 0.945). Figure 1 shows the relationships between the different aspects. All hypotheses could be confirmed except of hypothesis H3.

CONCLUSION

Customer interfaces have been a source of innovative business models at all times. Configuration or co-design systems for mass customization are a recent example of such an innovative sales interface; they shift development and design tasks from the locus of the manufacturer to the customer. In contrast to existing literature on mass customization, we have focused on sales systems that are characterized by human interaction between a sales person and a consumer. The objective of this paper was to provide a conceptual model of an important antecedent variable of the success of operating such an interface: customer co-design competence. Our analysis has shown that the different variables behind these models are indeed an important driver for the perceived service quality and the overall customer satisfaction achieved through the mass customization offering. There is growing anecdotal evidence and academic research on the design and success factors of such codesign systems. However, there are still many questions open as to how a successful front-end for mass customization can be built. Our results confirm the importance of steering the customer’s contribution. For mass customization providers, it seems essential to regard customers as a necessary part of the co-design process. This includes providing them with all relevant capabilities and information enabling them to become a co-designer. In addition, it seems important to create an interactive sales system that also provides the consumer with an enjoyable, rewarding experience.

REFERENCES


APPENDIX 1
Description of Used Scales to Conceptualize Customer Co-Design Competence

(1) Product and application competence

(i) Product knowledge refers to a certain product category and describes product-related information stored in the customers’ mind (e.g., Selnes and Gronhaug 1986). The degree of product knowledge that customers possess (with regard to the product that is being customized) will influence their skills to deal with the co-design process. The 5-item scale of Flynn and Goldsmith (1999) is used to measure consumer’s self-reported familiarity and expertise with a product category.

(ii) Product experience comprises all experiences customers have in using a product (see e.g., Mason et al. 2001, who uses the term “product familiarity”). This concept is related to product knowledge (see e.g., Phillipe and Ngobo 1999). Customers who already have a high level of experience with the product (category) being customized might be able to better anticipate their role during the co-process (e.g., the role of selecting the color of different product attributes) compared to consumers who lack such previous experience. We use the 4-item scale of Griffin et al. (1996) to measure the product experience.

(iii) Process knowledge seems to be important in addition to product knowledge due to the paramount role of the co-design process. Because customers are active partners of the company in the co-design process, their knowledge about the process influences the desired outcome (Dellaert and Stremersch 2005; Haffmann and Kahn 1998, see also service marketing literature, e.g., Bowen 2000; Honebein 1997; Mills and Morris 1986). We define process knowledge as knowledge related to the co-design process and measure it by adapting the 5-item scale of Flynn and Goldsmith (1999) for the process. We included one additional item to consider some specifics of the mass customization context.

(iv) Process experience is also relevant for the targeted performance. We define this as all of the customer’s experiences with the co-design process. Based on the scale adapted from Griffin et al. (1996), we measure process experience with four items. It is relevant because compared to customers without any process experience, customers who already experienced a co-design process have a huge informational advantage in regard to their role and contribution. Again, we include one mass customization specific item.

(2) Social skills

(v) Communication skills seem to be relevant for customers’ integration competence, as they have to transfer their wishes in regard to the desired product and interact directly with an employee at the POS if the co-design process is conducted at a physical location. This is the case in our empirical study, and we used the customer interaction-related part of Williams and Spiro’s (1985) scale (six items) to measure communication style in the salesperson-customer interaction.

(vi) We further considered the customers’ need for interaction with the service employee. In many service encounters, personal interaction is an important factor for evaluation (Bitner et al. 1990). To measure this construct, we used the 4-item scale by Dabholkar (1996), which measures consumers’ evaluation of new technology-based self-service options. This scale seems to be appropriate because in a mass customization context, consumers can often substitute the personal interaction at the POS with online configuration processes. Consumers with a high need for personal interaction, however, are more likely to select mass customization offerings with a personal sales system.

(3) Methodological competence

(vii) Attitude toward technology seems to be important for the desired outcome since a configurator or other technical equipment, e.g., a scanner, might be used during the co-design process. Dabholkar (1996) shows that attitude toward
using technological products has positive effects on the expected quality of technology-based self-services. In our case, technology is often steered by the retailer. However, the openness of customers toward technology might influence the success of the process. The scale by Dabholkar (1994 and 1996; Dellaert et al. 2004 use the same scale for mass customization) is used to measure attitude toward technology with four seven-point semantic differential scales.

(4) Involvement and personal motivation

(viii) *Product involvement* was measured with the scale by Laurent and Kapferer (1985). Product involvement refers to the interest or importance of the object of consumption for a consumer in a certain product category (Laurent and Kapferer 1985; Sauer 2003; Zaichowsky 1985). It influences decision processes and information search behavior (Sauer 2003), and may also be relevant for the consumers’ decision to participate in a co-design process. We use the five-dimensional scale of Laurent and Kapferer (1985) to address the fact that involvement has several dimensions. In addition, one new mass customization-specific item was considered. (After the pretest, the six items with the highest factor loading were used for the final study.)

(ix) *Purchase involvement* can be described as customers’ involvement in purchasing. It is related to purchasing activities (Slama and Tashchian 1993) and information search behavior (Beatty and Smith 1987; Clarke and Belk 1979). As the co-design process is a purchasing activity, we consider the purchase involvement relevant for a customer’s decision to co-design his or her custom product. We measure this using the scale of Lockhin et al. (1997) that comprises five items.

(x) *Shopping enjoyment* is the extent to which a consumer views shopping as an enjoyable activity (Shim and Gehrt 1996). We use the 4-item scale of Shim and Gehrt (1996), a modified version of Sproles and Kendall’s (1986) scale. We follow this approach because shopping enjoyment might motivate consumers to participate in a co-design process. This aspect reflects the fact that customers may consider a mass customization process as a hedonistic shopping experience.
WHO SHOULD DO THE WORK: THE DIFFERENT ROLES OF
CUSTOMER PARTICIPATION AND ITS IMPACTS
ON SATISFACTION

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ABSTRACT

With the economy shifting from a good-dominant logic to a service-dominant logic (Vargo and Lusch 2004), the role of customer participation becomes more important. Does customer participation enhance or decrease satisfaction? Research seems to offer conflicting answers (Bendapudi and Leone 2003; Cermak et al. 1994). In this research we distinguish the role of participation as “co-production” or “co-creation of value.” Using an experiment we showed that the impact of participation on satisfaction depends on both the role of participation and service outcome. When participation plays the role of “co-creation of value,” participation enhanced satisfaction when outcome was positive and decreased satisfaction when outcome was negative.

INTRODUCTION

Inseparability has long been identified as a unique characteristic of service (Zeithalm 2000). Very often, consumers are part of the service creation and delivery process. For example, consumers order and serve their own food in a fast food restaurant. More recently with the development of new technologies, even manufacturers can get customers involved by offering product customization feature. For example, on Levi jeans website, consumers can take their own measures and enter the data to get a specific pair of jeans manufactured for them. By doing this, consumers actually participate in the manufacturing process. The distinction between services and goods is increasingly blurred. With the economy shifting from a good-dominant logic to a service-dominant logic (Vargo and Lusch 2004), the role of customer participation becomes more important.

More importantly, customer participation is no longer merely “co-production” where firms shift part of the work to customers in order to increase productivity and reduce cost. Consumers can participate in the design, manufacture, and delivery of a product or service and become “co-creator of value” (Bolton, Grewal, and Levy 2007). Are consumers motivated to participate? Are consumers more or less satisfied with participation? Do they blame themselves when products or services fail because they are part of it? Or do they blame the service providers or manufacturers who make them do the work? Few researchers make clear distinctions on the different roles of customer participation and examines different consequences of participation in terms of consumers’ psychological experiences and evaluations of the product or service. In this research, we try to investigate these questions. We first examine the nature of customer participation by distinguishing participation as co-production (i.e., participation as a source of productivity gain for the service provider) versus participation as co-creation of value (i.e., participation as a necessary input for the services or products). Further, we develop hypotheses regarding consumers’ psychological experiences and satisfaction with the service provider based on different roles of participation.

NATURE OF CUSTOMER PARTICIPATION

In a broad sense, customer participation refers to the degree to which the customer is involved in producing and delivering the service (Bendapudi and Leone 2003; Dabholkar 1990). Research has tried to classify customer participation along different dimensions. For example, Bitner, Faranda, Hubbert, and Zeithaml (1997) categorized customer level of participation into low (mere presence, e.g., airline travel), moderate (customer input, e.g., hair cut), and high (customer co-creates, e.g., personal training). They argued that level of participation varies by different types of services. Cermak et al. (1994) categorized participation by type of input such as physical and cognitive. Similarly, Ennew and Blinks (1999) categorized customer input as three types: information share, fulfill their duty and responsibility, and exert effort to facilitate trust, support, corporation, and commitment.

In this research, we broadly distinguish customer participation by the role it plays. We suggest that customer participation can be distinguished based on whether participation is absolutely required and whether the quality of consumer participation bears important consequences on service outcome. Kelly et al. (1990) suggested that for many services, customers are required to contribute information or effort before the service can be consumed. This type of participation fits in contexts such as product/service customization where consumers’ input is crucial in product design and service delivery. By participating, consumers actually co-create values that they acquire (Bolton, Grewal, Levy 2007). This type of participation is generally not substitutable. For example, it may
take consumers’ effort to articulate what kind of jeans he/she likes but he/she is the only and best person that can do the work. In some cases such as weight-loss or health care, no service could be possibly successfully delivered without consumers’ active participation. Such customer participation brings many benefits to the firm including increased revenue by offering better value-added services and consumers spending more on products and services (Wind and Rangaswamy 2001).

However, in other situations, the customer is only one of the parties that can do the job while the same work can be done by the product or service provider. For example, while consumers can serve their own food, pump their own gas, or self-check in at an airport, the same work can be done by the service employees, saving consumers’ effort. In these situations, consumers are involved in the co-production process and participation does not create additional value for themselves. Typically firms use such customer participation as a way to gain productivity and reduce cost.

Overall, we argue that customer participation plays two different roles and each involves different goals and benefits on the service providers’ side and motivations and expectations on the consumers’ side. While participation plays different roles in different services, it is also possible that both roles can be applied to the same service with different levels and types of effort input. We expect that they will have different impacts on consumer satisfaction.

DIFFERENT ROLES OF PARTICIPATION AND CONSUMER SATISFACTION

One of the primary interests of researchers and practitioners on the issue of customer participation is the effect of participation on consumer satisfaction. Will customer participation enhance or decrease customer satisfaction? Empirical research offered mixed results (Bendapudi and Leone 2003; Cermak et al. 1994). Bendapudi and Leone (2003) showed that participation did not lead to higher satisfaction when service outcome is negative. When outcome is positive, participation actually decreased satisfaction due to consumer self-serving bias. However, in the context of professional legal and financial services, Cermak et al. (1994) showed that participation led to increased satisfaction. We argue that the differences in these findings are due to the different roles of participation. In Bendapudi and Leone’s (2003) study, all participation described are efforts that are not absolutely required and the outcomes are independent of participation. Customer participation played the role of “co-production” and reduced product or service provider’s work (e.g., customer calling the hotel to reserve the room instead of the travel agent calling). Participation does not create additional value to consumers. On the other hand, in Cermak et al.’s (1994) study, customer participation played the role of “co-creation of value” and was crucial to the quality of the service outcome. Customer participation was used to customize and produce the unique service to the customer instead of reducing the service provider’s effort. Hence, we propose that participation has different impacts on satisfaction depending on different roles it plays.

Customer Participation as Co-Production

An examination of literature showed that the concept of customer participation can be traced to two different roots, one from management and operations research and one from marketing. The two roots correspond to the two different roles that customer participation plays. Research in management and operations research conceptualized customer participation as a source of productivity gain and customers are treated as a productive resource (Fitzsimmons 1985; Lovelock and Young 1979). Firms may treat clients as “partial” employees (Mills and Morris 1986) and customer participation replaces all or part of work that are previously done by the service employees. For example, having customers write the postal codes on the mail will reduce the work of postal service employees. Many of the self-service technologies such as ATM machines and self-service gasoline stations replaced employees with technologies and consumers are required to do some of the work that are used to be done by service employees.

When customer participation merely plays the role of enhancing service provider’s productivity, consumers’ work and effort are typically substitutable and participation does not create additional value to customers. Therefore, consumers are not particularly motivated to participate and involvement is low. Research showed that satisfaction judgment is influenced by equity considerations where consumers consider what they obtain relative to what they put in (both money and non-monetary effort) (Oliver and Swan 1989; Swan and Oliver 1991). Since participation mainly contributes to service providers by reducing cost and increasing productivity, the more input from the customers part means less input from the service provider’s part and the input does not increase consumers’ output (i.e., value obtained). Hence, when outcome is positive, the more customers participated, the less they are satisfied according to the prediction of equity theory. Self-perception bias theory offers a similar prediction (Bendapudi and Leone 2003). When the outcome is positive, those who participated are likely to credit themselves for the success and the amount of the work will reduce satisfaction with the service provider.

When outcome is negative, consumers may rationalize who is to blame. Attribution theories suggest that people are more likely to attribute failure to external
satisfactory, participating consumers will pride themselves on the achievement (e.g., I did it myself) (Bitner et al. 1997; Franke and Schreier 2006) and the enhanced satisfaction with the outcome may spillover to satisfaction with the service provider since it is a joint effort. For example, research showed that when consumers comply with participation requirements and reach their goals, compliance leads directly to satisfaction (Dellande et al. 2004). Hence, when service outcome is positive, we expect that satisfaction with the service provider will be higher for participating consumers.

Since service tends to be inconsistent, service outcome could be negative even with customer participation. In situations where a service outcome is based on joint actions of the service provider and the customer, level of customer participation may influence attributions when negative outcome occurs. Participating consumers may blame the service provider since they did their part of the work and there is no excuse for the service provider not to deliver the expected service outcome. Hence satisfaction with the service provider will be lower comparing to non-participating consumers. On the other hand, non-participating consumers may blame themselves for not doing their part of the work (Yen, Gwinner, and Su 2004), hence the negative outcome should have a lesser effect on dissatisfaction comparing to participating consumers. Therefore, we hypothesize that

H3a: When outcome is positive, participation will lead to more credit to self than non-participation.

H3b: When outcome is negative, non-participation will lead to more blame to self than participation.

H4a: When outcome is positive, non-participation leads to higher satisfaction than participation.

H4b: When outcome is negative, participation leads to lower satisfaction than non-participation.

SATISFACTION WITH OUTCOME, PROCESS, AND SERVICE PROVIDER

Consumer satisfaction has been shown to be influenced by both the outcome and the process (Tax et al. 1998; Bendapudi and Leone 2003). Drawing on justice theory, Tax et al. (1998) showed that consumers’ satisfaction judgment on their complaint incident based on the outcome as well as the process of how the complaint is handled. However, the relative strength of outcome and process satisfaction in predicting service provider satisfaction may vary in the context of customer participation. Bendapudi and Leone (2003) showed that process satisfaction has a larger impact when consumers choose to participate comparing to when they choose not to partici-
participation. Self-perception bias explains this effect since consumers more or less take responsibility for what they choose.

While Bendapudi and Leone’s research (2003) operated in the context of “co-production,” we propose that the relative impact of outcome and process satisfaction will be different when participation is closely related to service outcome (co-creation of value). Consumers who participated may perceive that they did what they are supposed to do and have a clearer expectation of what the outcome should be. In addition, they may perceive that there are less excuses on the service provider’s part for service failures (I did my work and you should deliver). Hence, consumers will rely more on service outcome to form service provider satisfaction. On the other hand, consumers who did not participate may realize that they did not comply with service provider’s requirement and they are more likely to blame themselves for the service failure. Therefore, outcome satisfaction has less impact on satisfaction with the service provider compared to when consumers participated. Instead, process satisfaction may play a bigger role. Therefore, when participation plays the role of co-creation of value, we expect that,

H5a: Outcome satisfaction is more predictive of satisfaction with the service provider when consumers participated compared to when not participated in the service process.

H5b: Process satisfaction is more predictive of satisfaction with the service provider when consumers did not participate compared to when participated in the service process.

THE STUDY

Design, Stimuli, and Measures

To test the interaction effects of level of participation, role of participation, and service outcome, we designed a 2 x 2 x 2 between subjects experiment. We operated the design in the context of a weight loss program. Role of participation is manipulated as “co-creation of value” (participation is not substitutable and crucial to the outcome) or “co-production” (participation is substitutable and has no impact on service outcome). Participation as “co-creation of value” is described as the amount of effort in following the instructions in order to lose weight (i.e., exercise and stick to the diet). Participation as “co-production” is described as the logistics in buying food items that supplement the exercise for weight loss. Level of participation is manipulated as participation vs. non-participation on the customers’ part. In the participation as “co-creation of value” condition, participants were told that Pat (the customer described in the scenario) either strictly follows the exercise and diet requirement of the program (participate) or skips exercises and eats out often (non-participate). In the participation as “co-production” condition, participants were told that Pat either buys the food items specified by the program herself from a local supermarket (participate) or the center purchases the items for her so she can pick up the items conveniently when she attends the program (non-participate) and pays the center the cost of the items. Service outcome is described such that the weight loss outcome is either “much better than expected” or “much worse than expected.” Undergraduate students (n = 150) from a business school in Northeast U.S. participated in the experiment with 56.8 percent male and average age of 20.4 years.

A scenario-based approach was used. Students were given a booklet where they read a scenario describing Pat’s experience with a weight loss program. The scenario described the process of the program (level of participation and role of participation) as well as the outcome of the service by the end of the program. After reading the scenario, participants answered a set of questions. We measured participants’ satisfaction with the outcome, satisfaction with the process, and satisfaction with the service provider using a 7-point semantic differential scale anchored on dissatisfied and satisfied. We also measured participants’ attribution of blame (in case of negative outcome) or credit (in case of positive outcome). In addition, we measured customers’ preference for control, ability to do the work, and perception of social norms in terms of who should do the work and used them as control variables. Finally, we measured consumers’ motivation of participation, expectation of outcome, and future purchase intentions and used them as some process measures. All measures are presented in Table 1.

Results

Manipulation checks were successful. Participants in the participation condition perceived that “Pat devoted a lot of work in the process of weight loss” more than those in the non-participation condition (F(1,143) = 10.22), p = 0.002, mean = 5.26 vs. 4.45). Participants in the participation as “co-creation of value” condition perceived that “whether Pat does this work herself has a big influence on the result of the weight loss program” more than those in the “co-production” condition (F(1,143) = 8.55), p = 0.007, mean = 5.58 vs. 4.93). Also as we expected, participants in the “co-creation of value” condition were more motivated to participate than those in the “co-production” condition (F(1,143) = 11.09), p = 0.001, mean = 3.96 vs. 3.27).

We conducted a MANOVA analysis using level of participation, role of participation, and service outcome as independent variables and satisfaction with the outcome, process, and service provider as dependent variables. We
controlled customers’ preference for control, ability to do the work, and perception of social norms by using them as covariates. Analysis showed a significant 3-way interaction on satisfaction with the service provider (F(1,139) = 13.05, p < 0.001) as well as on satisfaction with the outcome and process. We will first discuss the results on satisfaction with the service provider and then examine the relationships among different types of satisfaction.

For participation as “co-production,” when outcome is negative, participation did not influence satisfaction (F(1,33) = 1.97, p = 0.16) which is as expected in H2b. However, participation did not influence satisfaction when outcome is positive (F(1,33) < 1). So H2a is not supported. For participation as “co-creation of value,” when outcome is positive, participation enhanced satisfaction (F(1,32) = 4.48, p = 0.04). When outcome is negative, participation decreased satisfaction (F(1,34) = 7.03, p = 0.01). So both H4a and H4b are supported.

We further examined the effects of participation in various conditions on attributions. Factor analysis on the four attribution items revealed two factors: attribution to the service provider and attribution to self. Hence we used them as two separate dependent variables. We conducted another MANOVA analysis using level of participation and role of participation as independent variables and consumers’ attribution to self and service provider as

### TABLE 1
Measures and Reliability

<table>
<thead>
<tr>
<th>Measures</th>
<th>Reliability</th>
</tr>
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<tbody>
<tr>
<td><strong>Satisfaction</strong></td>
<td></td>
</tr>
<tr>
<td>How satisfied is Pat with the weight loss result? (dissatisfied – satisfied)</td>
<td></td>
</tr>
<tr>
<td>How satisfied is Pat with the process of trying to lose weight? (dissatisfied – satisfied)</td>
<td></td>
</tr>
<tr>
<td>How satisfied is Pat with this weight loss service? (dissatisfied – satisfied)</td>
<td></td>
</tr>
<tr>
<td><strong>Attributions to the service provider (positive outcome)</strong></td>
<td></td>
</tr>
<tr>
<td>I believe that the weight-loss center did an excellent job</td>
<td>r = 0.72</td>
</tr>
<tr>
<td>I will give the weight-loss service credit for the result</td>
<td></td>
</tr>
<tr>
<td><strong>Attributions to the self (positive outcome)</strong></td>
<td></td>
</tr>
<tr>
<td>It is Pat’s work that made the weight-loss program a success</td>
<td></td>
</tr>
<tr>
<td>I think it is Pat’s credit</td>
<td>r = 0.42</td>
</tr>
<tr>
<td><strong>Norms/Expectations</strong></td>
<td></td>
</tr>
<tr>
<td>I think it is normal practice that weight-loss centers asks customers to do this work themselves</td>
<td></td>
</tr>
<tr>
<td><strong>Capability</strong></td>
<td></td>
</tr>
<tr>
<td>Pat is capable of doing this work herself</td>
<td></td>
</tr>
<tr>
<td><strong>Control</strong></td>
<td>α = 0.74</td>
</tr>
<tr>
<td>Typically, I would like to do my own things</td>
<td></td>
</tr>
<tr>
<td>I like to take things in my own hands</td>
<td></td>
</tr>
<tr>
<td>If there is an option, I usually like to serve myself instead of having other people do it</td>
<td></td>
</tr>
<tr>
<td><strong>Motivation of participation</strong></td>
<td></td>
</tr>
<tr>
<td>Pat is motivated to do this work herself</td>
<td></td>
</tr>
<tr>
<td>I don’t think Pat is motivated to do this work herself (R)</td>
<td>r = 0.55</td>
</tr>
<tr>
<td><strong>Expectation of outcome</strong></td>
<td></td>
</tr>
<tr>
<td>Doing this work makes Pat expect a better weight loss result</td>
<td></td>
</tr>
<tr>
<td><strong>Future purchase intention</strong></td>
<td></td>
</tr>
<tr>
<td>It is likely Pat will use this weight loss service again in the future</td>
<td></td>
</tr>
<tr>
<td>Pat probably will not use this weight loss service in the future</td>
<td>r = 0.78</td>
</tr>
</tbody>
</table>
When outcome is negative, results showed an interaction effect of level of participation and role of participation on attribution ($F(1,69) = 7.80$, $p = 0.007$). For participation as “co-creation of value,” when outcome is negative, people who participated tended to put more blame on the service provider ($F(1,34) = 2.85$, $p = 0.1$; mean $= 3.4$ vs. $2.6$) than those who did not participate. On the other hand, those who did not participate tended to blame themselves ($F(1,34) = 16.43$, $p < 0.001$; mean $= 5.1$ vs. $3.4$) more than those who participated. For participation as “co-production,” participation had no effect on either self or service provider attributions. Hence, $H_{1a}$ and $H_{3a}$ are supported. Also as we expected, attributions mediated the effects of participation on satisfaction with the service provider. When we used attributions as covariates, the effects of participation on satisfaction ($H_4$) became statistically non-significant. In addition to the interaction, we also observed a main effect of participation on self-attribution ($F(1,69) = 10.35$, $p = 0.002$). Non-participating consumers put more blame on themselves than participating consumers. When outcome is positive, only a main effect of participation on self attribution is observed ($F(1,67) = 8.93$, $p = 0.004$). Regardless role of participation, participating consumers attributed more credits to self than non-participating consumers, supporting $H_{1a}$ and $H_{3a}$.

Finally, we compared the measures on outcome satisfaction, process satisfaction, and service provider satisfaction. Similar to satisfaction with the service provider, significant 3-way interactions were observed ($F(1,139) = 3.71$, $p = 0.06$ on outcome satisfaction; $F(1,139) = 4.3$, $p = 0.04$ on process satisfaction). As expected, regression analysis showed that both outcome satisfaction ($b = 0.68$) and process satisfaction ($b = 0.26$) influenced overall satisfaction with the service provider ($R_{adj}^2 = 0.71$). Separate regressions suggested that the relative weight of outcome satisfaction and process satisfaction varied under different participation conditions. For participation as “co-creation of value,” outcome satisfaction played a more important role when consumers participated ($r = 0.85$) than when not participated ($r = 0.51$), supporting $H_{5a}$ (Chow test $F(1,74) = 4.22$, $p = 0.04$). On the other hand, process satisfaction played a more important role when consumers did not participate ($r = 0.30$) compared to when participated ($r = 0.17$). However the Chow test is not statistically significant ($F(1,72) = 2.39$, $p = 0.13$) so $H_{5b}$ is not supported. Since we argued that the relatively higher influence of outcome satisfaction is due to outcome expectations, we checked the expectation measure and found that participating consumers had a higher expectation of service outcome than non-participating consumers ($F(1,143) = 10.10$, $p = 0.002$, mean $= 4.97$ vs. $4.24$). No significant differences between participation vs. non-participation condition were found when participation is “co-production.”

DISCUSSIONS AND FUTURE RESEARCH

Results of the study supported most of our expectations. For participation as “co-production,” consistent with Bendapudi and Leone (2003), we found that participation had no effect when outcome is negative. However, when outcome is positive, we did not find the expected negative effect of participation. One possible reason could be that participants may perceive that buying the food items is part of the work they should do. It is not clear that the service provider is shifting its work to consumers hence the manipulation may represent a weak case of participation as co-production. In fact, participants perceived that consumers typically do the work (mean $= 5.5$ on the social norm measure). We did a median split on expectation of who should do the work and results showed that people who think the service provider should do the work were less satisfied with the service provider than those who think consumers should do it (mean $= 6.6$ vs. $6.0$) when the outcome is positive. Therefore, it is likely that consumer perception of social norms in terms of who should do the work could serve as a moderating factor of the impact of participation as co-production on satisfaction. This is consistent with literature suggesting that consumers gradually adapt to changes such as self-service gas stations (Mills and Morris 1986).

For participation as “co-creation of value,” we found the opposite effect compared to participation as “co-production.” When outcome is positive, participation enhanced satisfaction. When outcome is negative, participation decreased satisfaction. Examination of consumer attribution showed that when outcome is negative, consumers who participated tended to blame the service provider than those who did not participate (i.e., “I didn’t do my job.”). Consumers who did not participate tended to blame themselves (i.e., “I can’t complaint to the service provider since I didn’t do my job.”). When outcome is positive, consumers may pride themselves on the accomplishment and the compliance to the service provider further enhanced satisfaction with the service provider. Our results are consistent with research which showed that gaining consumer compliance enhances satisfaction (Dellande et al. 2004).

Overall results supported most of our hypotheses. However, there are several limitations that constrain the generalization of the findings. First, we used the context of a weight loss program and not all participants are familiar with the context. Second, the person in the scenario is described as a female and it would be interesting to incorporate gender as a factor. Third, we only investigated the role of participation in one service context while
nature of participation varies by different types of services. Therefore, future research should overcome these limitations by utilizing different service scenarios and identify additional moderating factors. For example, the amount of value created through participation may vary in different service contexts which influence consumers’ motivation to participate. In addition, consumers may or may not realize their influences or are more or less certain about their influences on the end results. These factors naturally influence their attributions of credit or blame, hence satisfaction.

Finally, it is worthwhile to examine service provider’s role in motivating and facilitating customer participation and enhancing satisfaction. Research showed that enhancing customer role clarity and ability to participate help to motivate and enable them to participate as well as enhances satisfactions. Different roles of participation may be associated with different motivation factors and should be further examined.

CONCLUSION AND IMPLICATIONS

With the development of more advanced technology and consumers’ desire to get involved in the product/service design and delivery process, customer participation is becoming more important. However, the impact of such participation has not been carefully examined. Our research attempts to examine such impacts. We started with the proposition that participation plays different roles for service providers. On one hand, service providers can use it as a way to “co-produce” and shift part of the work to consumers to enhance productivity and reduce cost. On the other hand, service providers can use it as a way to “co-create value” delivered to consumers. It serves as a product/service differentiation tool to facilitate customized and personalized service design and delivery. While goals from the service providers’ perspective differ, consumers’ motivation to participate and perceived benefits also vary. Hence, consumers’ satisfactions with the service providers vary depending on the role of participation and service outcome.

The implications of these results are that when participation is necessary and quality of participation directly influence service outcome (i.e., participation as “co-creation of value”), the more effort expended by the customer (i.e., participation), the more likely customers will be satisfied and remain with the service provider when outcome is positive. Therefore, managers should try to gain consumers’ compliance in participation (Dellande et al. 2004) and at the same time strive to deliver the expected results. However, participation led to less satisfaction when outcome is negative. Our results further showed that when consumers participated but the outcome turned out to be negative, consumers are less likely to patronize the service provider in the future (F(1,34) = 6.79, p = 0.01). This is probably due to the perception that service provider is incompetent. Therefore, it is important that service providers offer consumers a clear explanation of the service failure. When the explanation helps consumers to attribute the failure to causes external to the service provider and factors that are uncontrollable, it may help to restore consumers’ confidence with the service provider and make them less likely to switch.

When participation is used as a way to shift part of the work to consumers, consumers are less involved and motivated to do the work. Since the work is substitutable and participation has the potential to decrease satisfaction, managers should enhance consumers’ willingness to participate by emphasizing the benefits of participation such as convenience or efficiency. In addition, managers can segment consumers by willingness to participate and offer different versions of the product/service (with different price levels) and let consumers choose (Silpakit and Fisk 1985). Our research suggested that consumers’ perception whether they should do the work may moderate the negative effect of participation on satisfaction when outcome is positive. Therefore, managers may use these social norms to assess whether they can shift some of the work to consumers and anticipate consumers’ reactions to these participations.

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COOPERATIVE VS. REBELLIOUS CUSTOMERS: HOW THEY EVALUATE CONSUMER PENALTY

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SUMMARY

Background and Hypotheses

Service industry’s popular use of fees and penalties has received vast attention from public policy makers as consumers’ complaints about unfair penalty practices have escalated over the years. For example, Congress recently commissioned a study investigating fees and interest rates of 28 popular credit card companies and released a report in 2006 that late payment penalty had increased over the years and averaged $34, up from $13 in 1995. Consumer penalties have gained attention not only from public policy makers but also the companies who are struggling to find the happy medium between the pressure to increase revenue through penalties and fees and the competitive urge to keep customers happy. Surprisingly, very little research has been done to understand the impact of penalty on customers and how different customers use different evaluation processes. In order to fill the gap in the literature, this study first investigates the dynamic relationships among penalty-related evaluation (transaction-specific evaluation), overall evaluation (i.e., evaluation based on overall experiences with the firm), and future behavioral intentions. Then, the study examines two different customer groups based on their prior relationship with the company (i.e., labeled as “cooperative” and “rebellious” customer groups, which were created based on their intent to follow or break the company’s rules in the future) and tests whether the model works the same way for the two different customer groups. Prior research indicates that customers who have developed a positive relationship with the company tend to be cooperative and functional, while the customers who have not often become dysfunctional and, in some cases, rebellious. It is expected that these two different types of customers will use different evaluation processes and behave differently. Thus, the study examines the different weights of transaction-specific evaluations and overall evaluation on behavioral intentions for the two customer groups. Overall satisfaction is often used as a mediator between the transaction-specific evaluations and behavioral intentions. This study investigates the nature of the mediating role (full vs. partial) of overall satisfaction for the two customer groups.

The following hypotheses are tested in this study.

H1: Overall transaction-specific evaluation (i.e., dissatisfaction with the penalty) will have a significant negative influence on overall evaluation of the firm (i.e., overall satisfaction) after accounting for cognitive antecedents to dissatisfaction (positive disconfirmation, perceived fairness).

H2: Both overall transaction-specific evaluation and overall evaluation of the firm will have significant influences on behavioral intentions to repurchase after accounting for cognitive antecedents to dissatisfaction.

H3: For cooperative customers, overall evaluation will explain more variances in repurchase intentions than transaction-specific evaluations.

H4: For rebellious customers, transaction-specific evaluations will explain more variances in repurchase intentions than overall evaluation.

H5: Overall satisfaction will fully mediate the relationship between transaction-specific evaluations and repurchase intentions for cooperative customers. However, a partial mediating effect of overall satisfaction is expected for rebellious customers.

Research Method

Data were collected using cross-sectional surveys on customers of various service organizations. The critical incident technique was employed in the survey questionnaire design so that customers’ evaluations of penalties based on a critical penalty incident could be captured. Respondents were asked in the survey to recall and describe a recent penalty incident before being subjected to a battery of structured questions related to evaluations of the penalty. The final sample after the responses with missing information were discarded amounted to 201. Question items were generated based on the scales used in previous studies and all multiple items were subjected to reliability analysis. Cronbach’s alpha coefficients ranged from 0.79 to 0.84, suggesting reliabilities of the measures.

Results

The hypothesized structural model was tested using Lisrel for path analysis. The overall model fit is excellent and variances of dependent variables are well explained by the predictors used in the model. Hypothesis 1 and 2 are supported. In order to test hypotheses 3 and 4, the sample was median-split into two groups based on their compli-
ance intentions (willingness to comply with the company’s rules in the future). As expected, overall satisfaction plays a more significant role in repurchase intentions than transaction-specific evaluations do for cooperative customers. On the other hand, rebellious customers tend to rely on transaction-related evaluations more heavily in determining their behavioral intentions of repurchase than overall evaluation. Also, overall satisfaction fully (partially) mediates the relationship between transaction-specific evaluations and repurchase intentions for cooperative (rebellious) customers.

Discussion

The results of the study suggest that both overall evaluation and transaction-specific evaluations be included and measured in a customer evaluation study to capture the dynamic relationship among different types of evaluations and behavioral intentions. The findings of the study support that the two different types of evaluations can be identified and measured separately, and that they play different roles in the prediction of repurchase intentions for different types of customers. The results suggest that rebellious customers are more sensitive to a negative penalty episode than cooperative customers. This means that effective management of penalty experiences for rebellious customers (e.g., education program helping customers break away from recidivism) is crucial for customer retention. Given that positive overall evaluation is an important determinant of customer retention especially for cooperative customers, companies should cultivate an environment, in which customers have opportunities to build a positive relationship with the company before being subjected to a penalty. References are available upon request.

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WHAT ROLE DOES CUSTOMER RELATIONSHIP MANAGEMENT PLAY IN MARKETING STRATEGY?

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Oliver Schilke, Stanford University, Stanford,
Jacquelyn Thomas, Northwestern University, Evanston

SUMMARY

Customer relationship management (CRM) has received a growing amount of attention from both practitioners and academics for more than a decade. There are many documented definitions of CRM (see the Appendix of Payne and Frow 2005 for a review). Across the numerous definitions, the common idea is that CRM is about leveraging information to derive customer insights that can be used to implement strategies which enhance the performance of the organization and add value to the customers. Thus, CRM has a clear link to marketing strategy (Varadarajan and Jayachandra 1999).

However, the issue has been raised as to whether CRM is a new marketing paradigm or is simply the repackaging of existing marketing thoughts (Boulding et al. 2005). After extensive observation and interaction with CRM scholars, Boulding et al. (2005) posited that CRM is neither a new paradigm nor a simple repackaging of existing marketing ideas. Rather, it is “the outcome of the continuing evolution and integration of marketing ideas and newly available data technologies, and organizational forms” (p. 156). This position suggests that, as opposed to investigating CRM strategies in isolation, there is an opportunity to integrate CRM into a general strategic framework and assess its relative impact on firm performance. Thus, in the current research we focus on the following basic question: “How does CRM relate to other aspects of marketing strategy and relatively drive firm performance?” In order to assess this research question, we: (1) integrate CRM with two existing perspectives of marketing strategy, differentiation, and focus; (2) reflect marketing strategy with operational efficiency as an opposed perspective; and (3) analyze and compare aspects of marketing strategy in specific environmental settings; that is in highly and less commoditized industries.

Methodology

We interviewed 141 marketing executives, which we identified through a commercial database. At these business units, key informants were contacted by phone, after which they were provided with access information to the questionnaire. Firms were affiliated with one of following ten industries: agriculture and hunting, forestry and logging, extraction of stones and soil and other mining, manufacture of outerwear, manufacture of underwear, manufacture of wearing apparel and accessories, manufacture of pharmaceuticals, manufacture of furniture, manufacture of toys, and energy supply. These industries were chosen to capture a variety of firms that range from high to low commodity environments.

Results

For each construct, indicator reliability was analyzed by looking at the factor loadings, which should be significant and preferably above a .4 parameter value (Hulland 1999). Significance tests were conducted using the bootstrap routine with 500 resamples (Chin 1998). Composite reliability (CR) and average variance extracted (AVE) were analyzed to test construct reliability and validity. Bagozzi and Yi (1988) recommend threshold values of .6 for CR and .5 for AVE. Finally, Cronbach’s alpha was examined for each construct, which should exceed a minimum level of .6. After having gained confidence about the appropriateness of the measurement model, the next step was to examine the structural model. Given our research goals, we needed separate analysis for the high and low commodity markets. Based on a thorough review of the literature, some industries were identified as examples of commodity environments (e.g., Hambrick 1983a; Hambrick 1983b; Maes, Guttman, and Moukas 1999; Narver and Slater 1990; Stanton and Herbst 2005). We used this precedence to assign industries to the high and low commodity groups. In order to confirm the appropriateness of the assignment of industries to the two groups, a t-test was performed with commodity environment level as the differentiating factor. This test confirmed a significantly higher degree of commodity environment for the high versus low commodity environment. The factor score represents the degree of commoditization of an industry. It is obtained from PLS reflecting a weighted average of the indicators of the four dimensions of the commodity environment level. We constructed a structural model and obtained results from two different data sets, one from low and the other from high commodity environments.

We examined the structural model by looking at the explanatory power of the entire model and the predictive power of the independent variables (Chin 1998). The explanatory power can be analyzed by looking at the
squared multiple correlations ($R^2$) of the main dependent variable (Chin 1998), performance. In the model with data from the low commodity group, 16.4 percent of the variation in performance is explained by the marketing strategy and operational efficiency constructs, while $R^2$ is 12.3 percent for the data from the high commodity group. Thus, our model helps highlight some important factors that are associated with more successful firms.

The predictive power of the independent variables can be tested by examining the magnitude and significance of the standardized parameter estimates between the constructs. The findings provide solid support for the conceptualizations in both subsamples. Except for CRM in low commodity environments, all of the dimensions of differentiation, marketing strategy, and performance are significant and show the expected positive sign. At the same time, the path coefficients between marketing strategy and performance as well as between operational efficiency and performance are significant.

**Findings**

The first key finding is that CRM seems to be insignificant in less commoditized industries with high switching costs, low price sensitivity, low product homogeneity, and high industry dynamism. The second key result is that, as industries become more commoditized, the management of a brand becomes less important than the management of the customers. The third key outcome is that marketing strategy has a greater effect on a firm’s performance in a highly commoditized market than operational efficiency. References available upon request.

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SUMMARY

Customer relationship management and customer loyalty are known to be important issues in many different industries. We adapt Oliver’s (1997) four-stage loyalty model to a local newspaper setting and identify factors that influence customer loyalty in this specific context. Moreover, we analyze direct and moderating effects of switching barriers on customer loyalty. Results indicate that switching barriers and habitual media usage have a negative impact on the link between satisfaction and intention to repurchase.

Introduction

Circulation of most local daily newspapers in developed countries like France, Germany, Italy, Japan, the United States, and the United Kingdom is declining. Against this background, customer retention is an important topic for publishing companies. Their challenge is to shift from transaction-based marketing to relationship marketing (Grönroos 1997; Hennig-Thurau and Hansen 2000). However, despite the relevance of loyalty to publication houses, only very few academic articles have been identified that particularly focus on customer retention in this specific case (Chen and Xie 2007; Deming and Glasser 1968; Keane and Wang 1995). Hence, it is unclear, if existing loyalty concepts can be directly transferred to this context. In the present paper, we (1) adapt Oliver’s (1997) four-stage loyalty model to a regional newspaper setting, (2) identify factors that influence customer loyalty in this specific context, (3) analyze the direct and moderating effects of switching barriers on customer loyalty, and (4) conclude with implications for customer relationship management based on our empirical findings. We test our hypotheses using partial least squares modeling and multiple-group analysis on a sample of 440 subscribers of a local newspaper in Germany.

Four-Stage Loyalty Model

We use Oliver’s (1997) definition of loyalty, because it includes both attitudinal and behavioral aspects. He introduces a four-stage loyalty model, implying that different aspects of loyalty do not emerge simultaneously, but rather consecutively over time (Oliver 1999). Hence, customer loyalty can be seen as a process involving four phases (cognitive, affective, and conative loyalty as well as actual purchase behavior). We hypothesize and investigate the interrelations between these different stages. Also, we extend the existing model using both economic and social switching barriers and habitual media usage as influencing factors on loyalty, but also as potential moderators of the relationships in the four-stage loyalty model.

Empirical Results and Discussion

Using partial least squares modeling, we find that all aspects of cognitive loyalty exert strong significant influences on affective loyalty (H1a – H1b). Specifically, both product functions (β = .20, p < .05) and product attributes (β = .51, p < .01) significantly and positively influence customer satisfaction. Second, we find support for the hypothesis focusing on the influence of affective loyalty on conative loyalty. This can be further documented by the strong positive influence of customer satisfaction on intention to repurchase (β = .43, p < .01) and on intention to recommend (β = .37, p < .01). Third, social and economic switching barriers are found to positively influence intention to repurchase. Specifically, we find a strong and positive significant influence of social switching barriers on intention to repurchase (β = .24, p < .05) as well as an even stronger positive influence of economic switching barriers on intention to repurchase (β = .34, p < .01). In addition to these direct effects, our model also incorporates a number of moderating effects. We find the influence of affective loyalty on conative loyalty to be significantly lower (pdiff = .002) with high levels of social switching barriers. In particular we observe a relatively minor influence of satisfaction on intention to repurchase under conditions of high social switching barriers (β = .24, p < .05), which becomes almost twice as large under conditions of low social switching barriers (β = .46, p < .01). Similarly, we encounter a strong moderating effect (pdiff < .001) of economic switching barriers on the influence of satisfaction on intention to repurchase. Specifically, while under conditions of high economic switching barriers, the effect of satisfaction on intention to repur-
purchase is rather low and only marginally significant ($\beta = .17, p < .1$), this effect more than doubles under conditions of low economic switching barriers ($\beta = .52, p < .01$). Finally, our analyses reveal a significant moderating effect ($p_{diff} = .001$) of habitual media usage on the influence of satisfaction on intention to repurchase. While under conditions of high habitual media usage, the effect of satisfaction on repurchase intention is rather moderate ($\beta = .21, p < .05$), this effect largely increases when habitual media usage is perceived to be low ($\beta = .43, p < .01$). Specifically the moderating effects provide some interesting implications for both academics and practitioners, which will be discussed in more detail at the conference. References available upon request.

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THE MEDIATING EFFECT OF CUSTOMER SATISFACTION BETWEEN SWITCHING COSTS AND CUSTOMER LOYALTY

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SUMMARY

Switching costs are discussed to be crucial for customer retention and consequently for firms’ financial performance. Reviewing literature, most studies only investigate two effects of switching costs. The first one is a direct effect on customer loyalty and the second one is an interaction effect with customer satisfaction on customer loyalty, although most of these studies argue that switching costs may also influence customer satisfaction negatively. This paper fills that void by analyzing the mediating effect of customer satisfaction between switching costs and customer loyalty, using a sample of 179 customers of a German energy provider.

Theoretical Background and Hypotheses Development

Numerous studies have linked customer satisfaction to financial outcomes (e.g., Anderson, Fornell, and Lehmann 1994; Anderson, Fornell, and Rust 1997; Bernhardt, Donthu, and Kennett 2000; Ittner and Larcker 1998; Keiningham et al. 1999). Despite the obvious managerial relevance, most research has examined customer satisfaction as the main antecedent of customer loyalty (Anderson and Mittal 2000; Anderson and Sullivan 1993; Reichheld and Shefter 2000; Szymanski and Henard 2001), while largely neglecting the impact of switching costs (Fornell 1992), although most studies on switching costs argue that they may also affect customer satisfaction negatively. Switching costs are the one-time costs that customers associate with the process of switching from one provider to another (Burnham, Frels, and Mahajan 2003). Burnham et al. (2003) distinguish between three higher-order switching costs: (1) procedural switching costs consist of uncertainty costs, pre-switching search and evaluation costs, post-switching behavioral and cognitive costs, and setup costs. (2) Financial switching costs include lost performance costs and sunk costs. (3) Relational switching costs comprise personal relationship loss costs and brand relationship loss costs. Whereas the first type of switching costs primarily derives from negative sources of constraint, the second and third types deduce from positive sources of constraint (Jones et al. 2007). Therefore, the routes of switching costs influencing customer loyalty should differ. Most studies suppose switching costs to influence customer satisfaction negatively, but do not empirically test this effect for different types of switching costs. Even reactance theory suggests that a decrease of customer control may result in negative emotions (Brehm 1989), whereas equity theory suggests that positive switching costs may increase customer satisfaction (Adams 1965).

Our study fills this void by (1) discussing the impact of different types of switching costs on customer loyalty and (2) investigating the mediating effect of customer satisfaction between switching costs and customer loyalty. The following hypotheses are tested against a sample of 179 customers of a company in the recently liberalized German energy market:

H1: Customer satisfaction has a positive effect on customer loyalty.

H2a/b: Perceived procedural (financial and relational) switching costs have a positive effect on customer loyalty.

H3a/b: Perceived procedural (financial and relational) switching costs have a negative (positive) effect on customer satisfaction.

H4a/b: As perceived procedural, financial and relational switching costs increase, the link between customer satisfaction and customer loyalty will be weaker.

Results and Discussion

Results indicate a two-factor, higher order switching cost typology, allowing researchers and practitioners to distinguish between different kinds of switching costs, which influence customer loyalty through alternative routes. It can be noted that procedural switching costs directly affect customer loyalty, whereas financial and relational switching costs influence customer loyalty through customer satisfaction. Contrary to our hypotheses, no negative effect of switching costs on customer satisfaction was found, although literature recommends establishing switching costs carefully, due to their negative effect on customer satisfaction. This might be explained by cognitive dissonance theory, suggesting that customers who are “locked-in” will rationalize their behavior and view themselves as satisfied (Festinger 1957).
As a conclusion, the specific direct effects of switching costs on customer satisfaction indicate that research on the alternative routes through which different types of switching costs constructs affect relational outcomes is an area for further fruitful research (Jones et al. 2007). References available upon request.

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A SOCIAL MARKETING MODEL OF RELIGIOUS ORGANIZATIONS

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SUMMARY

By applying Rothschild’s (1999) conceptual framework for social marketing to the functional theory of religion, it is proposed that the entire institution of religion in human society can be considered to be a form of social marketing. Over the millennia, it was recognized that the pull of the baser side of human nature (e.g., self-centeredness and emotional indulgence) could not be well-managed by exhortation or governmental force alone. To fill the gap, there evolved organizations that, in a sense, seduced people into being good by offering immediate benefits, such as the feeling of being protected against malicious forces or the feeling of being destined for salvation in the next life, in return for some involvement in the organization. This involvement enabled the organization to get into people’s heads in numerous ways to help them behave so that, in effect, they were saved in this life – in other words, were helped to avoid the long-term negative consequences of self-centeredness and emotional indulgence.

A model of social marketing is proposed to help clarify how an organization may use the satisfaction of people’s immediate needs as a means to help satisfy these people’s long-term needs. This model is based on the idea that marketing typically involves nested exchanges – an inner exchange oriented toward immediate needs and an outer exchange oriented toward long-term needs. In commercial marketing, the inner exchange involves customers satisfying immediate needs such as quenching thirst or enjoying the excitement of a new car and the selling organization satisfying its immediate needs for cash to meet payrolls and pay suppliers. The occurrence of this inner exchange also contributes to an outer exchange where the emergent product offered to the customer is the habit of responsible drinking.

In terms of this social marketing model, a religious organization can be considered to draw in congregants by providing direct products such as inspiring buildings, comforting rituals, and the uplifting sense of being blessed. In return for these direct products, congregants support their churches with money and volunteer labor that satisfies the religious organization’s immediate needs. Congregants’ continued consumption of the religion’s direct products help enable the religious organization to offer to congregants emergent products, such as the habit of forgiveness or the experience of detachment from harmful behavioral impulses. In return for these emergent products, congregants become loyal “adherents,” raise their children in the church, and make other contributions so as to help the church continue to offer the incentives of its direct products. The paper presents a taxonomy of both the direct products of religious organizations and of their emergent products – i.e., the spiritual devices that religious organizations use to exert long-term beneficial influences on people’s behavior.

It is argued that the development of religious organizations over the course of human history has involved an intuitive use of social marketing principles to great societal benefit. For example, there are no over-arching organizations required here to sponsor social marketing “interventions.” Religious organizations evolved to be self-replicating, so that once formed, they could accomplish broad social marketing objectives simply by being turned loose on the world. The paper concludes with discussion of the implications of this analysis for the role and future of organized religion in modern society.

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ABSTRACT

This discovery-oriented study examines various aspects of life of HIV-positive women in Australia. Depth interviews conducted with seven women revealed that issues related to support services have much broader implications; namely, a need to develop social marketing programs. The nature of these programs should be recast from prevention to intervention through involving people who live with HIV and ameliorating the impact of HIV on their everyday lives.

INTRODUCTION

When people hear of another’s suffering – from cancer, Alzheimer’s, hemophilia, or heart disease – this immediately gives rise to sympathetic and supportive feelings. However, when people hear of someone afflicted with HIV/AIDS what first comes to mind is drugs, homosexuality or sexually promiscuous behavior. On occasions, the idea of medical negligence or mishap might cross our minds. All of these themes focus on causes rather than consequences. They are strongly reinforced in the media and lay on the surface of the informational landscape associated with HIV/AIDS. The focal point of concern is infectious disease per se, which often leads to feelings of fear, denial, avoidance, and ignorance. But this is only one side of the story. So, what, then, tells the other side of this story? Of course, the answer is Who, not What. The answer is People. People living with HIV/AIDS (PLWHA), people who suffer from and struggle against this terminal condition regardless of how they acquired this virus. The reality is as it is understood by PLWHA Victoria – whether Positive or Negative: HIV is part of our lives.

The experience of PLWHA already has quite a long history in our society; however, the virus is strongly associated with the predominantly high risk groups. One particularly vulnerable market segment of individuals suffering from HIV/AIDS – but lacking the high visibility common to other risk groups – is heterosexual women. This largely overlooked segment of the HIV population receives minimal attention in the literature. This can be explained by a number of reasons. First, access to the HIV sector is very limited as clients and their confidentiality are highly protected by various bodies, and second, women are a comparatively small group within the HIV-positive population. To date, little investigation has been conducted on this emerging segment of consumers, and none has focused attention on the needs of women living with HIV/AIDS (Ciambrone 2001; Reilly and Woo 2004). This gives rise to a new segment of consumer whose needs are not fully met through traditional medical avenues and who, instead, require support services that provide both medical and non-medical assistance. Consequently, an increased research focus on enhancing consumer welfare is considered an urgent imperative in mainstream marketing and consumer behavior literature (Mick 2006; Sheth and Sisodia 2006).

Thus, this exploratory study was initiated to address the following research objectives:

- To examine the range of needs of HIV-positive women;
- To determine perceptions of HIV-positive women about their social representations within broader society.

OVERVIEW OF CURRENT TRENDS IN HIV

Due to recent medical advancements, people living with HIV/AIDS (PLWHA) are able to continue working, maintain existing relationships, and to start families; in effect they are maintaining aspects of a pre-HIV life.

An increasing proportion of people living with HIV in Australia are heterosexual females. A significant rise in new HIV notifications among women occurred between 1999 and 2004 with the latest available figures revealing approximately 1,600 registered HIV-positive women in Australia (NCHECR 2004). Significantly, however, infections among women do not pertain to an identifiable age or risk group (NCHECR 2004) and consequently, the specific needs of individual women vary considerably. The main issues that affect the quality of life of HIV-positive people are two-fold: the personal and social stigma associated with HIV, and the support services available for those diagnosed with HIV.

HIV and Stigma

People who acquire HIV differ significantly from people with other chronic or terminal illnesses in terms of how they cope with medical, social, economic and personal pressures. Feelings of guilt at becoming infected and fear of disclosing their status due to the perceived...
risks of being stigmatized and marginalized in society are unique for PLWHA and influence almost every aspect of their lives (Molassiotis et al. 2002).

Gender difference also plays a significant role in relation to stigma felt by PLWHA. For example, women are inclined to feel victimized if the infection is caused by unprotected sex with men who did not divulge their HIV status (Lichtenstein et al. 2002).

HIV and Social Support Services

Increased rates of life expectancy (following initial HIV-positive diagnosis) mean that those infected are now facing a different set of challenges that centre on how to live with HIV. In particular, the health care system, community care networks and similar agencies, now need to develop strategies to provide adequate assistance for people with an HIV-positive diagnosis in order to help them maintain good mental health and remain independent and productive members of the community for as long as possible. These circumstances raise questions as to the accessibility and relevance of available support services, which have been primarily designed for homosexually active men and injecting drug users.

In the peak years of the HIV/AIDS epidemic, it was the gay community that was predominantly afflicted. The spread of HIV/AIDS to other groups, however, has necessitated some urgency in establishing organizations that accommodate the needs of a more demographically diverse population. People outside the gay community and other cultural groups identified in the earlier stages of the epidemic (e.g., needle users, sex workers) often lack the various forms of emotional, economic, and political support that are required to promote resilient attitudes. They also tend to be susceptible to higher degrees of isolation, stigma, and marginalization.

Women, in particular, are marginalized within the Australian HIV population and have few support resources targeted directly to their needs as a group. This is because the specific needs of women vary considerably depending on their current health condition, family status, financial situation, and their degree of emotional fulfillment. Within Australia, several community-based organizations target women’s needs. These organizations offer a limited range of information resources and services, such as a drop-in service, hospital and home visits, access to funding for personal development, and food vouchers.

A substantial body of research in mental health provides evidence that use of social support services has the potential to reduce levels of stress and risk behavior (Bruce et al. 2002; Waddell and Messeri 2006). Findings from Tsunekawa et al. (2004) demonstrate that positive attitude changes occur when PLWHA encounter others who share the same burden. However, while many studies emphasize that peer support and participation in social groups enables HIV-positive people to reinforce their coping skills, restore emotional balance and increase self-esteem (Molassiotis et al. 2002; Bruce et al. 2002), only one study conducted in the United States pointed out that many people diagnosed with HIV do not receive regular support (Uphold and Mkanta 2005).

In summary, an overview of academic and practitioner literature in the area of HIV support services leads us to conclude that, to date, there are no well grounded programs or soundly designed strategies for tailoring support services to HIV-positive people in general and women in particular.

METHOD

This project has discovery-oriented goals and employs a qualitative approach for the data collection process. The sensitive nature of this study, the ability to guarantee confidentiality to respondents and the desire to make the research as participatory as possible require a face-to-face, individual approach from the researcher. For this purpose our research methodology adopts a grounded theory approach (Strauss and Corbin 1998) embedded within a constructivist paradigm (Denzin and Lincoln 2005) in which the data collection method is informal, based on semi-structured in-depth interviews (Strauss and Corbin 1998) and complemented by observation and recording of field notes (Marshall and Rossman 1999). The research employs the purposive (or judgment) sampling techniques (Albright 2002).

Our hermeneutically grounded interpretive research framework focuses on unfolding personal stories and experience. From a hermeneutic perspective, the stories informants tell about their experience is a prime locus of discovery (Thompson 1997). The informants – as “self-narrators” – relate their life stories with an emphasis on their experiences and views on both a personal understanding of living with HIV and how HIV is understood – or stigmatized – in the wider community.

Interview Schedule

We explored individuals with one illness to attempt to minimize extraneous factors. It is recognized that HIV is potentially different to other illnesses as HIV is often stigmatized and those affected often face discrimination, both of which restrict the well-being of people living with this condition. The health and support sectors are therefore frequently very protective of their clients and those affected are suspicious of “outsiders.” These factors pose a challenge for academic research, especially when re-
searchers are not based in health disciplines. This project has been undertaken over two years and we have engaged with a range of HIV community-based support organizations, medical practitioners and governmental agencies. Individuals who were interested in participating in the study phoned or emailed researchers directly to arrange a time and location for interview. The semi-structured interviews lasted from one to three hours and were conducted at a place selected as convenient for the informants. All interviews were audio taped after written consent was granted.

Data analysis was performed in two stages employing the hermeneutic (ideographic) approach (Thompson et al. 1994; Packer 1985; Fournier 1998). The first stage involved analyzing the verbatim transcript with the goal of gaining insight to the personal hardship of an HIV diagnosis in which psychological tendencies were revealed as well as an understanding of how women utilized available support services and resources. The second stage involved comparative analysis of the responses of each interviewee.

Sample

The researchers approached a community-based organization in Australia to seek its assistance with recruitment. The key informants of this research were seven women living with HIV/AIDS. All our respondents are Australian citizens, with English as their native language and all between 35 and 55 years of age. The time lapse since diagnosis of these women was from 20 months to 20 years. Four women have children. Overall, there was sufficient variation in the life circumstances of these women to reflect some diversity of lived experiences and life perspectives.

FINDINGS

The interviews focused on the impact on personal and social relationships that the women experienced during the period of their diagnosis, the subsequent commencement of treatment, and the ongoing management of their condition. This approach elicited three key themes that emerged during the data analysis – stigma and disclosure, peer support, and education.

Stigma and Disclosure

From the onset of HIV/AIDS, women identified stigma and disclosure as the most critical issues pertaining to life with HIV. These factors have a great impact upon further patterns of behaviors and inevitably affect the way how people cope with HIV/AIDS. When asked whether they experienced stigma, the respondents’ initial responses focused on medical practitioners.

IF5: I have, but not from people who I love. Not from family or friends. From medical profession yes. When I had [name of child], she’s 15 months, and the midwives, you know, it wasn’t – it was ignorance. They, you know, a couple of days after she was born in the hospital they asked me how long I had to live being HIV positive. You’d think working in the medical profession they’d have an idea and they had no idea.

IF1: So many different things even to the point in the hospital where they were all watching me, five people in a room saying “don’t breast feed,” I had a natural delivery and even to the point where they’ve said we will come in at 10.00 o’clock and bring formula, they didn’t come. My baby wasn’t nourished so I even left it to the universe to work with me to show me what to do.

Two informants recalled their experience during pregnancy, while another informant recalls her first visit to the obstetrician:

IF4: So I’ve handed him my records he’s read it he’s jumped back and said “you’re HIV- positive, I can’t treat you.” So I just gone . . . just with my mouth open. . . . so I’m not used to this kind of treatment and to me not . . . being denied medical treatment and his reaction to jump away from me in horror just made me feel disgusting, like I was so disgusting was unworthy of medical treatment.

IF6: Saw a different specialist but her diagnosis evoked a very similar reaction:

IF6: I had a [name] Certificate to be able to go to a dentist for him to do the dentures and I went to one and he questioned as to why I had the Scheme form. I told him that I had HIV and he outright refused to treat me. He said “It’s just not worth my while – financially it’s not worth my while.” But yes, I actually found it really hard to challenge him at the time because I was so hurt and I was nearly in tears. I just felt awful.

While it would be expected that medical or health practitioners are fully informed about misplaced social perceptions about HIV, the negative experiences of women had a significant impact on their perception of themselves and how they are perceived by broader society. All the above passages relate encounters with non-HIV specialists. A contrasting perspective is revealed when women deal with HIV specialists.

IF2: I think he’s excellent. He gave me so much information, so much support, so I highly recommend him. I put him on a pedestal, you know.
Social Sources of Stigma

Stigma is strongly correlated with disclosure of the serostatus. Some of our respondents had strongly negative experiences.

IF1: . . . and then in partnerships, on the romance, can the relationship find having to deal with disclosure to a male partner. I have never been rejected before and having a younger man run off on me one time, after five dates I disclosed to him and he choof, gone and that really hurt my ego . . . because there is no appropriate time to say I have HIV, there never ever is.

IF6: I have certainly had people step back from shaking my hand.

. . . while others chose do not disclose their status and thus protect themselves from any potential stigma.

IF3: It’s not a cancer thing, cancer is fine, you can tell people – with HIV people see you differently, so it’s nothing that you want to disclose to people, because people will treat you differently, believe me.

IF2: It’s not like saying “I’ve got diabetes,” and people understand it, they’ve got sympathy. With HIV – it’s a big thing.

Concealing HIV status also has negative consequences in terms of informants carrying a psychological burden that they feel cannot be easily shared.

IF2: Most difficult? I think I mentioned it before – like, telling people. It is. I think even . . . Yeah, it is, thinking about it. Like, none of my friends know. How am I supposed to tell them? They’re just going to judge you. They think you’re bad.

IF4: Secrecy; not being able to talk to anyone else about it.

Our informants commonly drew a contrast between the reactions to HIV they experienced in comparison with social perceptions of other illnesses.

Peer Support

Our informants were asked about various services provided by government and non-government agencies and aimed at assisting in normalizing the life of HIV-positive people. Siegel and Lekas (2002) observed two dominant reactions by women to a diagnosis of HIV: to either engage with the HIV community or to continue with the pre-illness self, which often results in social and/or emotional isolation. Encouraging women to engage with community-based organizations through peer support workers can reduce this isolation.

IF1: I liked [name], I wish she was still there because I miss her. She was a very good, down to earth woman that I could feel I could be very open, be myself with and discuss the issues.

IF5: And as I said, meeting other women who were positive, I needed to see, I need – because I never met, you know, I’ve never known anyone who was HIV positive so I needed to see that they were actually real and that they were living.

IF3: Because it was all new to me – you kept thinking about your other life that you had and this is all new, but I am so happy that I made the move. Look, even just coming here for lunch, I met some really nice people; we all have our problems and whatever, but they’re nice people. And they are people that you can talk to. . . .

IF4: When you are newly diagnosed the best thing for you is to talk to someone else who is living with it.

Despite the fact that, at the present moment, not all informants use peer support service, they unanimously expressed the opinion that such services are crucial, particularly at the immediate post-diagnosis stage or at times when some specific needs arise. It is important to note that the most effective support-providers may be similar others; that is, individuals who themselves have successfully faced the same stressful circumstances that are currently experienced by the subject (Thoits 1995).

The importance of peer support is strongly emphasized by women in our study and, in general, respondents seek more communication with other HIV-positive women – to share information and experience, to maintain social contact and for emotional support.

However, when respondents reflected on instrumental support services they feel that those services are under-funded and under-developed.

IF1: No they’re [HIV-positive people] definitely not legally represented. In the PLC [positive living center] there’s only one or two lawyers . . . but their phone line is consistently busy from 2.00pm to 4.00pm and I have been advised, keep trying, keep trying. You can’t keep picking up the phone and it’s consistently engaged. So I have given up on that.

Another informant has serious concerns about the lack of assistance provided for PLWHA who have children.
IF5: For me, you know, I think that the issue needs to be addressed about children and about disclosing to your children. I think that’s a very big thing. In the beginning of these community organizations people either didn’t have children or they, you know, their children were very young, and now 10, 20 years later we’ve got these new ones being born and we’ve got older ones who need, they need support and they need to – and I think a lot of parents don’t have the, they don’t know how to tell them or when to tell them.

Two other respondents mentioned the problem of the geographical concentration of services in one particular city area as a significant barrier to accessing and using those services.

IF2: It takes about an hour to get there. By the end of the day you’re tired, you have to drive back or whatever.

IF6: I certainly feel like I am missing out. For example, the PLC is a brilliant place. They have yoga classes, they have computer classes, they do a food bank once a fortnight. I actually don’t access any of those services because it’s just too far for me.

Opinions that our respondents expressed toward various services demonstrate the heterogeneity of HIV-positive population and the diverse needs of females in particular. Their needs vary to a significant degree and these are invariably linked to the specific stage of life while living with HIV.

HIV and Society

The final theme is the most intriguing one. When respondents were asked what should be done to improve conditions of people living with HIV, the respondents turned their attention to more global issues. At the end of the interview when respondents were asked if they would like to add anything, several of them emphasized the importance of education on HIV as a social issue.

IF3: They are still not educated – even though people say they are more educated these days, I still don’t see people as educated. … We are separated in a sense because society is stupid, they don’t understand it. They are the ones that make us separate, but we are just normal like everyone else. If they get more education maybe they will learn more about it.

IF2: They need that education. I don’t think many people have that unless they’re confronted with it. So I think people should be more educated.

IF4: I would like to see education being general, not gay specific. They get the main bulk of the funding for education and yet there is basically no general community education. I’d like to see that.

As mentioned by IF3, it is a perceived lack of education that forces HIV-positive people to construct their world in terms of “us” versus “them.” It is a chasm which forces people not only to live in isolation and to feel excluded from society but has much more broader implications such as loss of self-esteem, employment difficulties, lack of and resources, and generally placing limits on their opportunities to contribute to society. As IF5 mentioned:

IF5: I think that it [Australia] really has no idea about the fact that there are people living with HIV. I think that we always need to be involved in the decision making process because we are the ones who understand what it is to live with it. And yes, and we’re the ones who can help talk about things like, you know, to stop transmission and to talk to our own community. So yes, I think we always need to be involved.

This gives us an insight into a segment of the population which may have significant economic, social, cultural and religious differences, and offers both an understanding of and impetus for the examination of experiences of individual life experiences with HIV. Both the responses from the interviewees and the surveillance data jointly support the contention that it is extremely difficult to identify any commonality across the female HIV-positive population; however, where they constitute a united front is in their expressed concern for promoting HIV related educational campaigns in society.

These narratives illustrate the evolving and dynamic nature of support services needed for women through the evolution of HIV/AIDS from the pre-treatment era to the current situation where widely available antiretroviral treatments are available. Of particular importance is the evidence that reveals a need for counseling and non-medical support services following the commencement and balancing of antiretroviral treatments.

IMPLICATIONS: RESEARCH IN HIV AREA

This study has introduced the contemporary issues relating to the experience of life with HIV in Australia and specifically highlights the dearth of information relating to women as a minority group within this population. By adopting a more flexible approach to the marketing viewpoint that underscores the design of this study, a contribution has been made to better understanding of (1) the issues of stigma and disclosure, (2) range of women’s needs in support services and (3) the necessity of intervention programs aimed at education to promote positive images in society of PLWHA.
Engagement with a supportive HIV community which was more closely oriented to women’s particular needs was found to be of great importance. However, in reality it is not so straightforward. Firstly, the population of HIV-positive women in Australia is very heterogeneous, and while women want to communicate with others with similar experience, the diversity of the group means that they may not share any aspects of their identity beyond their HIV status. The second issue is that women perceive that they have little in common with the majority of the community of PLWHA, given that support networks have been principally organized by and on behalf of the gay male community.

The strategies employed by peer-support organizations require extreme flexibility and adaptability in dealing with the diverse population of HIV-positive women. HIV support organizations are, by their very nature, limited in resources and tend to operate in a similar way to each other rather than offering distinctive services to their clients. There is no competitive incentive to sharpen the quality of services available and women who use these services do not have many options from which to choose. Some of the key aspects mentioned in this study suggest the need for further development of marketing strategies and service-centered social marketing approaches to satisfy the needs of HIV-positive women.

The problems associated with HIV/AIDS are too readily perceived as relating purely to the domain of physical health. However, the contribution that can be made from the services marketing and social marketing paradigms is to overcome this major “short-circuit” in the design and promotion of health care services caused by the failure to take into account consumer variables such as individual personality, socioeconomic status, existing knowledge and interests, mass media habits, and interpersonal communication networks (Bratic et al. 1981). We must add gender to this list, as it has been long overlooked. As this study reveals, such an approach will improve the design of support services and facilitate the development of gender-sensitive marketing strategies to enhance the consumption of support services by HIV-positive women.

CONCLUSION

The process of data collection was marked by objective difficulties in recruiting women with HIV/AIDS who were willing to participate in this study. The major obstacle was that women consider their privacy to be a high priority and they were therefore reluctant to disclose their HIV status. Subsequently, the number of respondents selected to participate in this study was constrained by the scope of the project and the closed nature of the target community. However, even though the number of respondents was small, their comments and responses reveal high levels of consistency, which is important for new research directions.

Future studies could also investigate the needs of women who are caring for HIV-positive partners or children, individuals from cultural and diverse backgrounds, or for a growing elderly population who are affected by HIV/AIDS. Finally, similar research could examine the consumption practices of the heterosexual male community who, like their female counterparts, suffer from being a minority within a minority.

Greater effectiveness in reaching the growing number of Australian women with HIV/AIDS will assist in maximizing good health for longer periods, minimizing discrimination and reducing the stigma associated with HIV/AIDS, thereby enhancing the well-being of people living with the debilitating condition.

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THE MODERATING ROLE OF MANAGERIAL ETHICAL PREDISPOSITIONS IN DYADIC MARKETING EXCHANGE

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SUMMARY

Marketing decision makers’ cognitive styles and moral development have been shown to influence their ability to interpret the volatile and turbulent environment to determine which markets the firm will enter, which customers they will serve, and which competitors they will challenge (e.g., Fraedrich and Ferrell 1992). Naturally, these decisions have a dramatic effect on considerable resource allocations by the firm, which heightens the importance of marketing decision making. To date, no research has investigated the managerial considerations involved with leveraging a product’s ethical attributes in the marketplace. Specifically, the pressing question of how ethical situations and personal predispositions might influence managers’ decisions made at the market interface has been largely neglected. Thus, how a marketing manager’s personal ethical predispositions affect his or her willingness to leverage ethics in the marketplace, given certain conditions, is the research question central to this study. We are interested, moreover, in how ethical information about a manager’s interfirm exchange partner also may influence managerial investments in ethics.

In the context of dyadic marketing relationships, we are interested in the role of managers’ general ethical predispositions as well as their interfirm-specific ethical predispositions. Rather than playing a central and predominant role in decision making, the literature informs that personal ethical predispositions may interplay differently depending on the availability of relevant ethical information between interfirm exchange partners (Ferrell and Gresham 1985; Fraedrich and Ferrell 1992). As such, we predict that when information about an interfirm partner’s ethical behavior is unknown to a marketing manager, the decision process necessarily will be comprised of greater levels of uncertainty (Gundlach and Murphy 1993). In the context of uncertainty, moreover, personal values and beliefs may emerge as more predominant and influential in the managerial decision context (Hunt, Wood, and Chonko 1989). For instance, to the extent that a marketing manager believes interfirm-specific ethics are an important consideration in decision making, the less likely he/she may be to leverage the ethical attributes of product offerings in the marketplace when ethical information is unavailable. Similarly, the greater the influence of a manager’s general business ethics beliefs, the less likely he/she may be to leverage ethics at the customer interface when information is unavailable.

To test our questions, we employed a bargaining game from experimental economics. The study context involved three categories of varying ethical information using the investment game, also referred to as the trust game (Berg, Dickhaut, and McCabe 1995). Dyads of practicing managers invested actual cash resources with one another in the form of a new product development venture. The participants consisted of 234 managers comprising 117 dyads. By replicating a one-shot arm’s length transaction between managers, we isolated the effects of the ethical information treatment as well as the effects of personal predispositions. Managers indicated their likelihood of leveraging ethics based on the information they possessed as well as the exchange conditions. Finally, participants responded to questions regarding their personal ethical beliefs and demographics information.

Due to the dyadic design of the research and the non-parametric nature of experimental economics data, bootstrapping using Partial Least Squares (PLS) analysis was employed for measure purification and validation, as well as hypothesis testing. The results demonstrate that available ethical information influenced both managers’ investment in ethics and their stated likelihood to leverage ethics in the marketplace. Neither managerial ethical predispositions about interfirm exchange nor general business ethics predispositions had a direct effect on managers’ investment decisions. Regarding managers’ willingness to leverage ethics in the marketplace, however, both interfirm-specific ethical beliefs and general business ethics beliefs had strong, significant effects on stated willingness to leverage. Further, depending on the ethical information available, interfirm-specific ethical beliefs had a moderate effect on ethics investments, whereas general ethical beliefs had no significant effect on ethics investments with ethical information availability. Conversely, both interfirm-specific ethical beliefs and general ethical beliefs had strong and substantive moderating effects on stated likelihood to leverage ethics in the marketplace given the available ethical information.

Interestingly, managers often failed to follow through in their ethical investments consistent with their stated
willingness to leverage ethics for competitive advantage. For dyads in the ethical information context, managers low in both types of ethical beliefs invested less than those managers high in ethical beliefs. Although not surprising in itself, what did draw our attention was the reversal demonstrated by low ethical beliefs managers having a markedly higher willingness to leverage ethics for competitive advantage than those high in ethical beliefs. Low ethical beliefs managers did not want to invest as much in ethics, yet hoped to garner a greater return, whereas high ethical beliefs managers demonstrated behavior consistent with investing in ethics for the sake of doing the right thing, rather than hoping to gain profits. The results demonstrate the complex role of managerial ethical predispositions on interfirm investments in ethics and the willingness to leverage ethics in the marketplace.

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PREANNOUNCING PIONEERING VS. FOLLOWER PRODUCTS: WHAT SHOULD THE MESSAGE BE?

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SUMMARY

New product launches constitute one of the most challenging tasks managers are confronted with. The difficulty of this task is also reflected by the fact that nearly 50 percent of the new products brought to market fail to gain market acceptance. In order to maximize the chance of a successful new product launch, strategic as well as tactical decisions have to be made and coordinated. One important strategic question pertains to whether to lead or to follow in a market. Once the strategic boundary conditions for the new product launch are determined, the firm has to design tactical measures related to the introduction of the new product. Among these tactical measures is the preannouncement of the new product. Preannouncements mainly aim at accelerating market penetration once the product is launched.

Despite its practical relevance, however, prior empirical research has neglected whether the effectiveness of new product preannouncements is contingent upon order of entry. In particular, the question whether and how preannouncements for pioneering products should be different from those for follower products in order to enhance new product success is of great interest.

Against this background, we examine potential moderating effects of the message focus with regard to the relationship between the intensity of preannouncing and new product success, i.e., the effectiveness of new product preannouncements. Specifically, we investigate how different message contents influence preannouncement effectiveness for pioneers who create a new market, early followers into a still dynamic and evolving market, and late followers into an established market.

In this context, industry observations and interviews with managers revealed two important message emphases: a risk reduction focus that addresses the extent to which preannouncements focus on reducing the perceived risk associated with the new product and a relative advantage focus that refers to the degree to which preannouncements focus on the product advantage compared to existing alternatives.

Based on diffusion theory and on the literature on order of entry, we hypothesize that the appropriateness of these message emphases varies with order of entry. Specifically, we expect that for pioneers, a risk reduction focus increases preannouncement effectiveness whereas, due to a lack of reference products, a relative advantage focus does not influence preannouncement effectiveness. The aim here is to induce trial and to create primary demand.

For early followers, we expect that both, a risk reduction focus and a relative advantage focus, increase preannouncement effectiveness. For late followers, however, we propose that only a relative advantage focus has a positive effect on preannouncement effectiveness as customers are already familiar with these products, making a risk reduction focus redundant.

A cross-industry study investigating more than 150 new product launches shows that depending on order of entry, different message foci are suited to positively influence the relationship between preannouncement intensity and new product success. Results for pioneering products show that the stronger the message focuses on risk reduction, the stronger is the effect of preannouncement intensity on new product success. Furthermore, a high relative advantage focus exerts a marginally significant negative influence on the relationship between preannouncement intensity and new product success, indicating that a comparison with existing products is rather counterproductive for pioneers. For early followers, however, results only indicate a marginally significant interaction effect for a risk reduction focus and, against our expectations, no interaction effect for a relative advantage focus.

Finally, for late followers, a message focusing on the relative product advantage exerts a positive influence on the relationship between preannouncement intensity and new product success. In particular, results indicate that for late followers only preannouncements which strongly emphasize the relative product advantage lead to a positive effect of preannouncements on new product success.

The key implication that arises from the present study is that the effectiveness of preannouncements is contingent upon order of entry in the market and on the specific content of the preannouncement. Therefore, before engaging in preannouncements, managers have to carefully
evaluate whether their product is a pioneering product, an early follower, or a later entrant. Results of the present study provide managers with precise recommendations on how to preannounce new products, depending on their respective market situation.

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HOW DOES DISTANCE MATTER? THE IMPORTANCE OF PRE-LAUNCH STAKEHOLDERS IN SPATIAL DIFFUSION OF NEW MEDICINES

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SUMMARY

This paper takes the pharmaceutical industry as an empirical context to study how proximity of a market to stakeholders impacts spatial diffusion of a product innovation. There is an extensive body of literature showing that geographical location is of importance in understanding business performance in general, and product innovation in particular (Bradlow et al. 2005). Geographical aspects have been found to influence the development of innovations, because proximity of various stakeholders improves the flow of information between those stakeholders that is necessary to acquire new knowledge (Jaffe et al. 1993; Rosenkopf and Almeida 2003). Also, geographical aspects have been found to influence the spatial diffusion of innovations, because firms, retailers, and customers are geographically interdependent (Bronnenberg and Mahajan 2001). Previous literature, however, has failed to identify whether the stakeholders that are important during the development phase can have an impact on the spatial diffusion after the product has been launched.

Theory

For our theoretical framework, we draw on three theories that explain the effects of knowledge transfer to and from innovating firms on new product development outcomes (such as sales): social network theory (Coleman et al. 1966; Burt 1987; Van den Bulte and Lilien 2001; Reagans and McEvily 2003), cluster theory (Porter 1990; Audretsch and Stephan 1996), and stakeholder theory (Freeman and McVea 2001; Roome and Wijen 2006). We propose that geographical proximity enables tacit knowledge transfer between stakeholders and the firm during the pre-launch process, and thus can be an important explanation for spatial patterns of diffusion of new medicines. Specifically, we hypothesize that proximity of patients (to whom the new medicines) to the locations of pre-launch stakeholders will positively (negatively) impact sales of a new medicine.

Method

In order to study the hypotheses, we obtained archival data about the pharmaceutical market in the Netherlands from various sources. A spatial model is estimated for three new medicines that were selected: one radical innovation, one technological breakthrough, and one incremental innovation. We use Mantel-like tests (permutation tests) that are robust against spatial autocorrelation (Mantel 1967; Oden and Sokal 1992; Anderson and Legendre 1999; Anderson and Robinson 2001; Dekker et al. 2007). Furthermore, these tests do not require any specific assumptions about the nature of the spatial autocorrelation.

Results

We find that geographical location of clinical trials has significant negative effects on the geographical sales for the incremental innovation. For the technological breakthrough and the radical innovation, clinical trial location no statistically significant effects were found. The geographical distance to the nearest academic hospital has a significant negative effect on the geographical sales for the technological breakthrough, but a significant positive effect for the radical innovation. The geographical location of the nearest health care insurance company has no significant effects on the geographical sales for any of the new medicines. The distance to the nearest regional patient consumer platform (uniting local patient associations) has significant negative effects on the geographical sales for the incremental innovation and the technological breakthrough. Furthermore, the effect of the control variable geographical dispersion on geographic sales is significant and positive for the incremental innovation and the technological breakthrough. This means that geographically larger markets have higher sales for these two innovations.

Discussion

The results show that geographical distance between users and stakeholders matter for the spatial diffusion of an innovation in the pharmaceutical industry. For the incremental innovation, geographic proximity to clinical trials and patient associations increases sales. For the technological breakthrough, geographic proximity to an academic hospital and patient associations increases sales. For the radical innovation, the effect is counterintuitive, as geographic proximity to an academic hospital decreases sales, which may be explained by the ambiguity surrounding radical innovations. An implication of our
study is that pre-launch activities should receive serious attention. During the pre-launch process, the seeds for the spatial diffusion of innovation can be sown. Furthermore, the study suggests that some stakeholders may have more clout than they think.

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THE EFFECT OF PRIOR EXPERIENCE AND PRODUCT TYPE ON CHANGES IN PERCEIVED RISK FOR AN INNOVATION: THE ROLE OF FEELINGS

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ABSTRACT

In the context of discontinuous innovations, the authors found that for utilitarian products, low experience users report higher change in perceived risk (CPR) than high experience users. For hedonic products, there was no effect of experience on CPR. Negative feelings mediate the effect of prior experience and product type on CPR.

INTRODUCTION

Do new products increase or decrease the level of perceived risk in a product category? Perceived risk has been identified as a key determinant in the successful introduction of continuous and discontinuous innovations (Herzenstein, Posavac, and Brakus 2007; Hoeffler 2003; Ram and Sheth 1989; Rogers 2003). A discontinuous innovation (DI) is defined as a newly introduced product which is created with new technology and which requires substantial changes in consumer behavior (Chandy and Tellis 1998; Robertson 1967). Thus, a hybrid car which involves new technology, but no changes in consumer behavior, would be a continuous innovation, but not a DI. However, a car using a new technology which produced no gasoline emissions, but required consumers to charge the car at night and limit their acceleration to seventy miles an hour, would be a DI. Thus, DIs (also referred to in the innovation literature as radical innovations, true innovations and really new products) have a high potential benefit for the consumer, but they also involve a potential high cost (in terms of price, safety, social standing, changes in behavior, etc.). The prospect of this potential for loss is perceived risk and it may create an unwillingness to adopt depending on the level of the perceived potential benefit of the DI (Moreau, Lehmann, and Markman 2001).

In this paper we use change in perceived risk (CPR) as our dependent variable. CPR indicates the directional bent in the perceived risk of a DI and, thus, may serve as a better indicator of the likelihood of adoption than perceived risk alone. We define CPR as the difference between innovation risk (the risk associated with the innovation) and product category risk (the risk associated with the existing product category). These two types of risk are consonant with the two types of risk already established in the risk literature in marketing – inherent risk (risk in the product category) and handled risk (risk in choosing among brands in the category) (Bettman 1973). Innovation risk can be higher or lower than product category risk. Thus, an innovation could reduce risk in the product category or increase it. CPR identifies the risk due only to the innovation after taking into account the risk due to the existing product category. It is a useful concept because it can inform managers if the innovation will increase or decrease perceived risk, in various segments of consumers, for example. Even when an innovation transcends the product category and becomes a wholly new and different product category (Gregan-Paxton and John 1997), the concept of CPR is still relevant. This is because even in a new category it is worthwhile to understand the relative risk in the newer category as compared to a pre-existing category. The notion of CPR provides a comparison standard or benchmark against which to assess the loss potential to consumers of a DI.

This study contributes to the literature on DIs in several ways. First, we look at differences in perceived risk for different product types, that is, hedonic and utilitarian products. To date, no DI research has examined the effect of these product types on perceived risk. Second, we predict in this paper that different people may have different perceptions of CPR based on the amount of prior experience they may have had with the existing product category. Third, we conjecture that differences in prior experience will differentially affect CPR contingent on the type of product category. Finally, we posit that negative feelings mediate the effect of prior experience and product type on change in perceived risk.

The remainder of our paper is structured as follows. In the next section, we provide a review of relevant literature and state our hypotheses. The methodology, including experimental procedures, and measurements, follows. Next, we provide the result and conclude with discussions and managerial implications.

HYPOTHESES

Research in consumer behavior has contemplated a variety of ways to classify products. As noted, this research is particularly interested in products which are either hedonic or functional in nature (Mittal 1989; Vaughn 1980, 1986). Hedonic or affective products (e.g., candy
bars, games, sports cars) are consumed primarily for affective and sensory gratification benefits, and provide more experiential consumption, fun, pleasure and excitement. Functional or utilitarian products (e.g., hair dryers, washers/dryers, microwaves) deliver more cognitively oriented benefits and are primarily instrumental (Hirschman and Holbrook 1982; Strahilevitz and Myers 1998; Woods 1960). Products have in general both a hedonic and a utilitarian side (Voss, Spangenberg, and Grohmann 2003), but a distinction between products that are dominant on either the hedonic dimension or the utilitarian dimension can be made (Dhar and Wertenbroch 2000). Thus, sodas may be both hedonic and utilitarian but they may also be relatively more hedonic than light bulbs that, in turn, are relatively more utilitarian than sodas (see also Dhar and Wertenbroch 2000).

According to Mandler (1982), when an object that is discrepant with expectations impinges on an individual, it produces either negative or positive feelings depending on the extent of discrepancy and the ability of the individual to assimilate or accommodate the discrepancy. If the discrepancy is slight, individuals will be able to assimilate this into their existing schema (knowledge structure) for the product category and mild positive feelings ensue. If the discrepancy is severe (as is likely with a DI), one of two scenarios will ensue: (1) the individual will switch to an alternate schema that appropriately explains the discrepancy or (2) the individual will be forced to make structural changes to the existing schema in order to accommodate the discrepancy. In the former scenario, positive feelings are engendered as a result of the “delayed congruity” (Mandler 1982, p. 23). In the latter case, negative feelings usually occur because of a lack of fit between schema and object. According to Mandler (1982), a sense of helplessness develops when appropriate schemas are not available and this leads to negative feelings such as anxiety. We posit that such negative feelings are contingent upon consumers’ prior experience with the product and the type of the product, and tend to increase change in perceived risk. Specifically, for reasons explained below, we expect that low experience users, compared to high experience users, will react more adversely to discontinuously new utilitarian products, but more favorably to hedonic products.

In the context of hedonic products, it is more likely that low experience users, those with a low level of knowledge about an existing product category resulting from using the product, will successfully switch to an alternate schema and undergo positive feelings. Hedonic products have been found to be positively related to both positive and negative emotions (while utilitarian products have not) suggesting that they have the capacity to engender both pleasurable and painful consequences (Chaudhuri 2002). Consider, for example, that hedonic products such as candy and alcohol can have both happy and unhappy outcomes and, thus, have the potential for greater ambivalence in perceptions of risk given the requisite level of knowledge in the product category. Less experienced users have less knowledge of the product category and are less aware of the potential for painful consequences in hedonic products. Accordingly, they are likely to be less ambivalent about a hedonic DI and switch with more facility to another schema that is also consistent with the hedonic aspect of the product. This will produce less negative emotions and lower CPR. High experience users, on the other hand, because of their greater knowledge of a hedonic product (in terms of potentially pleasant and unpleasant outcomes) will be mired to the schema that they are well informed about. This will create greater ambivalence to the hedonic DI and stall their processing of alternate schemas, resulting in greater negative feelings and greater perceptions of risk.

Utilitarian products such as household cleaners do not, however, usually produce pleasure. Therefore, there is less scope for ambivalence (due to a lack of pleasurable outcomes). High experience users, because of their greater knowledge of the product category, will feel more positively towards the new product, leading to less perceived risk than for low experience users. A utilitarian DI will create fewer negative feelings with these users than with the low experience users who do not possess the necessary schemas to absorb the “newness.” These low experience users are hampered by their lack of schematic knowledge for utilitarian products, resulting in greater negative feelings towards the DI and greater CPR than for high experience users.

Thus, we expect an interaction between product experience and product type, such that:

H1: High experience users will report greater CPR than low experience users for hedonic products

H2: Low experience users will report greater CPR than high experience users for utilitarian products.

Finally, we expect the effect of prior experience and product type on change in perceived risk to be due to the negative feelings engendered by the innovation. Specifically:

H3: Negative feelings will mediate the effect of product type and prior experience on CPR.

METHOD

In this section, we discuss the experimental procedure, manipulation checks, confound checks, dependent and independent variables.
Stimulus Pretest

In keeping with our definition of a DI, we chose two innovations which we considered to involve new patterns of consumer behavior. The two innovations chosen for the study were the automated highway and the AIBO. The automated highway is a hands free technology that allows drivers to read, eat, and chat while they drive their vehicles, while the AIBO is an electronic dog that is capable of simulating a wide range of doglike behavior and emotions. Both the automated highway and the AIBO were expected to be sufficiently different in terms of their utilitarian and hedonic values.

We tested the nature of the innovation in a pretest with 25 graduate students from a northeastern university. All students read newspaper articles (see later) about both products and answered several questions about them. The order of the newspaper articles was varied (13 students read the highway information first and 12 students read the AIBO information first).

Discontinuous Innovations. Participants were first given the definition of continuous/discontinuous innovations and then were asked to answer several questions. The extent to which the products were considered to be a discontinuous innovation was assessed by asking subjects whether “The product involves a new technology” and “The product requires consumers to change their consumption/usage behavior” on a 7-point scale with 1 = “Strongly disagree” and 7 = “Strongly agree.” The two items were combined to give one discontinuous innovation score for the automated highway and one score for the AIBO. A MANOVA with the order in which participants read the articles (automated highway first versus AIBO first) as the independent variable and the two discontinuous innovations scores as the dependent variables indicates no main effect of the article order (Wilks’ Lambda = .96, F(2, 22) = .43, p = .66). Therefore the data were combined in further analyses. A t-test indicates that both products were above the midpoint (M = 4.00) of the discontinuous innovation scale [automated highways: M = 5.78, t(24) = 8.63, p < .001; AIBO: M = 5.08, t(24) = 5.42, p < .001]. Thus, both products were considered to be discontinuous innovations.

Hedonic/Utilitarian Dimensions. In a second pretest with 54 undergraduate students, we examined the extent to which highways and pet dogs are considered to be hedonic or utilitarian. The HED/UT scale (Voss, Spangenberg, and Grohmann 2003) was used. The scale includes the following ten semantic differential response items measured on a 7-point scale: “Appealing/Unappealing,” “Fun/Not fun,” “Exciting/Unexciting,” “Interesting/Uninteresting,” “Pleasurable/Not pleasurable,” “Helpful/Unhelpful,” “Necessary/Unnecessary,” “Effective/Ineffective,” “Functional/Not functional,” “Practical/Impractical.”

The pretest revealed significant differences in terms of their utilitarian values (F(1, 53) = 53.7, p < .001) as well as their hedonic values (F(1, 53) = 12.63, p < .001). Respondents rated highways (M = 5.73) to be of higher utilitarian value than pet dogs (M = 4.48) and rated pet dogs (M = 5.83) to be of higher hedonic value than the highways (M = 3.83). These results confirmed the choice of the automated highway as more utilitarian than the AIBO and the AIBO as more hedonic than the automated highway.

Experimental Procedures

Participants. One hundred seventy-five individuals on a small northeastern campus participated in the study. Thirty-nine percent were undergraduate students while 28 percent identified themselves as white collar workers (secretaries, librarians, etc.) and the rest were blue collar (maintenance staff, etc.). professional (IT, etc.), faculty, etc. Sixty-five percent were female and the mean age was 34 years.

Procedures. We used a 2 (product type: AIBO/hedonic versus automated highway/utilitarian) X 2 (experience: low versus high) between subjects design. All subjects were approached on a one on one basis by two trained student assistants. Subjects were approached at randomly picked buildings on campus and asked to participate in an academic study on new products. In both conditions (AIBO and automated highway) subjects were given a self-administered questionnaire. The questionnaire contained instructions, a description of the innovation in an article format, and the measures of the dependent and control variables. The questionnaire concluded with several demographic questions.

Participants were first asked to evaluate their prior experience with the product category (highways/pet dogs) and the perceived risk with the product category. Next, they read an excerpt from a news article that offered a description of a DI (automated highway/AIBO). Immediately after reading the description, they were asked once again to complete a series of measures – perceived risk with the innovation, familiarity with the innovation, and negative feelings, and other measures not pertinent to our study. We used actual news reports, instead of constructed reports, to generate greater external validity for the study in terms of professionally written, “real world” stimuli. Both reports were from The New York Times.

Measurement: Independent Variables

Prior Experience. Prior experience was measured using three 7-point scale items (i.e., “I consider myself
knowledgeable about highways/pet dogs,” “I have frequently used/owned highways/pet dogs,” and “I am familiar with highways/pet dogs”). The three items were summed to give a prior experience score (Cronbach’s α = .86). The independent variable of prior experience was created with a median split (median = 16).

**Product Type (Hedonic versus Utilitarian).** Product type was a manipulated variable (AIBO = hedonic and highway = utilitarian). The number of participants per cell varied from 37 to 47 (low experience-hedonic product = 44; low experience-utilitarian product = 44; high experience-hedonic product = 37; high experience-utilitarian product = 47).

**Measurement: Dependent Variables**

Change in Perceived Risk (CPR). Consumers may perceive a combination of various types of risk (physical, financial, performance) when faced with a DI for the first time (Ram and Sheth 1989). Thus, we measured perceived risk with the product category with the following four 7-point scale items, where 1 = “Completely disagree” to 7 = “Completely agree” (“Highways/pet dogs could cause me physical harm,” “Highways/pet dogs could cause me financial loss,” “Highways/pet dogs could cause me political harm,” “Highways/pet dogs could perform poorly and let me down,” and “Overall, highways/pet dogs are risky”) (Kaplan, Szybillo, and Jacoby 1974).

We adapted the same items to measure perceived risk with the innovation (automated highway/AIBO). We used the difference between perceived risk with the DI and perceived risk with the category as the score for CPR. Thus, a greater score indicates a higher perceived risk with the innovation relative to the risk with the product category.

**Negative Feelings.** Negative feelings were measured using two 7-point scale items, where 1 = “Not at all” and 7 = “Very much” (i.e., “The automated highway/AIBO makes me feel anxious,” “The automated highway/AIBO makes me feel worried”). The two items were summed to give a negative feelings score ($r = .67, p < .05$).

**Measurement: Covariates**

A review of the innovation literature revealed several variables that have been found to affect individuals’ response to innovations.

**Familiarity.** Familiarity with the DI could cause positive or negative feelings and increase or reduce CPR. Familiarity was measured using two 7-point scale items (i.e., “I had knowledge of the automated highway/AIBO before today,” and “I have heard about the automated highway/AIBO before today”) with 1 = “Completely disagree” and 7 = “Completely agree.” A product familiarity score was computed by summing the two items ($r = .84, p < .001$).

**Age.** Experience and age may be confounded together. Previous research indicates that age is an important variable used to predict new-product adoption behavior and response to innovativeness (see Im, Bayus, and Mason 2003). Thus, we attempted to reduce the “noise” associated with its effects by measuring participants’ age (in years).

The covariates were selected on a theoretical basis, but were included in the final analysis only if they were statistically significant in adjusting the dependent variable (Tabachnick and Fidell 1989, p. 345–346).

**RESULTS**

**H1 and H2**

To test H1 and H2, we ran a 2 (product type: hedonic versus utilitarian) X 2 (prior experience: high versus low) analysis of variance of subjects’ change in perceived risk (CPR). Familiarity and age were not included as covariates in the analysis because of their non-significant effect. The analysis indicated a non-significant effect of prior experience [$F(1, 164) = .48, p = .49$], a significant effect of product type [$F(1, 164) = 6.46, p < .05$], and a significant interaction [$F(1, 164) = 7.09, p < .01$].

We followed up with post-hoc comparisons to test the specific hypotheses. H1 hypothesized that high experience users will report higher CPR than low experience users for hedonic products. The results do not support our first hypothesis. Even though the difference is in the expected direction [high experience users perceiving more risk with the hedonic innovation relative to the risk with the product category ($M = -2.86$) than the low experience users ($M = -5.47$)], the difference is not significant [$t(77) = 1.37, p = .18$].

H2 stated that, for utilitarian products, low experience users will report greater CPR than high experience users for utilitarian products. The post-hoc comparison indicates support for our second hypothesis. Specifically, for utilitarian products, low experience users reported more risk with the innovation relative to the risk with the product category ($M = 1.42$) than the high experience users ($M = -3.02, t(87) = 2.42, p < .05$) (see Figure A-1).

**H3**

To test our third hypothesis (negative feelings will mediate the effect of product type and prior experience on CPR), we conducted three steps using regression analysis. First, we conducted a regression with CPR as the dependent variable and product type and prior experience as the predictor variables. The last two variables were both dummy coded (utilitarian = 0, hedonic = 1; low experience = 0, high experience = 1). Only the effect of product
type was significant ($\text{Beta} = -.19, p < .05$) indicating that the mean CPR of the utilitarian product was significantly higher than the mean of the hedonic product. Second, we conducted the same analysis but with negative feelings as the dependent variable. In both cases, once again, only product type was significantly related to negative feelings ($\text{Beta} = -.43, p < .001$). Finally, we regressed CPR once again on the two dummy coded independent variables, but this time we also included negative feelings as a predictor. Negative feelings was significantly related to CPR ($\text{Beta} = .23, p < .01$) and, most importantly, the effect of innovation type now became non-significant ($\text{Beta} = -.09, p > .05$). This indicates that the effect of product type on CPR was completely mediated by negative feelings, providing support for H3.

**DISCUSSIONS AND MANAGERIAL IMPLICATIONS**

This research contributes to the literature on discontinuous innovations in several ways. First, unlike previous DI research, we examine the differences in perceived risk for hedonic versus utilitarian products. Second, we predict that consumers’ prior experience with the innovation affects change in perceived risk and expect an interaction effect of prior experience and product type on CPR. Finally, we hypothesize that negative feelings mediate the effect of prior experience and product type on change in perceived risk. In this section, we summarize the hypotheses and the findings, and introduce explanations for the results that were not supported.

We hypothesized an interaction between product type and prior experience. Specifically, high experience users, compared to low experience users, should express higher change in perceived risk (CPR) for hedonic products (H1), but lower CPR for utilitarian products (H2). The difference between high and low experience users in change in perceived risk was not significant for hedonic products, thus providing no support for H1. First, an explanation for this may be that hedonic products are consumed for sensory gratification purposes, and they provide fun, pleasure and excitement, regardless of the consumer’s level of experience with that product category. These products may indeed engender painful consequences, but because of the pleasurable nature of the
product, the painful consequences may not be more salient for high experience users than for low experience users, resulting in similar reactions to the hedonic innovation. Second, the negative signs associated with change in perceived risk for the hedonic product indicate that participants found the AIBO as being less risky than the general product category (i.e., pet dogs). Research is needed to examine the effect of prior experience on CPR when the risk with the discontinuous innovation is higher than the risk with the hedonic product category.

Consistent with H2, we found that, for utilitarian products, low experience users reported more perceived risk with the innovation relative to the risk with the product category than high experience users. Finally, and consistent with H3, we found that prior experience and product type may not have a direct effect on change in perceived risk, but that the effect may be mediated by negative feelings that arise after reading about discontinuous innovations. Various strategies, such as providing warranty and company reputation information (see Bearden and Shimp 1982) could help reduce the negative feelings and perceived risk that consumers report in relation to a discontinuous innovation.

Our findings also imply that prior experience may be an effective marketing and segmentation tool in the promotion of hedonic versus utilitarian products. For hedonic products, both high and low experience users respond similarly to the same marketing mix. However, for utilitarian products marketers should differentiate between the two groups. Specifically, marketers should focus strategies to reduce risk (e.g., testimonials from credible endorsers, free trial, company reputation information) on low experience users first, since they were the ones reporting increased risk with the innovation relative to the product category.

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THE ROLE OF CONSUMERS’ NEED FOR UNIQUENESS IN THE INNOVATION ADOPTION PROCESS

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SUMMARY

Although much research has focused on understanding the drivers of innovation adoption, relatively little is known about the determinants underlying rejection or discontinuance of innovation adoption. In this study we investigate the role of consumers’ need for uniqueness in the innovation adoption process as potential driver of discontinuance once more widespread diffusion has occurred. We do so in the context of different consumption goals.

Adoption Process

New products are first adopted by a relatively small group of consumer innovators who then influence later adopters (Rogers 1995). Adopting new products before others do is one way to satisfy someone’s need to be unique (Roehrich 2004; Lynn and Harris 1997a, 1997b; Burns 1993). However, people who experience a need for uniqueness not only adopt new products earlier than other people, but they also will lose interest in, or discontinue use of innovations that become too commonplace in order to reestablish their distinctiveness from other people (Snyder 1992; Tian et al. 2001). More widespread diffusion of an innovation is typically triggered by the point of take-off (Golder and Tellis 1997). It refers to the point when innovations enjoy a dramatic increase in sales and begin to spread throughout society. We expect that consumers highly seeking uniqueness will be attracted by the innovation before its widespread diffusion (marked by the point of take-off), but will be more likely to avoid or dispose the innovation after take-off. We therefore hypothesize that need for uniqueness has a positive effect on the adoption of new products before the take-off point and a positive effect on (a) the rejection and/or (b) the discontinuance of new products after the take-off point.

Consumption Goals

The main effects that we hypothesize may be affected by the goals consumers pursue with respect to innovation adoption. We therefore investigate the potential moderating effects of consumption goals on the relationship between need for uniqueness and the adoption process. As consumers do not operate in isolation but often are functioning within social groups, they may make choices in which group interests prevail over individual interests (Mackie and Goethals 1987). This implies that we can distinguish between individual-oriented goals and group-oriented goals. Furthermore, we can classify consumption goals as functional, i.e., consumers buy products because of the pragmatic benefits that can be derived, or symbolic, i.e., consumers buy products because of what they mean (Escalas and Bettman 2005). Depending on which goals are predominantly present in a particular decision making process, we expect diverging effects of need for uniqueness on decisions related to adoption, rejection, and (dis)continued use of an innovation. First of all, when functional goals are activated, consumers focus more on the benefits that an innovation could provide in helping them to accomplish specific acts rather than the fact that innovations could act as a vessel of uniqueness (Holt 1995; Ligas 2000). In addition, when functional group goals are activated consumers focus more on collective achievements or tasks instead of emphasizing their uniqueness. Therefore, we expect that when both individual-oriented and group-oriented functional goals are activated, the effect of a consumer’s need for uniqueness on the adoption process is attenuated. In contrast, on an individual level, psychosocial consumption goals are related to one’s self-concept. In order to create a unique self-concept the need to differentiate oneself from other people is heightened (Escalas and Bettman 2005). Therefore, we predict that psychosocial individual consumption goals enhance the effect of need for uniqueness on adoption, rejection, and discontinuance of new products. On a group level, psychosocial consumption goals are related to social identification (Turner 1986; Bhat and Reddy 1998). The main difference between individual psychosocial goals and group psychosocial goals is that when the first type of goals are activated a consumer’s focus is on their self-concept whereas when the second type of goals are activated a consumer’s focus is on their social group and they tend to identify with and conform to the norms of their group. Therefore, we argue that when this type of goals is activated the effect of a consumer’s need for uniqueness on discontinuance is attenuated.

Empirical Studies

We conduct two empirical studies to test our hypotheses. In the first study we test the impact of the consumer’s need for uniqueness on the adoption process. Therefore,
respondents first have to examine a number of innovative products. In order to incorporate the right stimuli in our study, we composed a list of innovations that were assessed by seven experts in the field (both people from academia as well as industry) on their rate of diffusion. Based on the expert ratings we composed a list of ten products. The main dependent variables of our study are the different outcomes of the adoption process including rejection and discontinuance (Bagozzi and Lee 1999). Our focal independent variable is Need for Uniqueness. The original Need for Uniqueness scale of Tian et al. (2001) contained over 30 items distributed over three dimensions (Creative Choice Counterconformity, Unpopular Choice Counterconformity, and Avoidance of Similarity). We conducted a pre-test among 160 fourth-year business students to reassess the performance of the scale in the current setting and re-assess the relevance of each single item in the scale. We applied a rather strict procedure in maintaining only items that loaded higher than .60 on the main factor and less than .30 on any other factor. In total, this resulted in a shorter scale containing 11 items distributed over the three dimensions. In addition, we incorporated a number of consumer traits as control variables. The results are analyzed by means of a multinomial logit model. The data collection process for the first study is currently in process and will be finalized October 2007.

In the second study we further elaborate on the consumption motives that determine a consumer’s discontinuance or continuance decisions by means of a controlled (real-life) experiment in which the different goals are primed. References are available upon request.

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SUMMARY

The topic of social capital in general and in the context of organizations has gained growing interest in the strategic management literature. Considering this background, this paper aims at an empirical investigation of the directionality and degree of the influence of corporate social capital on company and product perceptions and consumer behavior. Our research addresses several important issues: First, the impact of a company’s identification as “a highly interlinked non-economic and economic network member” on the directionality and magnitude of consumers’ perceptions of both the company and its products and services are investigated. Secondly, we investigate the degree of transferability to the consumer behavior level. That is, to what degree do consumers really perceive and appreciate that a company possesses a high amount of social capital.

Conceptual Framework

We suggest that the number, content, and quality of a company’s network relations constitute its social capital with regard to relational and reputational aspects which influence customer perceived value in terms of credibility, reliability, responsibility, and trustworthiness as well as consumer behavior in terms of customer loyalty and satisfaction. In this context it has to be stated that consumers often transfer the perceptions of corporate reputation, trustworthiness, credibility, etc. onto the company’s products or services what can possibly change opinions and influence purchase intentions. To investigate customer value, it is important to comprise its functional (quality, price/value), emotional (affective states), and social value dimension (customer’s social network). Describing a company as a network member with various economic and non-economic network links and for that reason with relational as well as reputational capital may especially enhance the emotional and social dimension of a customer’s global attitude toward both the firm and its products/services.

Methodology

To measure the behavior, attitudes, and perceptions of consumers in relation to our multidimensional framework, we developed a questionnaire with three different company descriptions as stimuli and related questions to evaluate the company. Each company description was identical except for the fact that, the company was described as (1) a company that is successfully involved in a variety of different effective and crucial networks as well as a high level of social responsibility engagement, which provides credibility for labeling it a “non-economic and economic network member,” (2) a company that is, compared to its competitors, on the leading edge in the consumer marketplace, referring to the quantity and quality of the economic network relations, which provides credibility for labeling it as an “economic network member,” or (3) simply briefly described with the same background text without either cue information (the control condition) and is labeled as “neutral.” In a total number of 240 interviews the respondents were initially given one of the three company descriptions and evaluated the company on five-point bi-polar evaluative scales linked to perceived customer value as well as buying and recommending intention.

Main Results

Focusing on the link between corporate relational and reputational dimensions, this paper examines the role of social capital in determining customer perceived value. We hypothesize that corporate social capital is rooted in the presence and quality of a certain set of network relations in which a company is embedded and that relational and/or reputational capital dimensions have a significant influence on what is perceived and expected from the company by the customers. In order to test our hypotheses, an ANOVA was examined for each of the three experimental conditions for the dependent measures related to company and product attitude. Our experimental research shows that when a company is described as an economic and non-economic network member with a high amount of relational as well as reputational social capital, attitude toward the company is enhanced, and this effect does impact favorably upon the evaluation of the product, but does not impact the perceived quality of the company and its products. Nevertheless, social capital as a unique relational and reputational resource has a significant impact on consumer behavior in terms of buying and recommendation intentions. The results showed the stron-
gest effect with reference to the evaluation of the company’s reputation, reliability, social responsibility, and trustworthiness as well as customers’ intention to recommend the company. Therefore, a company’s social capital resources effectively enhance customer perceived emotional and social value and contribute positively to consumer behavior intentions. References are available upon request.

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ASSESSING LOYALTY PROGRAM EFFECTS IN A COMPETITIVE SETTING: IMPACT OF MARKET SATURATION, MARKET SHARE, AND CATEGORY EXPANDABILITY

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SUMMARY

Although more than 26 years have passed since American Airlines introduced the first modern loyalty program, the enthusiasm from consumers to embrace such programs has not abated but rather has rapidly grown over the recent years. It is estimated that more than 75 percent of U.S. consumers are enrolled in at least one loyalty program (Knowledge@Wharton 2006). In 2006, total loyalty program enrollments in the United States reached 1.5 billion, representing an increase of 35.5 percent from 2000 (Ferguson and Hlavinka 2007). The favorable responses from consumers in turn encouraged many businesses to install loyalty programs as a core component of their marketing strategy.

The proliferation of loyalty programs in the marketplace, however, has spawned intense competition among rival programs. Under such competitive situations, the effectiveness of a loyalty program is likely to depend not only on the design and management of the program itself but also on the market climate and the offering firm’s competitive position. In contrast with this market reality, existing studies of loyalty programs have often considered a single program in isolation and have ignored the effects of competition on a program’s performance. Addressing this gap in the literature, we conducted two studies to examine the moderating effects of market- and firm-level factors on loyalty program success. Our results showed an overall positive effect of a loyalty program on the offering firm’s business. However, this positive effect does not benefit every firm equally. Firms with a larger market share gain more from their loyalty programs than do firms with a smaller market share. Combined with the “double jeopardy” phenomenon documented in the literature (Ehrenberg et al. 1990), this suggests that not only are smaller firms at a disadvantage in terms of customer purchase frequency, but they may also gain less from strategic moves such as loyalty programs. This creates a “triple jeopardy” situation for smaller firms.

Our research also revealed that the level of saturation of loyalty programs in the marketplace negatively affects the performance of individual programs. However, this effect is contingent on the expandability of the product category. While market saturation has a negative effect under low category expandability, it effect disappears under high category expandability. In this latter situation, loyalty programs allow firms to compete not only with rivals in the same industry but also with competitors in alternative product categories. As a result, saturation becomes less of a threat to the success of each individual program.

Our findings offer useful guidance to managers of loyalty programs and suggest the importance of considering competitive forces in assessing the effects of such programs. In deciding whether to offer a loyalty program and in subsequent management of such a program, a manager should take into account the relative market position of the firm in order to accurately gauge the potential benefits that the firm will gain from the program. Smaller firms may have to try special tactics, such as increasing program reward ratio and offering more reward redemption options, to remain competitive with their loyalty program offerings. Larger firms, on the other hand, may want to build on their share advantage and offer loyalty programs as a preemptive move to fend against smaller competitors.

The saturation effect found in our study suggests a need to taper the urge to launch even more loyalty programs in an already saturated marketplace. In sectors with a large number of loyalty programs, such programs may be more of a defense mechanism and a necessary cost of doing business, and their incremental contribution to firms’ bottom-line will be limited. An important contingency factor in this scenario, however, is the expandability of the general market. In industries with highly expandable demands, such as air travel, convenience store, and certain financial services sectors, the saturation effect is weakened, and a loyalty program can be effective even under a high level of saturation. Thus, managers considering the launch of a new loyalty program should examine the extent to which their products and services can satisfy needs fulfilled by other industries or subsectors. When significant expanding opportunities exist, incremental contribution of a loyalty program can still be expected even in relatively saturated markets.
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USING SEGMENT ATTRACTIVENESS TO IMPROVE SEGMENT SELECTION IN THE CREDIT CARD BUSINESS

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ABSTRACT

The traditional approach to segmentation has been focused on homogenizing customers based on commonalties. However, being able to homogenize customer segments does not necessarily mean that segments that have been identified are of value or are attractive to the business. To ensure that segments that are developed are of value or attractive to the business a different approach based on relative-efficiency, through Data Envelopment Analysis, is proposed. The approach is new and can be adopted by businesses that have innovative data management systems. It is also timely as there is an increasing need to ensure that resources are used efficiently in marketing.

INTRODUCTION

Markets are extensively heterogeneous and it has been suggested that, “. . . markets are defined jointly along a customer dimension that describes the collection of possible customers, and a product and service dimension that arrays the competing choice alternatives.” Given the heterogeneous nature of the market, businesses have turned to segmentation to identify target markets, since it was first developed in 1954 by Wendell R Smith when he highlighted that,

“market segmentation, consists of viewing a heterogeneous market as a number of smaller homogenous markets in response to differing product preference among most important market segments . . . is attributed to the desires of consumers or users for more precise satisfaction of their varying wants” (Smith 1956, p. 6).

It has been suggested that while markets are heterogeneous, customers that share common needs can be aggregated or homogenized, and that “individual differences in choice behavior can be used to group customers into homogenous subsets referred to as market segments.” Businesses utilize segmentation to identify homogenous segments in markets that are heterogeneous. This enables businesses to direct resources more aptly and gives segmentation normative or prescriptive capabilities.

However, being able to identify homogenous segments does not necessarily mean that the segments that are developed are of value to the business. Often homogeneity and the value of customer and customer segments are two different dimensions, and are not linked. Therefore it is suggested that when conducting segmentation it is important to recognize that,

I. Not all segments that are homogenized are equally of value or attractive to the business,

II. Not all businesses share the same definition of value and this could mean that the value of a segment to businesses could be different,

III. Customers that share similar characteristics within a segment could differ in terms of value or attractiveness to the business, and

IV. There could be numerous different segments that exist among customers that are similar in terms of value or attractiveness to the business.

This suggests that when conducting segmentation and segment selection, there are additional steps that should be integrated that addresses the value or attractiveness of the customer or customer segment.

The importance of customer segments values or attractive to businesses is becoming more important in current times. This is evident even in the manner in which a segment is being described, which is “a relatively homogenous grouping where the members of that segment share some similar characteristics, which is of value to the organization.” The emphasis on the value of segments is becoming more apparent as there is increasing focus on efficient resource allocation. This probably stems from the overall pressure that marketing as a discipline has been facing, where it has been suggested that,

“. . . the marketing function is under intense scrutiny and escalating criticism from many quarters. CEO’s are questioning whether marketing adds value to the corporation and its shareholders commensurate with its costs.”

Identifying customer and customer segments that are of value to the business is not an easy task. However, there are two developments that could possibly make this task less formidable.

The first is the development in IT and Data Warehousing, which categorizes the market into two main groups that consist of new prospective customers and
existing customers. For new customers, existing canned segmentation schemes such as Personix, Mosaic, Prizm, that are developed on the market as a whole can be used to target new customers. However, these approaches are not exclusive to any business, and businesses can avail of the same information from vendors. For existing customers, there are internally built segmentation schemes based on data from existing customers. The second is to recognize that there has been increasingly more research on metrics that businesses measure and track. There are many different groups of metrics, such as financials, competitive markets, consumer behavior, consumer intermediate, direct trade customer and innovation and these metrics can be used to depict on the business needs that are of value or important to the business. While these metrics do not represent the needs of the customers directly, some of these metrics provide the business insights on the needs of the customer. For example, data related to credit card purchases can be used to understand the behavior of the customer and the needs of the customer that has been met by the business.

By using these two developments (which are the development of IT and the availability of metrics) together with a quantitative approach that focuses on deriving the value of customer segments, it is possible to identify segments that are attractive or of value to the business. To demonstrate this approach, an effort will be made to conduct this in a credit card business, which traditionally collates extensive customer data.

**OBJECTIVE**

The objective of this research is to add a different slant to the traditional approach of segmentation, which focuses on homogenizing customers based on commonality. In this approach, an effort is made to focus on the value or attractiveness of the customer and customer segment to the business.

This research differs from traditional needs-based segmentation, as it focuses more explicitly on the needs of the business. As it is conducted on existing customers, there is an indirect assumption that the business has been successful in meeting the needs of the customers. In this way, it can be used to depict the needs of the customer that has been met. This research focuses on dimensions that are critical to the business when making decisions related to the targeting of existing customers. By being able to differentiate the attractiveness or value of the customer to the business based on different dimensions simultaneously, the business is able to direct resources in a more efficient manner.

In this research, we will also see how the concept of relative-efficiency, derived through Data Envelopment Analysis, lends itself as a measure of attractiveness. This technique has not been used in segmentation to-date and is selected as it allows for multiple behavioral and performance metrics simultaneously when determining the relative efficiency of a customer. By understanding the relative-efficiency or attractiveness of the customer to the business, customers that are similar in terms of attractiveness can be grouped before commonalities are used to identify the different segments that are similar in terms of attractiveness to the business. This approach allows for businesses to be able to distinguish the relative-efficiency of the customer or the attractiveness of the customer to the business.

**SEGMENTATION IN THE CREDIT CARD MARKET**

The credit card is perhaps one of the most popular payment instruments available today. In the U.S. alone it is believed that there are over 641 million credit cards in circulation, which account for $1.5 trillion of consumer spending. Most consumers have more than one credit card and the competition among credit card issuers is so extensive that there are constantly credit cards being developed offering unique features, such as no fee, balance transfer, additional loan extensions (through phone verification), rewards for shopping, air travel, cash usage, internet usage and other benefits. As the competition among credit card issuers interest the ability to be profitable is often more challenging. One way to overcome this is to become more selective on the customers that are targeted.

Traditionally profit is derived based on revenue less cost. In the credit card business, revenue is earned from interest and fees. Interest is earned based on customer behavior, such as the customer spending and revolving on the credit extended to the customer. Fees, on the other hand, is earned in the form of annual fee, late fee, cash usage fee, over-limit fees and interchange fee, which is a small portion of the retail spend that the merchant pays to the business. Cost on the other hand can be in the form of fixed and variable cost. Fixed cost encompasses all the fixed expenses such as IT, marketing, staff, premises that the business incurs to keep the business running. Variable cost includes cost of funds that is required by the business to cover the cost of providing credit and the cost of credit losses, in the form of write-offs from credit decisions and fraud.

The profitability of a credit card business is very closely linked to customer behavior and the economy. Changes to both customer behavior and the economy can have a direct impact on profitability of a credit card business. To be profitable, it is critical for the business to acquire and maintain the right customer and customer segments. Traditionally, credit card businesses depend on segmentation schemes to achieve this. For new customers, businesses often depend on canned segmentation...
schemes such as Prizm, Claritas, Personix, Mosaic to identify customers from a specific target market. However, these segmentation schemes are available to all the issuers in the business and do not provide the business with competitive advantage in terms of targeting. In terms of existing customer, most credit card issuers utilize data on existing customers to develop internal segmentation schemes, such as early engagement segmentation that attempts to identify the early needs of the customers and place them into different segments, lifestyle segmentation that focuses on usage patterns and place customers into different usage or lifestyle segments, risk segments that place customers into different risk segments after evaluating the risk behavior of customers.

However, it is important to recognize that most segmentation schemes focus on homogenizing customers based on commonalities into segments. The approach that is used is cluster analysis where customers that are similar are clustered together, and each cluster is dissimilar from other clusters. The dissimilarity is often measured through a meaningful index, such as Euclidian or some other distance, some kind of probabilistic index, or in terms of within and between cluster variability. While clustering allows segments to be created by homogenizing customers based on commonalities, it is important to note that this approach does just that and does not address the value dimension. Segments that are created could vary in terms of value or attractiveness to the business. Likewise, customers within the segments that share similar characteristics could be very different in terms of value or attractiveness to the business. It is also important to note that different businesses could also have different perceptions on the value or attractiveness of customers and customer segments.

To be able to ensure that businesses select segments that are attractive to the business, it is imperative to modify the existing segmentation approach, by incorporating an approach where the value of the customer is determined first. The approach should also allow for multiple dimensions, such as financial dimensions, risk and attrition, to be assessed simultaneously. This approach is able to rank customers and customer segments based on value or attractiveness to the business, and this in turn allows the business to direct their resources in an appropriate manner.

**PROPOSED FIVE STEPS IN SEGMENTATION**

The approach that is being proposed consists of five steps. The first step is to understand the value of the customer or Decision Making Unit (DMU) to the business. The value of the customer to the business is driven by a variety of factors, such as behavior and expected behavior of the customer and the resources that the business directed to the customer, and these factors should be taken into account when deriving the value of the customer. The approach that can be used to evaluate the value or attractiveness of a customer is relative efficiency through Data Envelopment Analysis (DEA).

The second step is to rank order customers based on relative-efficiency. The third step would be to categorize customers that share similar relative-efficiency scores into bands of relative-efficiency. Having done this, the next step would be to identify clusters of customers that exist within a particular relative-efficiency band. This will ensure that clusters that are created consist of customers that are not only share commonalities, but are similar in terms of value or attractiveness to the business. The fifth step would be to develop marketing strategy to the different segments within the different relative efficiency bands.

This approach is different from the traditional segmentation process, as it first focuses on defining the value or attractiveness of the customers. By developing segments based on clustering in the different relative-efficiency bands, the business will be able to make resource allocation decisions in a more efficient manner and direct resources to segments that are similar in terms of value or attractiveness to the business.

**IDENTIFYING RELATIVE-EFFICIENCY THROUGH DEA**

As mentioned earlier, one approach that lends itself to deriving the value or attractiveness of the customer is Data Envelopment Analysis (DEA).
Envelopment Analysis (DEA). The concept of Data Envelopment Analysis was first proposed by Charnes, Cooper, and Rhodes (1978) and central to their depiction is the concept of efficiency as proposed by Farrell (1958). In discussing the efficiency of a firm, Farrell (1958) suggests that efficiency consists of two components: technical efficiency (which reflects the ability of a firm to obtain maximum outputs from a given set of inputs) and allocative efficiency (that demonstrates the ability of a firm to use inputs in optimal proportions, given their respective process). Technical and allocative efficiency are then combined to provide a measure of economic efficiency. In defining efficiency, Charnes and Cooper (1985) suggest that 100 percent efficiency is attained for an entity only when (a) none of its outputs can be increased without either increasing one or more of its inputs, or decreasing some of its other outputs; and (b) none of its inputs can be decreased without either decreasing some of its outputs, or increasing some of its other inputs (Charnes and Cooper 1985 quoted in Norman and Stoker 1991). In DEA terminology, the units that are assessed, in this case customers, are usually referred to as Decision Making Units (DMU). First coined by Charnes et al. (1978), it is suggested that DMUs should be “homogenous entities in the sense that they use the same resources to procure the same outcomes albeit in varying amounts.” The term “decision making” implies that the unit of assessment has “common inputs and outputs which are being assessed for efficiency” and that it is possible to control or influence the processes employed to convert resources into outcomes. The objective of measuring efficiency of a DMU is “for the purpose of resource conservation or for output augmentation.” To be able to achieve this, it is imperative to be able to differentiate between the performances of various units of assessment, where “a unit of assessment is the entity we propose to compare on performance with other entities of its kind.” A performance indicator, which is typically a ratio of output to input pertaining to the unit that is being assessed, is often developed to gauge efficiency and when the performances of various units are compared simultaneously against each other, comparative or relative efficiency can be attained. This provides a sort of a ranking of the efficiency performance of all the units that are being assessed.

DEA generalizes a single-output/single-input efficiency measure to the multiple-output/multiple-input case by constructing a ratio of a single “virtual” output to a single “virtual” input. DEA does not require any assumption about the functional form of the inputs and outputs. It calculates a maximal performance measure for each decision-making unit, or DMU, in relation to all the other DMUs in the observed population with the sole requirement that each DMU lie on or below the external frontier, and that each DMU not on the frontier is scaled against the convex combination of the DMUs on the frontier facet closest to it. Norman and Stoker (1991) emphasize that “the efficiency measure of the DMU is defined by its position relative to the frontier of best performance established mathematically by the ratio of weighted sum of outputs to weighted sum of inputs.” DEA calculates a maximum performance measure for each DMU relative to all other DMUs in the observed population. This results in a relative efficiency score being derived and each DMU is placed accordingly to its efficiency in a production possibility frontier (or PPS), where the most efficient DMU’s occupy the external frontier or are placed on the efficient frontier.

The DEA method determines the relative efficiency of a DMU by maximizing the ratio of weighted outputs to inputs, subject to the condition that ratio for every DMU is not larger than one. This results in an efficiency score that is less than or equal to one. When outputs are held at a constant, this method of achieving relative efficiency is known as the input-orientated method, whereby inputs have to be decreased or improved in order for a DMU to be considered efficient. An efficient DMU has no potential improvement, whereas inefficient DMUs yield efficiency scores that demonstrate improvement can be made or achieved based on the performance of other DMUs. Assume a set of observable DMU’s, \( \{ \text{DMU } j: j = 1, \ldots, n \} \) have \( m \) inputs \( \{x_{ij}: i = 1, \ldots, m\} \) and \( s \) outputs, \( \{y_{rj}: r = 1, \ldots, s\} \). The original method proposed by Charnes, Cooper, and Rhodes suggests that relative efficiency of a DMU \( j \) can be measured in the following manner: Min \( h \)

\[
\begin{align*}
\sum_j \lambda_{j} x_{ij} + S_{i}^+ &= h x_{ij0} \quad \forall i \\
\sum_j \lambda_{j} x_{ej} - S_{r}^- &= y_{rj0} \quad \forall r \\
s_{j}^+, s_{r}^- &\geq 0 \quad \forall i, \forall r \\
\lambda_{j} &= 0 \quad \forall j
\end{align*}
\]

Where:
\( x_{i} \) is the amount of the \( i \)th input at DMU \( j \), \( y_{r} \) is the amount of the \( r \)th output from DMU \( j \) and \( j_0 \) is the DMU to be assessed.

The ability of DEA to handle a wide range of variables and relations (constraints) relaxes the conditions on the number of variables that can be used in calculating the desired evaluation measures. This makes it easier dealing with complex problems and considerations likely to be confronted by managers, as it could include “influencing factors,” which is more that just profits and costs but also extends to factors that could influence the performance or efficiency. Hirschberg and Lye (2001) also highlight this flexibility in the type of inputs that can be used in DEA, by pointing out that “unlike traditional stochastic frontier methods of production and cost function estimation . . . DEA does not require monetary valued inputs, a single
output, nor does it rely on assumptions if a particular functional form or a particular statistical distribution.” This clearly implies that variables do not have to be directly related and there is flexibility in variable selection.

In the next section, an effort will be made to understand how DEA is used to assess the value or attractiveness of the customer and customer segment in a credit card business.

**DERIVING RELATIVE-EFFICIENCY THROUGH DEA IN A CREDIT CARD BUSINESS**

This research has been carried out on a sample of 4,159 credit card accounts. As customers can have multiple credit cards, these accounts when consolidated at a customer level belong to a sample of 3,000 customers, from a major credit card business operating in Southeast Asia. The DMU in this research is the individual customer, which subsequently forms a segment. A constant return to scale input orientated DEA model, where inputs can be decreased or improved in order for a DMU to improve in terms of efficiency, is selected for this research.

Among financial metrics that are focused on in this research is revenue, which consists of fee income, interest income and interchange. The cost taken into account consists of both variable and fixed cost, where fixed cost consists mainly of overheads and variable cost is linked to the behavior of the customer. Besides financial metrics, two key behavior indicators, which are risk and attrition, have also been used. Risk scores that depict the propensity of a customer defaulting is measured at the customer level and is tracked closely, as credit losses incurred from risky customers has the capability of dissolving hard earned revenue. Attrition scores might seem to be less important than risk scores as it does not directly impact revenue. However, attrition has the potential of eroding potential revenue from a customer and potential value is critical to all businesses. There are also many different metrics that can be used, such as customer lifetime value, Recency Frequency Scores and other metrics that the business deems as being as important. However, in this research the metrics that are being used are revenue, cost, risk and attrition scores.

In attempting to conduct segmentation that focuses on the value or attractiveness of the customer, the first step is to derive the relative-efficiency of every DMU (in this case the customer) based on the various inputs and outputs mentioned above. By running the DEA algorithm, it is apparent that every observation has a relative-efficiency score of between 0 and 1, which is derived based on the three dimensions highlighted above. The score ranges from 0.0 to 1.0, whereby 0.0 is the lowest relative-efficiency score and 1.0 is the highest possible score.

These relative-efficiency scores depict the value or attractiveness at a customer level. It compares the value of each customer against the other and rank order the customers based on the concept of relative-efficiency. This score is used not only to understand the value or attractiveness of the customer, but it also allows the business to group together customers that share similar relative-efficiency scores. These scores are used to create both efficient and inefficient groups. This can be done by deciding on a cut-off point on what is considered attractive. The cut-off point can be changed as the business sees fit. The main objective of having cut off scores is to allow the business to create groups of customers that share the same efficiency. This will be valuable to the business when the business devises strategies and has to make resource allocation decisions. By being able to group customers that are similar in terms of value or attractiveness, the business will be able to direct the appropriate amount of resources to the group. If the business was not able to assess the value or attractiveness of the customer and then group customers that are similar together, the business would probably require more resources as it would have to address a larger group of customers.

In this research, the cut-off has been set at 0.5, as it is an impartial mid-point. This cutoff can be determined by the business and if it only had resources to target the top 20 percent of the efficient customers, then it could determine the cut-off at 0.8. However, if the business has less resource, the business could increase the cut off to 0.7 and if it had more resources it could lower the cut-off score to 0.4. The factor that drives the cut-off is the amount of resources that the business has allocated for the effort.

In the current research, customers that have a score of greater than 0.5 are grouped together as the efficient group. In the same manner, customers that had less than 0.5 were grouped in the inefficient group. From the sample it was found that 1,137 accounts were found to have a relative efficiency score of greater than 0.5 and 3,022 accounts had a relative efficiency score of more than 0.5. This indicates that 27 percent of the portfolio is efficient from the three dimensions, which are risk, attrition and revenue and 73 percent of the portfolio had a relative efficiency score of less than 0.5.

Having identified that 27 percent of the portfolio is efficient and 73 percent is inefficient, the next step is to understand the efficient portfolio from several dimensions, to verify if these customers really are efficient.

In the credit card business, two dimensions that are critical are Outstandings and revenue. Outstandings is a critical metric as it represents the amount that is owed to
the credit card business, by its customers. A portfolio may have many customers that spend but do not owe the portfolio anything, as these customers pay off their balances.

In this sample portfolio, it is evident that efficient customers constitute a majority of customers that have an outstanding of greater than $1,000 per month. By carrying balances on their accounts, these customers would also generate more revenue. This is also evident in the revenue distribution among efficient and inefficient customers, where it is evident that there are more inefficient customers generating between $0–$250 in revenue and more efficient customers that generate more than $1,000. The distribution of outstanding and revenue accurately depicts the distribution of efficient and inefficient customers in the portfolio. This indicates that the method is able to split the efficient and inefficient customers based on a variety of factors, such as risk, attrition and revenue, simultaneously.

The efficient and inefficient portfolio can also be analyzed from other performance dimensions, such as credit limit distribution, recency of transactions, utilization, etc.

<table>
<thead>
<tr>
<th>TABLE</th>
<th>Variables That Describe the Efficient, Inefficient and Total Portfolio</th>
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<tbody>
<tr>
<td><strong>Efficient Group</strong></td>
<td><strong>Inefficient Group</strong></td>
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<tr>
<td>Attrition Score</td>
<td>Attrition Score</td>
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<tr>
<td>Age</td>
<td>Credit Limit</td>
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<td>Number of Times Past Due</td>
<td>Months on Books</td>
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<tr>
<td>Marital Status</td>
<td>Delinquency</td>
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<td>State of Residency</td>
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<td>Gender</td>
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<td>Months Since Last Transaction</td>
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tion of credit limit, months on books or tenure and frequency of delinquency. The portfolio can also be reviewed from demographic variables such as age, marital status and state of residence. By conducting principal component analysis, it is possible to identify variables that are different in the efficient and inefficient portfolio, as well in the total portfolio.

From the results above, it is evident that the three different cuts of the portfolio all have different principal components that describe the populations. This is important as it demonstrates that without splitting the portfolio into efficient and inefficient segments, it will not be possible to distinguish between efficient and inefficient segments in the portfolio. By not being able to distinguish the efficient and inefficient segments, it is possible that the business will direct resources to inefficient customer segments. This, in turn, would be inefficient use of resources that are often scarce. However by being able to distinguish the efficient and inefficient customers, based on multiple dimensions simultaneously through DEA, a business is able to direct its resources more aptly. In the next section, an effort will be made to demonstrate how this approach can be used by businesses in ensuring efficient resource allocation in two different areas, which are loyalty and risk.

**DEVELOPING STRATEGY BASED ON RELATIVE-EFFICIENCY**

Being able to identify efficient and inefficient customers allows a business to develop strategies and ensure that resources are allocated to customers that it deems are efficient. In the example below, the overlay of efficiency and attrition score, which are derived through attrition models, it is evident that the business should focus more on customers that are highly likely to attrite, which are in attrition Band 1 and 2, as well as customers that are more efficient than others.

In this example, the business should allocate its resources to reduce attrition among all its most efficient customers, which consist of 2,694 accounts. It then should focus on targeting customers in relative-efficiency Band 2, which consist of 328 accounts. The business should avoid directing resources to its less efficient customers in relative-efficiency Band 3 and 4. This constitutes 27 percent of the population with regards to attrition, and will enable the business to reduce cost by at least 27 percent. If the business needs to reduce more cost, it might consider if it really wants to target customers in attrition Band 3 and 4, as these two bands consist of customers with a low propensity to attrite.

In the same way, it is also possible to influence the selection of customers for different risk strategy by overlaying relative-efficiency scores and risk scores. The objective of doing this is to focus resources on saving customers that are deemed to be of higher value to the business. This can be done by providing credit education to these customers or by helping customer manage their credit, as losing these customers would also impact the business. In this example, the business should focus first on saving customers that are deemed to have high risk by being in Delinquency Band 1 and 2, as well as customers that are highly efficient in relative-efficiency Band 1 and 2. This consists of approximately 1,607 accounts.

By being able to select customers the business would like to target, the business does not have to incur the cost of targeting all its customers. If a customer is deemed to be inefficient based on various dimensions, the business might decide that it does not want to direct its resources on those customers. In short, recognizing that not all customers are equal enables a business to make decisions on where to direct its resources to. Targeting efficient customers will help the business to manage its resources in a more efficient manner.

<table>
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<th>TABLE</th>
<th>RelativeEfficiency and Attrition Cross Tabulation</th>
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<tr>
<td></td>
<td>Attrition Band 1</td>
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<td>Rel-Effi Band 1</td>
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<td>Rel-Effi Band 2</td>
<td>0</td>
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<tr>
<td>Rel-Effi Band 3</td>
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<tr>
<td>Rel-Effi Band 4</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>651</td>
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There are other examples that can be used to demonstrate how businesses can use relative efficiency score to differentiate its customers based on efficiency. The relative efficiency scores enable a business to select customers in a more efficient manner, which in turn results in an efficient allocation of resources. This would not have been possible if a business only defined its customers based on commonalities.

**CONCLUSION**

In this paper, an effort has been made to present a different approach to segmentation. The approach stems from the realization that it is no longer sufficient to homogenize customers into segments based on similarities, as segments have to be of value to the business. Taking this into consideration, it is suggested that it is first essential to assess the value of the customer to the business, and group customers together based on their value to the business. However, assessing the value of the customer is not a straightforward task, as not all businesses value the same customer behavior or performance metrics.

To be able to accommodate the different values that businesses might emphasize, it has been suggested that relative-efficiency can be used as a measure of attractiveness. Through relative-efficiency, which is derived through Data Envelopment Analysis, it is possible to rank customers in terms of relative-efficiency. Customers that share similar levels of relative-efficiency can be grouped together, and the business is able to select customers that are of similar value to the business. This approach provides businesses with a customer and customer segment selection protocol that is especially applicable for businesses that have moved toward collating extensive data at the customer level. By having this data, the approach to segmentation can radically change from one that only focus on homogenizing customers to one that incorporates the element of value and attractiveness to the business.

The ability to identify customer and customer segments that are of value and attractive to the business from multiple dimensions simultaneously will allow businesses to direct resources to customer and customer segments that are of greater value to the business. The importance of identifying approaches that focus on value and ensure appropriate use of resources in segmentation is exceedingly important, both because there are innovative technological enhancements, such as Data Warehousing, that allow for it and also due to the increasing emphasis on metrics that are available currently. Being able to differentiate the attractiveness of a customer or customer segment, allows businesses to allocate resources in a more efficient manner to segments that are of value or attractive to the business.

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A MODEL TO INCLUDE THE POTENTIAL IMPACT OF GOVERNMENTAL PUBLIC AND FOREIGN POLICIES ON GLOBAL BRAND EQUITY

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Frederick W. Langrehr, Valparaiso University, Valparaiso

ABSTRACT

A government’s public and foreign policies may have positive, neutral or negative impacts on global public opinion. These policies may also influence foreign evaluations of brands associated with that country. It is proposed that brand origin should be included within a brand equity framework.

INTRODUCTION

Following September 11, 2001 much of the world expressed an unprecedented level of support for the United States. This sympathy, however, did not last long as indicated by the fate of Ronald McDonald in Ecuador and American Express in Germany. “In Quito Ecuador, a torched Ronald McDonald statue becomes the latest victim of rage over the U.S. invasion of Iraq” (Business Week online 2003). At about the same time, for the same reason in Germany some restaurants were beginning to refuse American Express cards (Barret 2004).

Polls have shown that attitudes toward the U.S. have declined considerably since 2001 and some link these attitudes to effects on U.S. brands. A Pew Global Attitudes Project published in 2005 that surveyed 15 countries found that global perceptions of the U.S. were declining. Similarly, a BBC World Service poll of more than 26,000 consumers from 25 countries conducted between November 2006 to January 2007 concluded that the global opinion of the United States role in world affairs had significantly declined in the prior year. Supporting these findings was an Anholt Quarterly (2007) survey of consumers in 35 countries which found that the U.S. was a brand ranked poorly on government related categories.

COUNTRY EFFECTS ON U.S. BRANDS

A brand for many companies is the single most important asset of the company and consumer perceptions of its brand can be shaped by a multitude of factors such as its actions in the marketplace (e.g., advertising) and the behavior of its employees (Interbrand.com 2007). A good example of the value of a brand is when Kraft was sold for 600 percent above its book value. Perceptions of quality of a product may also be influenced by the country with which it is associated (Jolibert and Peterson 1995). The value of a brand name may also be influenced by external, environmental variables such as its home country’s foreign and public policies.

A 2004 NOP World study of perceptions of trust found that only 35 percent of non-U.S. consumers trusted American brands, and their use of U.S. brands dropped by 3 percent at a time when U.S. use did not change. A different study conducted in 2005 by Edelman Trust Barometer found that there was a “trust discount” for iconic U.S. brands. For example, Procter and Gamble had a 70 percent trust rating in the U.S. but only received 38 percent in Germany and 29 percent in Spain. McDonalds was trusted by 51 percent of US opinion leaders but only 24 percent in France, and 28 percent in the U.K. while Heinz had a 70 percent ranking in the U.S. but only 31 percent in France and 22 percent in Italy. Madden (2003) found that 13 percent of respondents in China, 19 percent in Indonesia, and 36 percent in India rejected U.S. brands based on their origins.

A 2004 study by Global Market Insite (GMI) polled 8,000 consumers in eight countries and one in five Europeans admitted to making a concerted effort to avoid U.S. goods and more than 50 percent admitted to an increase in their negative perception of the U.S. (Barret 2004). GMI states on its website “American multinational companies will need to mount a valiant effort to distance themselves from the image of the U.S. federal government and its unpopular foreign policies in the New Year or risk continued brand erosion and ongoing boycotting by European and Canadian consumers . . . .”

A 2006 study by Energy BBDO, a Chicago-based advertising agency that surveyed 3,300 teens 13–18 years old in 13 countries, found that while American brands still rank highly for brand awareness, overall likeability for global titans like McDonalds and Coca-Cola has slipped while Sony, Nokia, and Adidas were moving up. Amanda Freeman, a vice president at The Intelligence Group believed that American brands may have been hurt due to the perception that the U.S. had been interfering in international affairs (GenWorld Teen Study 2006).

In this paper we will develop some propositions on how a government’s policies may impact brand images and brand equity and influence the willingness to buy
brands associated with that country. First, we will outline the country of origin and brand equity literatures. Second, we propose a model that integrates country of origin and brand equity models taking into the consideration the importance of foreign policy variables. Next, we will outline factors outside the model that could influence salience and importance of brand origin for consumers.

COUNTRY OF ORIGIN AND BRAND ORIGIN

Country of Origin

The country of origin (COO) literature is mainly concerned with determining the effects of consumers’ perceptions of countries on their evaluations of product quality and choice processes (Thakor and Kohli 1996). Country of origin is defined as the opinions consumers have of products based on their evaluations of a country’s production and marketing capabilities (Roth and Romeo 1992). In many cases COO has been viewed as an extrinsic product cue that may influence perceptions of product quality such as French wine or Italian made suits. This cue may be relied on more heavily when time for decision making is limited or knowledge of the product choices is limited. Parameswaran and Pisharodi (1994) in perhaps in the most comprehensive assessment of the structure of COO proposed that it is a multi-dimensional construct comprised of general country, product, and product attributes.

Early COO studies focused on studying the effect of “Made in X” on consumer product evaluations. These studies often excluded brand names entirely, used fictitious names, or failed to control for the brand origin inherent in real brand names (Thakor and Kohli 1996). Stereo products made in Germany versus Indonesia were expected to show higher product quality ratings and often did (Yasin et al. 2007). This research may have been appropriate when products were designed, assembled, and made in the same country but with globalization COO has since evolved into a multifaceted construct that recognizes the complexity of a global production chain.

Brand Origin

This COO conceptualization raises a practical question, however. How many consumers know that the product they are considering purchasing is designed, assembled, or made in all these locations and how much care that a Sony MP3 player is made in Indonesia or elsewhere? Researchers in one study found that forty percent of consumers cannot identify the country of origin for well-known brands (Saimee et al. 2005) and consumers may care less if the brand they buy is made in a country that is not well known for manufacturing quality items as long as its corporate brand is from a country they respect for quality such as Sony and Japan and Nike and the U.S.

Thakor and Kohli (1996, p. 32) reinforce this point by stating “…brand origin should not change with a change in manufacturing location . . . . Hence, the perceived origin of the brand need not be the same as the country shown on the ‘made in label’.”

Testing for the independent affect of the brand and its country effect in the same research project could be questionable given the overlap of country onto brand. Because of this problem researchers have recommended that brand origin should be used instead of country of origin. In other words, brand origin should be a component or facet of brand equity. A group of consumer behavior scholars state “Brand origin should realistically be viewed as a component of brand equity, because the origins of many products are very much a part of their characters” (Samiee et al. 2005, p. 393–394).

ROLE OF A COUNTRY’S FOREIGN POLICY, BRAND EQUITY, AND BRAND ORIGIN

Given the globalization of business and brands produced by multinational corporations it is more and more likely that influences from the home country may affect how consumers view these companies and brands. As indicated previously, foreign policy by the U.S. has been questioned by many abroad.

Two branding experts, Keller and Lehmann (2006) point out that brand equity is increasingly being determined by activities and factors outside the company’s direct control. Given the polling data and significant anecdotal evidence and speculation it is important to understand if a country’s foreign policy could be affecting the brand equity of brands associated with its home country.

If a country has controversial policies related to the economy, military, and the environment that affect consumers in other countries, these consumers may develop negative attitudes toward the U.S. “American marketers with overseas ambitions should not ignore the possibility of negative attitudes toward the U.S. in some regions of the world” (Klein et al. 1998, p. 98).

Brand Equity

Branding has emerged as a central management priority in the last decade due to the growing realization that brands are one of the most valuable intangible assets that companies have (Keller and Lehmann 2006). The literature on branding is extensive and can be divided into three broad domains – customer, company, and financial levels (Keller and Lehmann 2006). Brand personality, brand relationships, brand alliances, brand equity measurement, corporate image and reputation, and how to build a global brand are all aspects of this research. At the present time
no research has evaluated the extent to which country image impacts the equity of brands associated with that country when accounting for foreign policy activities of that country.

The focus of this discussion is how the consumer views the brand. Kevin Keller defines consumer based brand equity (CBBE) as “the differential effect of brand knowledge on consumer response to the marketing of the brand” (Keller 1993, p. 2). In the most prominent conceptualization of brand equity, Keller proposes in his 1993 seminal definition that brand equity is comprised of brand awareness and brand image. Thus, brand equity is present when the consumer is (1) familiar with the brand and (2) holds some favorable, strong, and unique brand associations in memory. Given the valuations of brands above and beyond their book value, it is expected that brand equity has a direct and positive effect on consumer willingness to buy these brands.

**Brand Awareness.** Brand awareness according to Keller (1993) is the strength of the brand node or trace in memory, as demonstrated by consumers’ ability to identify the brand under different conditions. Said differently, brand awareness relates to the probability that a brand name will be thought of and the facility with which it comes to mind (Keller 1993). Specifically, Keller proposes that brand awareness is comprised of brand recognition and brand recall. Brand recall relates to consumers’ capacity to retrieve the brand from memory when given the product category, the needs fulfilled by the category, or some other type of probe as a cue. Consumers need to be aware of the brand before they can recognize its origin. If consumers are aware of the brand they may then, if motivated, investigate its origin. It is also expected that brand awareness impacts brand image directly. Keller (1993, p. 3) states “Brand awareness affects decision-making by influencing the formation and strength of brand associations in the brand image. A necessary condition for the creation of a brand image is that a brand node has been established in memory….” Also, mere exposure theory suggests that exposure over time to an object is expected to increased positive attitudes toward the object. Consequently, higher levels of brand awareness could contribute to greater brand image levels.

Proposition: There is a positive relationship between brand awareness and brand origin.

Proposition: There is a positive relationship between brand awareness and brand image.

**Brand Image.** Brand image is defined by Keller (1993, p. 3) as “perceptions about a brand as reflected by the brand associations held in consumer memory.” Keller however, makes no mention of associations that may pertain to country of origin or brand origin and perhaps that is what motivated him and his coauthor to raise the following question in their 2006 review on the brand equity literature: “To what extent does country image (or equity) impact the equity of brands from that country?” (Keller and Lehmann 2006, p. 750). Other researchers have also identified the need for research to answer this question. Samiee et al. (1995, pp. 393–394) state “Brand origin should realistically be viewed as a component of brand equity, because the origins of the many products are very much a part of their characters.” Thakor and Lavack (2003) further state that brand origin may play an important role in determining a brand’s image.

Proposition: There is a positive relationship between brand origin and brand image.

Proposition: There is a positive relationship between brand origin and brand equity.

**Willingness to Buy Brand and Perceived Quality.** Much research exists that indicates a relationship between the equity of a brand and consumers’ willingness to buy a brand (Interbrand.com 2007). It is expected that brand equity evaluations lead to perceptions of perceived quality. A brand with a higher equity should be perceived as higher quality. Perceived quality much like perceived value has been found to lead to willingness to purchase (Dodds, Monroe, and Grewal 1991).

Proposition: There is a positive relationship between brand equity and willingness to buy brand.

Proposition: There is a positive relationship between brand equity and perceived quality.

Proposition: There is a positive relationship between perceived quality and willingness to buy the brand.

**Cognitive and Affective Components of Brand Origin.** In a consumer behavior context the cognitive component focuses on the overall product judgments held by a consumer for a country associated with the brand. The affective component, that is emotional, concerns whether consumers like the country that is associated with the brand. It is proposed that brand origin has both a cognitive and affective component. Country of origin has been measured in many ways as cited above. Its measurement has largely been dominated by a cognitive approach and has failed to integrate the possible role that emotion (affect) may play. In Parameswaran and Pisharodi (1994, p. 47) comprehensive measurement of COO which was comprised of general country, general product and specific product attributes, there was very little attention given to emotion. Many items were product focused such as the product in question is: “long lasting,” “handles well,” “good value,” etc. In fact, under their general country attribute dimension only one item was considered...
affective – people from X country are “friendly and likable.”

Keller (2003, p. 597) raises the following question that is pertinent to the current research: “How might source credibility be applied to country of origin effect?” Source credibility theory states that people are more apt to be persuaded when the source is considered credible and is more of a cognitive evaluation that emphasizes product judgment characteristics. We believe that positive product judgments (cognitive component) about the country of the corporate ownership as indicated by, for example, quality, reliability, and value should be positive related to willingness to buy the brand.

Proposition: There is a positive relationship between positive cognitive thoughts and favorability of brand origin.

Proposition: There is a positive relationship between positive cognitive thoughts and willingness to buy the brand.

Affective Components of Brand Origin. The role of emotion in consumer decision-making in this context is highlighted in the work by Klein et al. (1998). They found that Nanjing, China residents respected Japanese made products for their advanced nature, quality, reliability, design, and color, and value for the money, but because of their animosity of the Japanese as a result of the Japanese army slaying 300,000 Chinese civilians during World War II, the Chinese willingness to purchase Japanese made goods was negatively affected. The authors conceptualized animosity as a construct with war and economic animosity dimensions (facets) that were historical or longstanding in nature. Note, they did not evaluate Chinese opinions in a brand theory framework but rather focused on Japanese products in general and their foreign policy variables were limited to war and economics. It is expected that affect or emotion by foreign consumers toward a country may be engaged or triggered through reactions to much more recent foreign and public policies and not just to events that occurred decades earlier.

Proposition: There is a positive relationship between positive affective thoughts and favorability of brand origin.

Proposition: There is a positive relationship between positive affective thoughts and willingness to buy the brand.

Non Brand Origin Factors. It is important to point out that there may be many other factors that drive brand image apart from brand origin such as: types of brand associations, product and non-product related attributes, and functional, experiential, and symbolic benefits (Keller 1993). However, non-governmental factors are not the focus of the present discussion.

An Integration of Existing Models

As discussed, models have been developed to separately capture country of origin effects and brand equity. Each however, does not adequately capture the potential effect of a country’s foreign and public policies on consumer perceptions of brands closely associated with that country. What follows is a proposed model integrating brand equity and country of origin models.

Dimensions of Governmental Policies. The perceptions of people outside a country may be greatly shaped by governmental policies and by association may affect perceptions and valuations of brands that are associated with that country. As mentioned previously, there is a dearth of research in business and specifically marketing that has evaluated the impact that foreign consumers’ animosity toward a country can have on their willingness to buy products from that country. After consulting numerous books written on foreign and public policies, a literature search on academic articles, and after reviewing survey questions from major global polling organizations and reviewing the U.S. Council of Foreign Relations website on “Issue Areas,” the following domains were considered to represent the most important areas of foreign and public policy to include in a brand equity model: military, trade, and the environment.

Military actions taken by a country have life and death consequences and as such can radically affect opinions of consumers toward the country initiating the action. For example the invasion of Iraq by the United States was not supported by most of the world and attitudes were reinforced when information surfaced that Iraq did not have weapons of mass destruction and evidence making the case for invasion may have been manipulated. Protests against this action were widespread.

A country’s trade policy is the set of national policies which affect the quantity and value of a nation’s exports and imports. Examples of policies include tariffs, import/export quotas, and import/export subsidies. On the one hand United States officials continue to pursue and defend free trade while on the other they succumb to protectionist pressure (Art and Brown 1993). As an example some question the true intentions of the U.S. How could a country that believes so strongly in free trade subsidize its agricultural sector to such an extent (Hook 2005)?

With increased growth of developing countries there is greater concern that the world’s environment will not be able to sustain anticipated pollution levels. According to Hook (2005) the U.S. has been less assertive in seeking global remedies for environmental problems. Much to the
dismay of many people, the United States has not signed and ratified into law what many consider the most important environmental agreement in history with a goal to contain greenhouse gases, the Kyoto Protocol. Many leading nations saw this as a selfish act and this action caused great resentment toward the U.S. (Art and Brown 1993).

Proposition: Positive attitudes toward the country’s military, trade, and environment positions should be positively related to positive overall affect (liking) toward the country.

Proposition: There is a positive relationship between affective thoughts (absence of animosity) and favorable attitude toward brand origin.

Consumer Ethnocentrism. Consumer ethnocentrism (CE) originates from the more general construct of ethnocentrism which is defined as people viewing their own in-group as primary and possessing proper standards of behavior and as offering protection against potential threats from those outside the in-group (Brislin 1993). Consumer ethnocentrism is measured by the CETSCALE (Shimp and Sharma 1987). Research on ethnocentrism has shown that the more ethnocentric a consumer is, the more he/she will have less favorable attitudes toward and lower intention to buy foreign products (Han 1988). High CE people had strong beliefs about the appropriateness and morality of purchasing foreign-made items (Klein et al. 1998). Brodowsky (1998) discovered that low ethnocentric consumers were more likely to use objective information about product quality than high ethnocentric consumers. Other studies found a negative relationship with high CE and perceptions of quality of imported items (Klein et al. 1998; Netemeyer et al. 1991). Consumer ethnocentrism is also expected to moderate the relationship between affect and willingness to buy the brand. If consumers like the brand’s country this affect may lead to a willingness to buy the brand however, an ethnocentric tendency will tend to erode that link because of the desire to support the domestic groups.

Proposition: CE is expected to reduce the positive association (relationship) of affect to willingness to buy the brand.

Factors Outside the Model. It is acknowledged that policies with primarily a domestic impact could have an effect on foreign consumers’ opinions of the country and possibly its brands. For example, Europeans may disagree with the United States use of capital punishment and its liberal gun ownership policies. There are also situations where a country’s domestic laws may affect other countries as in the U.S. extending the Dolphin Sea turtle case extraterritorially. This means that exporters in other countries wishing to export tuna to the U.S. need to fish for it in a way that does not harm dolphins and sea turtles.

Further, there are likely to be non-governmental aspects of the country such as culture that foreign consumers may not like. For example, the Barbie doll was banned from Russia due to its “outrageous curves” that were thought to be “corrupting minds of children” (Financial Times 2002, p. 11). The focus, however, of this research is on the impact of what could be considered formal governmental policies on brands associated with the country creating those policies.

CONCLUSION

Brand knowledge is what most consumers will use when they make product choice decisions and brand information in many cases carries with it country of origin information. We suggest that a brand’s origin is thus a component of brand image and its origin should be integrated into a brand equity model. Brand origin is conceptualized to comprise both cognitive and affective components. Cognitive aspects deal with product judgment information such as quality, reliability, value, associated with a country, and the affective elements involve judgments about a country’s policies on military, trade, and the environment. It is proposed that if foreign consumers have negative opinions of a country’s foreign policies these feelings may have a negative impact on the equity of brands and the willingness to buy the brands closely associated with that country. In this case the brands may be “guilty by association.”

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NATIONAL CULTURE AND ADOPTION OF TECHNOLOGY-BASED NEW PRODUCTS

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SUMMARY

During the last two decades, considerable research has explored the impact of national culture in the domain of international business. Both managers and academicians have witnessed the impact of globalization on economic activities. To find new markets, firms are increasingly trying to pursue new sales opportunities outside their home markets. Therefore, it is important to develop a better understanding of factors that impact how consumers in different countries adopt new products. Among the academic studies in the global marketing area, researchers have investigated the impact of national culture on consumer behavior focused on the purchase of technology-based products (Mooij and Hofstede 2002; Ganesh, Kumar, and Subramaniam 1997; Roth 1995). In this research, we use the term “technology-based new products” suggesting high technology (consumer) electronics products such as home appliances, photographic equipments, digital products, etc. Levitt (1983) argues that a firm can market identical products and services around the globe because national markets have become homogenized. However, more recent studies demonstrate that response to new products differs from country to country (Mahajan and Muller 1994; Tellis, Stremersch, and Yin 2003; Kumar and Krishnan 2002; Gatignon, Eliashberg, and Robertson 1989).

According to Mooij and Hofstede (2002, p. 61), “ignoring culture’s influence has led many companies to centralize operations and marketing which resulted in declining profitability instead of increasing efficiency.” Therefore, understanding adoption of technology-based new products by a particular culture is crucial to marketers as it can provide some idea to what extent, these new products can be successful in various countries. Various cross-cultural researchers have attempted to study cultural impact on consumer behavior and suggested that consumer behavior is more heterogeneous due influence of national culture (Mooij and Hofstede 2002). A review of literature also reveals much agreement among scholars on the use of Hofstede’s empirical definition of the dimensions of national culture while conducting cross-national and cross-cultural research. Therefore, this paper adopts Hofstede’s method of operationalization of the “national culture” construct.

In addition to national culture, other factors may impact consumers’ adoption of technology-based new products. Bauer (1967) introduced the notion of “perceived risk” in the context of consumer behavior and perceived risk has become well established in the consumer behavior literature. While reviewing the literature on consumer perceived risk, Mitchell (1999, p. 163) states that “perceived risk theory has intuitive appeal and plays a role in facilitating marketers seeing the world through their customers’ eyes.” Mitchell (1999, p. 164) highlights versatility of perceived risk studied in the literature and further argues that “perceived risk is more powerful at explaining consumers’ behavior since consumers are more often motivated to avoid mistakes than to maximize utility in purchasing” and “examining risk perceptions can generate new product ideas.” In addition to perceived risk, other potentially important factors in understanding the adoption of technology-based new products are “perceived usefulness” and “perceived ease of use” (Davis, Bagozzi, and Warshaw 1989). As we attempt to study this in relation to consumer markets, it is crucial to know how consumers perceive the new products’ usefulness and ease of use and therefore, the suggested model in this paper includes both the variables “perceived usefulness” and “perceived ease of use.”

It is important to note that the development of technology-based new products itself can be a costly business for any organization and, therefore, any factor that might increase the product’s chance of success is worthy of research. Surprisingly, there seem to be only a few studies that have examined the linkages among national culture, perceived ease of use, perceived usefulness, perceived risk and adoption or consumption of technology-based new products. The purpose of this paper is to fill this gap in the literature. To do so, we first review the literature relating to technology acceptance model, perceived risk, and national culture and further derive various propositions based on the literature review. Next we develop a model based on the modification of the technology acceptance model (Davis 1986) which is widely used to understand the factors influencing users’ decision to adopt new technology. Thus, this study contributes to the new products adoption literature in two ways. First, we introduce a technology acceptance model (TAM) to consumer behavior literature dealing with product adoption. Second, we extend and broaden TAM by introducing other important relevant factors such as national culture and perceived risk. After a brief discussion, we conclude with potential contributions of the suggested research to theory and practice. References are available upon request.
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STANDARDIZATION WITH RESPECT TO WHAT?
A CONCEPTUALIZATION OF ADVERTISING STANDARDIZATION MEASUREMENT IN PAST RESEARCH

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SUMMARY

In contrast to the question of how standardization should be defined, which has long been discussed in the literature (cf., Walters 1986; Onkvisit and Shaw 1987; Ryans, Griffith, and White 2003), the question of how – i.e., with respect to what – standardization should be measured appears to have remained unnoticed, both in terms of its existence and its consequences. To our knowledge, a recent review of studies of international advertising standardization (IAS) conducted among managers (Fastoso and Whitelock 2007) was the first to clearly identify this issue as it showed a lack of consensus in measuring IAS in past research. The authors concluded that differences in measurement make a comparison of results between studies de facto impossible and thus limit the ability of standardization research in general to contribute to knowledge advancement. The main purpose of this paper was therefore to conduct a comprehensive review of past standardization research in order to shed more light onto this neglected issue by exploring how past research studies measured IAS, how they defined their geographic focus, how the two issues relate to each other, and whether there were differences on these issues based on the methodologies employed.

We selected the 17 most influential international business, marketing, and advertising journals on which to focus our analysis based on journal quality and impact as assessed by previous reviews in the fields of marketing (Hult, Neese, and Bashaw 1997), international business (DuBois and Reeb 2000) and advertising (Henthorne, LaTour, and Loraas 1998; Royne Stafford 2005). Subsequently, we conducted several broad keyword searches (e.g., “marketing AND standardization,” “advertising, and standardization”) in the EBSCO host and Proquest databases and ended up with a set of 55 past studies which had measured the extent of IAS.

In order to identify the way in which this measurement had been conducted, we conceptualized what we referred to as the measurement paths to IAS using an adaptation of Wind, Douglas and Perlmutter’s (1973) E.P.R.G. schema, a long established framework in the international business and marketing literature. We showed that in the same way that a company can be organized ethnocentrically, standardization measurement can be conducted in an ethnocentric manner when a study takes the headquarters (HQ) market practices as the point of reference and compares them with practices in other countries individually. A regiocentric measurement of standardization, in turn, is one that takes a geographically strict view of a specific region and measures standardization as the level of similarity between national practices in the countries that form the region. Further, a geocentric IAS measurement is one that views the whole world – or at least all countries where the company is operating – as a unity and therefore assesses the level of similarity in advertising practices across all these countries. Finally, the polycentric category does not apply to standardization measurement given that, by definition, polycentric activities are local activities. We termed this adaptation of the original schema the E.R.G. framework for IAS measurement.

The main finding of our analysis was that standardization researchers have taken different approaches toward measuring the phenomenon without showing awareness of the consequences that this can have for the interpretation and cross-study comparability of results. Overall, we found that although past research has relied in the main on the geocentric measurement path, a substantial number of studies conducted ethnocentric measurements. Our analysis showed that for studies with an international/global geographic focus the methodological soundness of ethnocentric measurement can be questioned, as random paired comparisons of country practices appear more sensible. For studies with a regional focus, in turn, we showed that ethnocentric IAS measurement can bias results toward the localized end of the standardization continuum when the HQ market lies outside of the region in question. Our study therefore concluded that standardization research should relate to company strategy, relying on geocentric measurements when this is international, and on regiocentric measurements when it is regional.

This study also found a tendency to focus on the international/global level of standardization independently of the research method used. However, our results found a statistically significant association between the research method used and the E.R.G. measurement path to IAS
taken, as ethnocentric measurement was significantly more frequently applied in studies of managers than in those of advertisements. We concluded that in order for knowledge advancement to take place in the field (as called for by for example Ryans, Griffith, and White 2003), inconsistencies in terms of IAS measurement both within and across methods must be avoided.

ENDNOTE


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LOVING A BRAND: CONCEPT AND CULTURE

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SUMMARY

Introduction

This study explores the nature and dimensions of love for brands among French consumers. This concept is relatively recent (Ahuvia 2005b; Fournier 1998) and has predominately been studied in the U.S. Love for a brand is defined as “the degree of passionate emotional attachment that a person has for a particular trade name” (Carroll and Ahuvia 2006, p. 5). Ahuvia (1993, 2005a, 2005b) provided empirical proof of the existence of this feeling of love and demonstrated similarities and differences with interpersonal love. Main studies dealing with the brand love construct (Ahuvia 1993, 2005b; Shimp and Madden 1988; Whang et al. 2004) introduce the concept of love based on one given theory of interpersonal relationships (among many theories), which leads to the exclusion of the conceptualization found in other theories. We study the concept of love toward brands and propose a methodology that attempts to circumvent this limitation.

Research Methodology

A possible limitation of the study of love in a marketing context is the explicit use of the term love. We use a projective method in which participants are given a set of images enabling them to express the type of feelings they have toward brands. Nineteen images were selected and three of them were chosen because of their abilities to symbolize a feeling of love (circled in Figure 1). We used an internet survey and collected data from 843 respondents. The word love only appears at the end of the survey. Previously, different questions enabled an understanding of the relationship between consumers and their brands without using the term “love.” The results were analyzed through correspondence analysis (CA) which helps summarize and visualize the lexicon used by respondents for each open-ended question used during the survey. Responses with high agreement with the love relationship between the consumer and the brand were analyzed through CA to uncover the dimensions of the feelings of love toward the brand. Cluster analysis of words projected in a
multi-dimensional space via multiple correspondence analysis also enabled identifying the main dimensions of the love construct.

**Results**

Several dimensions of love appeared in the explanations given by respondents. The dimensions of love toward a brand found in the French market were: (1) passion, (2) duration of the relationship, (3) self-congruity, (4) dreams, (5) memories, (6) pleasure, (7) attraction, (8) uniqueness, (9) beauty, (10) trust, (11) declaration of affect. The passion, self-congruity, dream, attraction, uniqueness, beauty, trust, declaration of affect, duration, pleasure dimensions were also found to be linked, if not explicitly, to current interpersonal literature on the feeling of love. The memories dimension did not seem to be related to current extant literature on interpersonal theories of love, this provided a new dimension for future consideration when investigating the brand love construct.

**Conclusion**

Our approach employs an exploratory methodology rather than applying a selected interpersonal theory of love to the marketing field. Evidence shows that dimensions of love toward a brand among French consumers fall in line with many dimensions identified in interpersonal studies, which differs with U.S. samples. This exploratory study suggests several extensions for further research: the development of a measurement scale, the study of the relations between brand love and other concepts (e.g., attachment, commitment, trust) and finally the proposal and empirical testing of a conceptual model that can assess the influence of a feeling of love on dependent attitudinal and behavioral variables (e.g., brand loyalty, resistance to change or positive word of mouth).

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STRESS-INDUCED WORD-OF-MOUTH SEEKING: A MISSING DIMENSION IN WORD-OF-MOUTH RESEARCH

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SUMMARY

We address a missing dimension in WORM research by conceptualizing the dissatisfied consumer as an anxious WORM seeker, who interacts with others in order to cope with the stress induced by negative consumption experiences. Drawing on the stress affiliation and group polarization literatures, we propose that stress-induced WORM seeking may alleviate or aggravate dissatisfaction depending on various conditions. Specifically, we advance propositions regarding the moderating effects of several factors on the likelihood of stress-induced WORM seeking and on the relative strength of alleviation versus aggravation.

Coping With Negative Consumption Emotions

Dissatisfied consumers may experience a range of negative emotions, such as anger, disappointment, regret, fear, and distress. Conceptually, these are emotional manifestations of stress and anxiety due to perceived harm or loss. In response, consumers try to find ways to cope with these emotions. The stress affiliation literature provides the rationale for WORM seeking as a coping response by dissatisfied consumers. Interestingly, the group polarization literature suggests that WORM seeking by coping-minded consumers may in fact exacerbate dissatisfaction.

Stress Affiliation

According to stress affiliation research, there is a tendency for people under stress to affiliate with others who undergo similar experiences. Affiliation may serve (1) a self-validation function – as a means to gauging the legitimacy of the stress-induced feelings, (2) a psychosocial function – as a means to receiving comfort and support, or (3) a cognitive function – as a means to obtaining disambiguating information. Hence, seeking out and communicating with similar others through WORM is effective for coping with negative consumption emotions and reducing stress. Dissatisfied consumers may feel better because they secure emotional validation, receive social support, or make sense of a stressful situation.

Group Polarization

Group polarization refers to the tendency for people to become more extreme in attitude after communication with similar others. The informational influence argument suggests that interaction with (mostly) like-minded others opens the door to new information in support of prior thoughts and feelings, thereby reinforcing the initial inclination. The normative influence argument, on the other hand, concerns the social motivation to adjust and amplify one’s responses in the direction of the majority position. Regardless of the underlying process, the polarization that occurs as a result of WORM seeking should have an aggravating effect on dissatisfaction. This is contrary to the general conclusion of stress affiliation research.

Propositions

As a step toward disentangling these opposing effects, we identify four moderators pertinent to stress-induced WORM seeking. The following propositions summarize the influences of these moderators on WORM-seeking tendency by dissatisfied consumers (P1, P3, P5, P7) and on the relative strength of the alleviating affiliation effect versus the aggravating polarization effect (P2, P4, P6, P8).

Problem Severity

P1: Dissatisfied consumers are more likely to seek WORM from similar others when problem severity is high (vs. low).

P2: WORM seeking from similar others results in more pronounced dissatisfaction alleviation when problem severity is high (vs. low).

Attribution Uncertainty

P3: Dissatisfied consumers are more likely to seek WORM from similar others when attribution uncertainty is high (vs. low).

P4: WORM seeking from similar others results in more pronounced dissatisfaction aggravation when attribution uncertainty is high (vs. low).

Affect Intensity

P5: Dissatisfied consumers are more likely to seek WORM from similar others when affect intensity is high (vs. low).
P6: WOM seeking from similar others results in more pronounced dissatisfaction *alleviation* when affect intensity is high (vs. low).

**Source Similarity**

P7: Dissatisfied consumers are more likely to seek WOM from similar others when source similarity is high (vs. low).

P8: WOM seeking from similar others results in more pronounced dissatisfaction *aggravation* when source similarity is high (vs. low).

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THE CONSUMER STRIKES BACK: ASSESSING ANTECEDENTS TO BOYCOTT PARTICIPATION

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SUMMARY

Consumer boycotts have become increasingly important for marketing decision-making, as they are a pervading and effective instrument of expressing the consumers’ discontent with a company and its business practices (e.g., Sen, Gürhan-Canli, and Morwitz 2001; Tyran and Engelmann 2005). In today’s marketplace, companies are more and more judged by consumers according to their being environmentally and/or ethically responsible (Klein, Smith, and John 2004). If companies do not act in a socially responsible way, they will risk being the target of consumer resistance behavior (Klein, Smith, and John 2002). One way of opposing the respective company is to refuse to buy its brands. If consumers engage in organized and collective acts of anticonsumption, they are said to boycott (Kozinets and Handelman 1998).

Generally, a consumer boycott can be defined as “an attempt by one or more parties to achieve certain objectives by urging individual consumers to refrain from making selected purchases in the marketplace” (Friedman 1985, p. 97). Through the consumers’ decision not to buy products of the respective company, boycotting can lead to loss in sales (Miller and Sturdivant 1977). Moreover, the corporate reputation as well as the brand image can suffer severe damage if the boycott organization publicly pillories the company’s business practices (Klein, Smith, and John 2004).

For the mentioned reasons, it is important for companies to know why consumers participate in boycotts. Not only is it important for companies to gain deeper insight into the individual’s motivation to participate in a boycott, but also for boycott organizations to know about the drivers of individual boycott behavior in order to arrange a boycott in a more successful way.

In the latest literature (e.g., Ettenson and Klein 2005), researchers are requested to identify further antecedents to boycott participation, since one has not found the entire range of antecedents yet. Thus, the objective of our study is to fill this research gap by unveiling further antecedents to the consumer’s intention to participate in a boycott. Therefore, we draw on results of prior research as well as insights gained from an exploratory study with 12 informants.

Taking all findings into account, our model consists of seven hypotheses: We assume that the perceived participation of others in the boycott and the credibility of the boycott call determine the consumer’s perceived success likelihood of the boycott which, in turn, influences the intention to participate in the boycott. Further, the credibility of the boycott call as well as the involvement in the boycott cause drive the intention to participate in the boycott. Contrary, the consumer’s commitment to the brand to be boycotted negatively influences his or her intention to participate in a boycott. And finally, the consumer’s refusal to buy the particular brand is affected by the intention to participate in the boycott.

We used data of 234 study participants (average age of 27.6 years, 48.1% female, 51.9% male) to assess our assumptions. Subjects were exposed to a fictitious newspaper article about a boycott call against a soft drink company that was accused of infringing upon environmental protection policies in India. Afterwards, subjects answered questions regarding the model constructs. The results confirmed all but one hypothesis. The credibility of the boycott call does not influence the intention to participate in the boycott.

The findings reveal several drivers of consumer’s boycott participation that are of significant importance to boycott organizers. The credibility of the call to participate in the boycott as well as the consumer’s involvement in the boycott cause influence the intention to participate in the boycott. Therefore, boycott organizers should seek broad media coverage of their intended boycott with credible information sources to enhance the credibility of the boycott. Further, it is important to evoke the consternation of consumers to enhance involvement in the boycott cause. In addition, the perceived boycott participation of others has a strong effect on the perceived success likelihood of the boycott which, in turn, determines the intention to participate in the boycott. Thus, boycott organizers should strengthen the consumers’ perception of others being engaged in the boycott to enhance the individual’s intention to participate.
Of course, managerial implications for companies refer to any activity that prevents the boycott cause from being credible or from evoking consternation. Basically, press releases could act as a counterbalance to the media activities of boycott organizers. However, the results of this study show another effective way to prevent consumers from participating in boycotts. The consumer’s commitment to the brand to be boycotted negatively influences the consumer’s intention to participate in the boycott. Therefore, a strong brand image that leads to highly committed consumers appears to be a protective barrier to boycott calls.

In summary, our research shows how important it is for managers and boycott organizers to understand antecedents to and consequences of boycott participation to successfully act in the marketplace.

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SELECTIVE CONSUMER COMMUNICATIONS: THE ROLE OF RELATIONSHIP STRENGTH

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SUMMARY

It has been well-documented in marketing and consumer literature that interpersonal, word-of-mouth communications (WOM) have a powerful impact on consumers’ product evaluations and purchase decisions (e.g., Frenzen and Nakamoto 1993; Herr, Kardes, and Kim 1991). However, despite the extensive research efforts, one important topic in WOM communications has largely escaped researchers’ attention: the WOM communication contents. Most WOM communications happen after the communicators have acquired the product information. The construction of the communication messages should depend on how the communicators access, search, retrieve, and present the information to the audience.

Social psychology research in interpersonal communications suggests that with the same product information, consumers might communicate different aspects of the knowledge to different audiences to suit the audience’s characteristics or the communicators’ own goals (Higgins and Rholes 1978). In addition, evidence from memory research has long established that people tend to retrieve only a subset of information available in memory due to various cognitive or motivational constraints in different social contexts (Wyer and Srull 1986). Therefore, we have reasons to doubt that consumers can or are willing to faithfully transmit all the production information they possess to any audience that listens to them. Given communication messages’ malleable nature, it is important to understand the process of the WOM message generation and to investigate factors that might influence consumers’ memory-based message production.

The current study explores consumers’ selective communication process by using the relationship strength between the communicator and recipient (i.e., tie strength) as the defining character of the communicator-audience relationship (Granovetter 1973). Specifically, I investigate how the different degree of tie strength between the communicator and the audience would influence the way that the communicator produces and presents the message.

Given the informational superiority of negative information over positive information (e.g., Skowronski and Carlson 1987) and the findings from relationship norms theory (e.g., Clark 1984), it is reasoned that when communicating product information with strong ties, the communicators should be more likely to disclose the negative information in the hope that the information will help recipients avoid potential losses or dissatisfaction because the communicators are genuinely concerned about recipients’ welfare. On the contrary, when communicating with weak ties, communicators are more concerned with balanced exchange and their willingness to share valuable information should be contingent on the likelihood of getting back something equivalent in value. Because people are generally not familiar with weak ties, it is not clear how and when the payback will happen. Thus, the communicators should be more likely to withhold the negative product information unless there is an eminent possibility of reciprocity.

Therefore, I postulate that, given the existence of positive and negative product information or experiences, consumers, when engaging in WOM communications, tend to describe more of the negative features of the product to strong ties than to weak ties. Conversely, consumers tend to describe more of the positive features of the product when offering product information to weak ties than to strong ties. Results from two studies supported the research hypotheses. In a laboratory-based advice-giving survey, subjects were found to generate more pro arguments for several suggested everyday behavior when the intended audience was casual acquaintances, whereas they gave more con arguments against those behavior when the intended audience was supposed to be best friends. In the second study, subjects’ pre-communication product knowledge was experimental controlled and it provided a more stringent test of the selective communication process in a memory-based WOM situation. Results clearly demonstrated that when both positive and negative product attributes were available in memory, subjects mentioned more positive attributes to casual acquaintances than to best friends, whereas they mentioned more negative product attributes to best friends than to casual acquaintances.

For future research, selective WOM communications should be studied beyond the influences of interpersonal relationship strength. Many other situational or personal factors can be expected to affect the communicator’s message constructions. For example, researchers have long evinced that consumers form personal relationships with the products they use (Fournier 1998). From a social distance perspective, I suspect that because the communicators see some products closer to themselves while some other products more distant, they might be less likely to share with others information about
closely-related products, while more likely to disclose distant product information to others. In other words, we can extend the current research by looking into the interplay between brand relationship and interpersonal relationship and its joint effect on consumers’ WOM communications.

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UNDERSTANDING ATTITUDE-BEHAVIOR GAP IN GREEN BUYING AS A SOCIAL DILEMMA

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SUMMARY

For marketers of green products, the gap between pro-environmental attitudes and green purchase behavior of the green consumer segment is a daunting challenge. An attitude is defined as “an enduring set of beliefs about an object that predisposes people to behave in particular way toward the object” (p. 257). Theory in the area of consumer attitude argues that individuals behave in ways consistent with their attitudes. However, research in environmental consumerism has produced inconclusive evidence in support of consumer attitude theory with mixed results that support both positive relationships between attitude toward the environment and behavior as well as weak relationships. A more recent study by Mintel (2006) resonates earlier results and found that despite pro-environmental attitudes, intention to recycle, concern about car pollution and willingness to pay more for environmentally-friendly products, few consumers translated these attitudes into regular green buying behavior.

This paper draws on social dilemma theory and reference group theory to understand the attitude-behavior gap in environmental consumerism. This research argues that the attitude-behavior gap in environmental consumerism exists because it presents a social dilemma to the consumers. For a small subset of consumers who are “true believers” in environmental protection and conservation, the personal importance of the environmental issue is likely to ensure unconditional participation. However, most consumers, despite holding a positive attitude toward environmental conservation make purchase decisions to maximize self-interest because in their view, the costs of cooperation outweigh the uncertain utility obtained from it. Therefore, the decision to buy (collective social gain) or not buy (self-interest) the green product despite positive attitude toward environmental conservation may be conceptualized as a social dilemma. This paper also draws on reference group theory that suggests that consumer decision to make the trade-off between such self and collective group interests may also be dependent on the pressure to comply with the expectations and behaviors of significant reference groups (e.g., environmentally friendly group’s choice to cooperate and therefore buy green products). Consequently, we draw on both social dilemma and reference group theories to investigate the determinants of and the mechanisms to explain the rationale behind the attitude-behavior gap as it pertains to a specific environmental issue – energy conservation.

A model is presented that depicts the conditions under which consumers’ pro-environmental attitudes subsequently translate into positive purchase behavior for energy efficient products. We posit that the attitude-behavior gap in green buying may be bridged by addressing consumers’ individual attributions regarding cooperation, their susceptibility to normative reference group influence (i.e., social pressure to comply), in-group identification, social value orientation, trust, personal efficacy, and the costs they incur in purchasing the product (i.e., preference for the conventional product and their perception of substitutability between conventional and green products) on the predictive influence of pro-energy conserving attitude on their decision to buy energy efficient products (i.e., cooperation in a social dilemma). The following propositions are suggested:

H1: The positive influence of pro-environmental attitude on purchase behavior will be greater in the case of cooperators than in the case of individualists or competitors.

H2: The positive influence of pro-environmental attitude on purchase behavior will be greater with high trusters than with low trusters.

H3a: The positive effect of pro-environmental attitude on purchase behavior will be greater when in-group identification is high than when it is low.

H3b: The positive effect of pro-environmental attitude on purchase behavior will be greater for cooperators when in-group identity is high than when it is low.

H3c: The positive effect of pro-environmental attitude on purchase behavior will be greater for individualists when in-group identity is high than when it is low.

H4a: The positive effect of pro-environmental attitude on purchase behavior will be greater when expectation of others’ cooperation is high than when it is low.
H4b: The positive influence of expectation of others’ cooperation will be greater for individuals who are more susceptible to normative social influence than for those who are less susceptible.

H5: The moderating influence of the effect of expectation of others’ cooperation will be greater when perceived efficacy is low than when it is high.

H6a: The positive effect of pro-environmental attitude on purchase behavior will be higher when consumers perceive green and conventional products as substitutes than when they don’t.

H6b: The positive effect of pro-environmental attitude on purchase behavior will be higher when consumer preference for the conventional product is low than when it is high.

H6c: The positive effect of expectation of others’ cooperation on purchase behavior will be greater when consumers’ perceive conventional and green products as substitutes than when they don’t.

H6d: The positive effect of expectation of others’ cooperation on purchase behavior will be greater when consumers’ preference for conventional product is low than when it is high. References are available upon request.

ENDNOTES


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Given that services are simultaneously produced and consumed and there is co-production (Berry 1980), it is impossible to guarantee a 100 percent error-free service (Brown, Fisk, and Bitner 1994).

Service recovery performance follows failures in service delivery. Limited knowledge exists regarding the factors which have an impact on the service recovery performance, as perceived by frontline employees (Boshoff and Allen 2000). Therefore, service recovery performance is defined as the individual frontline service employee’s perceptions of his/her own skills and actions, whilst resolving a service failure so as to guarantee customer’s satisfaction (Babakus et al. 2003; Boshoff and Allen 2000).

This research draws on goal orientation, perceived organizational support, psychological job outcomes and service recovery literature, in order to investigate the drivers of service recovery performance. The major goals of this study are to determine the effect of learning goal orientation on service recovery performance and the impact of perceived organizational support on learning goal orientation. Additionally, the effect of both learning goal orientation and perceived organizational support on emotional exhaustion is investigated.

Based on the literature review, an integrative conceptual framework comprising eighteen hypotheses are proposed and empirically tested next to frontline service employees from the restaurant industry. A total of 740 employees (representing a response rate of about 32%) provide the data for the analysis. Confirmatory factor analysis (CFA) is employed to assess the fit of the seven measurement components of the model. CFA results provide evidence of high internal consistency reliability as well as convergent and discriminant validity. The final seven-factor model comprising twenty-four items fits the data reasonably well ($\chi^2 = 423.41$; df = 231; p-value = 0.000; GFI = 0.92; NNFI = 0.88; CFI = 0.90; IFI = 0.90; RMSEA = 0.034). Structural equation modeling (SEM) is used to test the hypothesized path model. All the indices suggest a good fit of the final model to the data: $\chi^2 = 320.05$ (df = 171, p-value = 0.000), CFI = 0.91, IFI = 0.91, GFI = 0.92, and NNFI = 0.89.

The findings provide academic insights that may open new fruitful avenues for further research. The results support all the hypotheses regarding the determinants of personal learning, mastery orientation, job satisfaction and organizational commitment. With regard to the drivers of emotional exhaustion, the results are only partially supported, given that both personal learning and mastery orientation were found to be unrelated to emotional exhaustion (Babakus et al. 2003; Boshoff and Allen 2000).

The new empirical results reveal that learning goal orientation positively impacts service recovery performance. Additionally, perceived organizational support has a positive effect on service recovery performance. The final model is provided in terms of the best practices when recruiting and training frontline service employees.

REFERENCES


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FAILURE AND RECOVERY IN INTERNET PURCHASING: THEIR IMPACT ON CONSUMER TRUST AND LOYALTY TO THE COMPANY’S SITE AND TO THE ONLINE SHOPPING ENVIRONMENT

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Cristiane Pizzuti dos Santos, UFRGS

ABSTRACT

This paper aims to examine the impact of recovery efforts on consumer trust and loyalty following an unsatisfactory Internet purchasing experience. The authors develop and test a theoretical model focusing on interrelationships among specific evaluations of complaining process, prior experience, familiarity, trust, perceived value, and loyalty. Findings indicate an enhancing role of the interpersonal treatment by the e-retailer on the consumer perceptions of the online recovery process. Consumer trust is influenced by post-complaint satisfaction, familiarity, and quality of prior experiences with the specific website and with Internet purchasing. Repurchase intention and word-of-mouth communication are influenced by dimensions of trust.

INTRODUCTION

Since its expansion in the second half of the 1990s, there have been a number of innovations in the Internet, such as e-mail, free content, e-Banking, free music, instant messenger, and e-commerce. The latter has aroused great interest due to its rapid growth and great impact in the business context. The prominent growth of electronic retailing has been accompanied by the emergence of unique and inherent characteristics of the online environment, such as the lack of physical contact between firm and customer and the perception of insecurity regarding the Internet (Warrington, Abgrab, and Caldwell 2000), as well as the diagnosis of recurrent failures, some of which are new (when compared to the offline context) (Forbes, Kelley, and Hoffman 2005). For every four purchases made online, at least one results in some kind of dissatisfaction involving undue information, delays in upload sessions, difficulty in payment, delayed delivery, extra charges related to the purchase or delivery, receipt of incomplete orders or damaged products (Zemke and Connellan 2001).

Exacerbating this situation, electronic retailing seems to be an almost perfect market, as the information is instantaneous and the buyers can compare offers from all over the world. So, with the competition just one mouse click away, the exodus of customers becomes much easier (Shankar, Smith, and Rangaswamy 2003). Within this context, the correction of mistakes, that is “fixing” what went wrong the first time round, becomes essential for retaining customers and consequently, for the firm survival in the business environment.

Accordingly, it is possible to consider some of the differences associated with the complaint handling in these two business environments. Firstly, the interaction, mainly face-to-face, that is so central in failures and recovery processes in traditional retailing, in the online environment, is substituted by technology. Another factor that appears to differentiate recovery online is the fact that, while the experience of consumers in the traditional retail environment is frequent and longstanding, online retailing is a relatively new phenomenon, with the continuous entry of new buyers. Earlier research has shown that, when the customer has little or no previous experience of consuming, he/she forms an assessment based on what he considers fair to receive (Berry and Parasuraman 1991) and not on realistic expectations, formed on the basis of previous real performance (Woodruff, Cadotte, and Jenkins 1983). It is believed, therefore, that it is particularly important to make rapid and efficient recovery efforts when failures occur in online retailing, as the customers in this environment expect fair results, more than in the traditional retail environment (Ahmad 2002).

The incipient nature of the area is shown by the small number of studies available, which contribute to the formation of knowledge about recovery in electronic purchasing, offer insights into the topic and open up a whole new avenue of research. Descriptive studies have sought to identify and classify failures that occur in electronic retailing, the recovery strategies most com-
monly used and the consequences of such strategies (Ahmad 2002; Holloway and Beatty 2003; Nasir 2004; Forbes et al. 2005). Coming closer to what has been developed in the offline environment, Holloway, Wang, and Parish (2005) sought to empirically investigate the moderating influence of cumulative online purchasing experience by testing a “traditional” service recovery framework within the context of online retailing, using distributive justice, experience, satisfaction with complaint handling, and word-of-mouth communication. However, other hand, other important variables have been neglected (e.g., other dimensions of justice, value, familiarity, and trust).

Based on this scenario, the present study aims to investigate the impact of the complaint handling process related to online purchasing on consumer trust and loyalty. More specifically, a theoretical model will be constructed and tested, in which inter-relations between the specific aspects of the complaints process will be analyzed together with the aforementioned constructs perceived value, prior experience, familiarity, trust, and loyalty. This article consists of three main parts. The first deals with the theoretical foundation underpinning the study, and the framework. The second discusses the aspects related to the research method, and the third presents the results.

THEORETICAL FOUNDATION AND RESEARCH HYPOTHESES

Theory of Justice and Satisfaction with Complaint Handling

A complaint handling process begins with a complaint made by a customer, that, typically, produces (a) interaction between the claimant and representatives of the firm and (b) outcomes (Tax et al. 1998). Contemporary studies on complaints management has offered substantial evidence on the suitability of the concept of fairness as a base for understanding the process of complaining and its outcomes (Goodwin and Ross 1992; Blodgett et al. 1997; Tax et al. 1998; Smith et al. 1999). Distributive Justice refers to the allocation of benefits and costs between the parties to a transaction. Within the context of the complaint, distributions are seen as a tangible outcome offered to the claimant by the firm (e.g., exchanging the product or reimbursing the money). The second dimension, Procedural Justice, concerns policies and procedures used by firms and have six sub-dimensions: flexibility, accessibility, process control, decision control, speed of response and acceptance of responsibility (Thibaut and Walker 1975; Tax et al. 1998). Interactional Justice is involving the manner in which the employees treat and communicate with the customer during the complaint. Six sub-dimensions have been studied: courtesy, honesty, empathy, effort, explanations, and apologizing (Clemmer 1988; Tax et al. 1998). It is important to highlight that the latter may appear of little significance in the case of online purchasing, due to the absence of personal contact with employees. However, though irrelevant at the time of purchase, this dimension of justice appears to become an important element for an efficient recovery, due to the consumer need, either through e-mail or over the phone, to feel well.

Post-purchase satisfaction has been considered a central mediator that links prior beliefs to post-purchase cognitive structures, communication and repurchase behavior (Westbrook 1987). Similarly, satisfaction with complaint management can be considered a central element mediating the relationship between assessments made regarding such management and post-complaint attitudes and behavior. According to the literature on social justice, satisfaction is linked to assessments of fairness in various conflict situations (Messick and Cook 1983). Extending this logic to complaint handling, it is widely recognized that the consumer satisfaction with the complaint episode results from the assessment of aspects regarding the final outcome, the process that led to the outcome and the manner in which the consumer was treated and informed during the episode, that is, how fair these aspects were (Blodgett et al. 1997; Tax et al. 1998; Smith et al. 1999; Mattila and Patterson 2004; Liao 2007). Thus, this study presents the following hypotheses:

$H_1$: Perceptions of interactional justice will have a positive impact on satisfaction with complaint handling.

$H_2$: Perceptions of distributive justice will have a positive impact on satisfaction with complaint handling.

$H_3$: Perceptions of procedural justice will have a positive impact on satisfaction with complaint handling.

Satisfaction with Complaint Handling in Online Purchasing and Consumer Trust

The construct of trust has been widely studied in the electronic commerce literature. It has been seen as fundamental in explaining the consumer repurchase behavior on the Internet (Pavlou 2003; Sultan et al. 2005), as well as outside it (Morgan and Hunt 1994; Nooteboom et al. 1997; Garbarino and Johnson 1999). Trust is a concept studied in several disciplines, and, as a result, there are different definitions. Consumer trust in online purchase is defined as “the willingness of the consumer to be vulnerable to actions of the electronic retailer during an Internet transaction, based on expectation that the retailer will behave in a suitable manner, independently of the ability of a consumer to monitor or control that electronic retailer” (Lee and Turban 2001, p. 79). In the same way that the trust of the consumer in a service supplier is based on two distinct facets – trust in the frontline employees and
in the business practices (Sirdeshmukh et al. 2002), consumer trust in an Internet purchase would have two dimensions: trust in the purchase site and in the Internet as a whole (Chen and Dhillon 2003). These facets are, then, distinct nodules on which the customer makes independent judgments during the course of the exchange. This idea is corroborated by Grabner-Krauter and Kalusha (2003), who dealt with two dimensions of trust in the online environment: trust based on the system (system-based trust) that would be trust in the Internet as a mean of purchase and trust in the particular retailer (e-tailer trust). According to the same authors, while the latter has been widely studied, the former has been largely neglected.

The role of satisfaction as a central element, linking perceptions regarding recovery processes to future attitudes and behavior, has been confirmed in the offline environment (Bitner et al. 1990; Tax et al. 1998; Dube and Maute 1998). However, the focus has been on immediate intentions of behavior (purchase intentions, for example) than in variables such as trust, that reveal the potential for long-term relationships. The study developed by Tax et al. (1998) is one of the few that explore the relationship between post-complaint satisfaction and relational variables. They found a significant and positive relation between satisfaction and post-complaint trust, while emphasizing the central role of managing conflict in the producing (or reducing) trust between the parties involved.

In the online environment, some authors confirm the influence of satisfaction on trust in the online retailer (Pavlou 2003; Ribbink et al. 2004). This is due to the notion that, when the consumer perceives the performance of the firm as fair and satisfactory, his/her feelings of trust tend to be strengthened. Conflict situations appear to be even more critical, as it is in adversity that partnerships are put to the test. Accordingly, satisfactorily solution of a failure in delivering a product, for example, can say more about the credibility of a certain site than a routine situation. Similarly, given that the experience of making purchases on the Internet is a relatively new, an efficient recovery process can help increase the trust in electronic commerce as a whole. Ribbink et al. (2004), in fact, state that satisfactory experiences with a specific electronic retailer inspire consumer trust in the virtual medium (“system-based trust”). Therefore, it can be suggested that:

H4: Consumer-perceived satisfaction with complaint handling in online purchasing will have a positive impact on consumer trust in the company’s site(a) and in online retailing(b).

Trust is a critical factor in any relationship in which the trustor (consumer) does not have direct control over the actions of a trustee (store), the decision is important and the environment is uncertain (Mayer 1995). Drawing from cognitive consistency arguments, trust on Internet shopping is proposed to directly influence consumer trust on the firm’s web site. When the salesperson is absent from or peripheral to the selling and buying process, as is generally the case with Internet stores (Lohse and Spiller 1998), then the primary target of the consumer’s trust is the Internet as a whole (Chow and Holden 1997). Moreover, when consumers have little or no prior purchasing experience with a specific web site, their trust in Internet purchasing and their experiences with other Internet sites are likely to have an impact on their trust in a specific web site through a process of affect transfer: trust in the Internet shopping may influence trust in a company’s site because offers a guarantee of the consistent and competent performance of the companies operating in the environment. The literature also offers support for a reciprocal effect between trust in the firm’s and in Internet. According to dispositional approach, consumers develop attitudes and tendencies to respond to industry-context situations in a particular, predetermined manner (Nijssen et al. 2003). These dispositions emerge as consumers synthesize information and experiences across multiple exchange within an industry to develop higher-level inferences. Within an industry context, such sense making is aggregated across sellers, experiences and time through a process of assimilation, resulting in an industry disposition. Thus, it is proposed:

H5: Consumer trust in Internet retailing as a whole will have a reciprocal impact on the consumer trust in the company’s site.

Prior Experiences, Familiarity, and Consumer Trust

In an online environment, prior experience with online purchases plays an important role, as it links previous behavior with the probability of that behavior being repeated (Cho 2004). The consumer experience can be either direct such as searching for information, purchase and consumption of products, or indirect such as exposure to propaganda and observation of other consumers (Alba, Hutchinson, and Wesley 1987). The construct of experience of consumption is not limited to a specific category of product, but is also related to diverse purchase situations, as well as the assessment of purchase alternatives (Suk and Mitchell 2004). Therefore, in the same way of trust operationalization, cumulative consumer experience involves two dimensions: (1) specific experiences with the site in question and (2) experiences with purchasing online. Consumer prior experience with the firm’s site or with the online environment in general can be valenced positively with good, pleasant and valuable experiences or negatively with bad, unpleasant, unvaluable experiences. Thus, by affecting the consumer’s ability to make
predictions based on benefits and value received, prior experiences are expected to positively impact consumer trust.

Drawing on attribution theory we posit that positive prior experiences will lead to beneficial and benevolent attributions of firm behaviors enhancing feelings of trust. Positive prior experiences with the firm’s website provide a cue for its charitable action. Negative prior experience generates suspicions and doubts about the website, deteriorating consumer trust on the site. In sum, as trust is formed not as a result of a single episode but based on successive good experiences with the firm, it is expected that experiences prior to the complaint, in addition to the influence of satisfaction with the recovery process, significantly influences trust in the firm’s site. Therefore, it is proposed that:

$H_1$: Prior experience with company’s site will positively influence consumer trust in the site.

It is also proposed that prior experience on online retailing environment will impact consumer’s trust on the medium. When prior experiences with Internet purchasing are bad, consumers may develop uncertainty regarding the Web. This effect could be explained by the Technology Acceptance Model. Rogers (1995) incorporated prior experience as a component of the knowledge stage that impacts the formation of attitudes to adopt an innovation. Satisfactory prior practice enhances trialability and observability, which is important for a system adoption. Thus, consumers tend to accumulate knowledge and beliefs about the new system, which will increase their overall attitudes toward it (Yoh et al. 2003). Based on this reasoning, it is proposed that:

$H_2$: Prior experience with online purchasing will positively influence consumer trust in online retailing as a whole.

While prior experience has to do with the valence of the experience (good, pleasant, satisfactory or bad, unpleasant, dissatisfactory), familiarity is related to the knowledge acquired and stored in memory, and with the ability to make decisions (Bettman and Park 1980; Alba, Hutchinson, and Wesley 1987). Familiarity on the firm’s site reflects the consumer’s knowledge about purchasing from a specific online retailer. Consequently, it deals with knowing and understanding the trading partner, its work procedures, goals, beliefs and values. It builds trust by creating appropriate frameworks within which the trustor can place its beliefs about the trustee and know what to expect from it (Geßen 2000). Another way in which familiarity builds trust is that familiarity results in less communicational misunderstandings (Kumar 1996) that would otherwise ruin trust, even unintentionally. Therefore, it is proposed that:

$H_3$: Familiarity with the company’s site will positively influence consumer trust in the site.

Familiarity could also be related to Internet shopping experience in general and not only to a specific web site (Sultan et al. 2005). From this, consumers will accumulate knowledge about purchasing on the Internet and, therefore, will become more skillful. Familiarity on the Internet thus reflects the ability of the consumer to understand information based on the Internet (Moreau et al. 2001). An expert user is more likely to have greater confidence on the web than a novice user (Sultan et al. 2005). Therefore, trust may be higher for an expert or web-savvy consumer:

$H_4$: Familiarity with online shopping will positively influence consumer trust in the online retailing as a whole.

### Antecedents of Loyalty

In the words of Reichheld and Schefter (2000, p. 113): “loyalty is not won with technology, but through the consistent delivery of greater value to the customer.” Loyalty is usually composed of two dimensions: intention to repurchase and positive word-of-mouth (WOM). With regard too word-of-mouth, some differences become apparent comparing online and offline media. The Internet has given rise to new forms of communication among consumers and extended the possibilities for consumers to receive and supply unbiased information (Hennig-Thurau and Walsh 2004). Using the Internet, consumers can share information and experience in chats, emails and communities. Therefore, virtual WOM appears to be faster and reach further than that made offline.

Conceptual (Nooteboom et al. 1997) and empirical (Morgan and Hunt 1994; Tax et al. 1998; Agustin and Singh 2005) studies emphasize trust as a fundamental ingredient for the development of long-lasting relationships between consumers and firms. In online commerce, trust appears to be even more relevant since there is a lack of the physical contact and tangible aspects which are present in the traditional retailing. Therefore, the firm success depends on building trust among consumers and a favorable attitude toward the web. This idea is reinforced by Pavlov (2003) and Ribbink et al. (2004), though the latter authors note that there is still a lack of empirical evidence for the link between trust and loyalty in the electronic environment. Thus, it is proposed that:

$H_{10}$: Consumer trust in the site will have a positive impact on (a) repurchase from the site intention and (b) positive WOM regarding it.

$H_{11}$: Consumer trust in online retailing will have a positive impact on (a) the repurchase from the Internet intention and (b) positive WOM about it.
In addition, this study proposes the existence of a second precursor of loyalty: the perceived value. Perceived value refers to the consumer’s assessment of the benefits and costs of maintaining a relationship with a firm (Sirdeshmukh et al. 2002). The logic here is that, even when the consumer extracts benefits from the exchange, if high maintenance costs are demanded, the relationship will be less attractive and there will be less evidence of loyalty. The findings from Sirdeshmukh et al. (2002) offer empirical evidence of this reasoning. In their study, value emerged as a significant antecedent of loyalty. In the online context, Broekhuizen (2006) found the effect of perceived value items (time and effort) on repurchase intentions. Based on this reasoning, it is proposed that:

\[ H_{12} \]: The value perceived of the site will have a positive impact on (a) repurchase from the site intention and (b) positive WOM regarding the site.

Based on the theoretical framework and established hypotheses, Figure 1 presents the theoretical model to be investigated.

**METHOD**

This study consisted of two parts, using a mix of qualitative and quantitative approaches. Firstly, we employed personal interviews to raise relevant questions regarding complaint handling processes involving online purchasing and refine items for the quantitative phase. Next, we administered a cross-sectional research with respondents with recent complaints about online purchases. During the exploratory phase we have done twenty in-dept interviews. Using a mail with colleagues names, a convenience sample of e-consumers with complaint experiences was found. Through the interviews with them we tried to answer questions, such as: what dimensions do the customers use to assess the process of failure recovery? Are the dimensions of justice perceived? When dealing with online shopping, do experience, trust and loyalty refers to two different levels – the site and online retailing as a whole, as foreseen in the theory? Do variables at the micro level (site) influence the variables related to the macro level (electronic retailing)? If so, for what does this influence take? Does perceived value influence only re-purchasing and WOM to the site, or also repurchase and WOM regarding the Internet as a whole?

For the quantitative phase, 3,339 customers from all over Brazil who were engaged in complaint processes within the past six months responded to an online questionnaire. This was achieved in partnership with the E-bit (www.ebit.com.br), a company specialized in research involving Internet purchasing. Only those consumers who had experienced some failure in an online purchase and had complained to the e-company in the last six
months were asked to answer the research. In exchange they received 7,000 bits, to be used to compete for prizes on the site. Data was examined to ensure that it abides to the multivariate assumptions of normality, homoscedasticity and linearity. Furthermore, we seek to remove cases labeled as outliers. After making these examinations, we retained 3,206 cases in our sample. The respondence rate was 16.5 percent, which can be considered high, considering that only those that had had a problem with an online purchase could respond and participation was spontaneous.

The initial portion of the instrument contained questions that required subjects to report the details of a recent online purchase experience leading to their lodging a complaint. Details included a description of what caused the complaint, the media used to lodge the complaint and the time of the year the complaint was made. It provided useful information and helped the respondent focus on the encounter. Following those initial open- and closed-ended questions, scaled measures adapted from previous studies were applied. Interactional (6 items), procedural (6 items), distributive justice (4 items), and satisfaction with complaint handling (3 items) were taken from Tax et al. (1998); perceived value (4 items), consumer trust (8 items; 4 related to trust in the firm site and 4 related to trust in the online environment) were adapted from Sidershmukh et al. (2002); repurchase intention (4 items) and positive word-of-mouth (3 items) from Zeithaml et al. (1996). The only measure taken from studies deriving from research on the online environment was familiarity (6 items; 3 related to familiarity with the website and 3 to familiarity with the online environment) from Sultan et al. (2005). Although there is a plenty of research on online trust and measures from it (e.g., Sultan et al. 2005; Chen and Dhillon 2003; Lee and Turban 2001), Sidershmukh et al. (2002) scale reflects important aspects of trust—competence, integrity and problem solving orientation. Measures were translated using the back-translation technique and a pre-test, gathering 15 people was done.

RESULTS

First, the measurement model will be examined. Then the examination of the structural model will be performed.

Validity and Reliability

Based on several authors (e.g., Hair et al. 1998; Churchill 1999), the validity of this model is basically supported if: (a) the measurement model adapts to the data reasonably well that is, within the adjustment indexes considered satisfactory; (b) the factor loadings of items in the corresponding factors are large and significant; (c) indicators of the same construct produce reliability indexes higher than 0.70 and extracted variance over 0.50; (d) the correlations between indicators (or factors) of the same construct produce convergent validity; (e) the analysis of correlations indicates discriminant validity. The convergent validity was supported by the fact that every item, with no exceptions, presented high and significant factorial coefficients in the constructs they measured (between .59 and .96, t-values over 10.61). Furthermore, items associated to the same construct presented a significant correlation. Thus, the convergence of measures, that is, the existence of a strong correlation between items measuring the same construct, was detected (Churchill 1999).

Evidence of discriminant validity, which is particularly important when constructs are similar by nature, was found through the correlation levels among constructs. Correlation over 0.80 would indicate lack of discriminant validity, that is, constructs would be measuring the same phenomenon. Constructs were found distinct from one another, with the higher correlation between trust in the firm web site and repurchase intention (.78). Measures provided satisfactory levels of reliability and extracted variance. Composite reliability was between .81 and .91 (procedural and distributive justice, respectively). Extracted variance was between .46 and .73 (procedural justice and WOM communication, respectively). It demonstrates internal consistency of the constructs’ measures.

Hypothoses Examination

The investigation of the set of hypotheses will be primarily made through the goodness-of-fit indices of the hybrid model and the significance and magnitude of estimated regression coefficients. Findings of the structural model are found in Table 1. The chi-square is significant. Goodness-of-fit indexes CFI, NFI, NNFI, all over 0.90, are satisfactory and the RMSEA of 0.05 is acceptable.

The effects of justice (interactional, distributive and procedural) on satisfaction, established on hypotheses H1, H2, and H3, respectively, were supported by the results. The R² of 0.85 indicates that the three aspects (personal treatment, process, and tangible results) explained an expressive proportion (85%) of variance in consumer’s final satisfaction. The evaluations on processes during the complaint management had a small influence on the final satisfaction (regression coefficient of 0.25). The tangible results (distributive justice) obtained through complaint had a higher effect on satisfaction (0.70) than interactional aspects (0.54), which corroborates for the importance of offering compensation for the customer, and not only treating him/her well. Results also support hypothesis H4, in which the relationship between satisfaction and trust is established. However, the impact of satisfaction on trust in the firm web site is much higher (0.65) than in online purchasing as a whole (0.14). This is consistent with the
TABLE 1
Estimated Regression Coefficients for the Theoretical Relationships Established

<table>
<thead>
<tr>
<th>Model Relationships</th>
<th>Standardized Regression Coefficient</th>
<th>Hypotheses</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable: Satisfaction with Complaint Handling</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interactional Justice</td>
<td>0.54 (11.78)</td>
<td>H_1</td>
<td>Accepted</td>
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<tr>
<td>Distributive Justice</td>
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<td>H_2</td>
<td>Accepted</td>
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<td>Procedural Justice</td>
<td>0.25 (5.85)</td>
<td>H_3</td>
<td>Accepted</td>
</tr>
<tr>
<td>R^2 = 0.85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variable: Consumer Trust in the Firm Website</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction with Complaint Handling</td>
<td>0.67 (13.59)</td>
<td>H_4A</td>
<td>Accepted</td>
</tr>
<tr>
<td>Consumer Trust in Online Retailing</td>
<td>0.06 (1.38)</td>
<td>H_5</td>
<td>No Accepted</td>
</tr>
<tr>
<td>Familiarity with the Company’s Web Site</td>
<td>0.35 (25.07)</td>
<td>H_6</td>
<td>Accepted</td>
</tr>
<tr>
<td>Prior Experience with the Company’s Web Site</td>
<td>0.15 (4.09)</td>
<td>H_7</td>
<td>Accepted</td>
</tr>
<tr>
<td>R^2 = 0.61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variable: Consumer Trust in Online Retailing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction with Complaint Handling</td>
<td>0.14 (3.27)</td>
<td>H_4B</td>
<td>Accepted</td>
</tr>
<tr>
<td>Consumer Trust in the Company’s Web Site</td>
<td>0.02 (1.08)</td>
<td>H_5</td>
<td>No Accepted</td>
</tr>
<tr>
<td>Familiarity with the Internet</td>
<td>0.25 (5.25)</td>
<td>H_6</td>
<td>Accepted</td>
</tr>
<tr>
<td>Prior Experience with the Internet</td>
<td>0.36 (7.26)</td>
<td>H_7</td>
<td>Accepted</td>
</tr>
<tr>
<td>R^2 = 0.21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variable: Repurchase Intention from the Site</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Trust in the Company’s Web Site</td>
<td>0.87 (16.15)</td>
<td>H_10A</td>
<td>Accepted</td>
</tr>
<tr>
<td>Perceived Value</td>
<td>0.03 (0.89)</td>
<td>H_12A</td>
<td>No Accepted</td>
</tr>
<tr>
<td>R^2 = 0.76</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variable: Positive Word-Of-Mouth about the Site</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Trust in the Company’s Web Site</td>
<td>0.86 (15.68)</td>
<td>H_10B</td>
<td>Accepted</td>
</tr>
<tr>
<td>Perceived Value</td>
<td>0.01 (0.34)</td>
<td>H_12B</td>
<td>No Accepted</td>
</tr>
<tr>
<td>R^2 = 0.74</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variable: Repurchase Intention from the Internet</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Trust in Online Retailing</td>
<td>0.58 (12.38)</td>
<td>H_11A</td>
<td>Accepted</td>
</tr>
<tr>
<td>R^2 = 0.33</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent Variable: Positive Word-Of-Mouth about Online Shopping</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Trust in Online Retailing</td>
<td>0.61 (13.09)</td>
<td>H_11B</td>
<td>Accepted</td>
</tr>
<tr>
<td>R^2 = 0.38</td>
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</table>

Goodness-of-fit Indices:
- \( \chi^2 \) (Chi-square) = 24276,096 (p<0.001)
- DF (Degrees of Freedom) = 1309
- CFI (Comparative Fit Index) = 0.96
- NNFI (NonNormed Fit Index) = 0.96
- NFI (Normed Fit Index) = 0.96
- RMR (Root Mean Sq. Residual) = 0.32
- RMSEA (Root Mean Sq. Error of Approx.) = 0.06

*Significant coefficients are in bold (all at level 0.01).
of familiarity (0.35), prior experiences with the site (0.15) and consumer trust in online purchasing (0.06). When consumers perceive that the company acted appropriately in their problem resolution, they updated impressions about the company and, thus, feelings of trust are reinforced. The opposite occurs when consumers perceive that the company handled their complaint negligently and/or ineffectively. The $R^2$ of 0.61 reflects a good explanatory power of consumer trust in the firm’s web site.

Regarding consumer trust in online purchasing, familiarity and prior experiences with the Internet exert a higher effect than satisfaction with complaint handling. Those three variables could explain 21 percent of variance in consumer online trust. Moreover, the reciprocal effect of trust in the firm’s web site on trust in Internet shopping was not confirmed since this effect was not statistically significant (0.02). The impact of trust on the consumer repurchase intention from the same web site, supposed on $H_{10A}$, was confirmed. Nonetheless, whereas the level of consumer trust presented an expressive effect on the consumer repurchase intention (regression coefficient of 0.87), the relationship between value and repurchase intention was null (coefficient of 0.03), rejecting hypothesis $H_{12A}$. Concerning word-of-mouth communication about the firm’s web site, similar effects were encountered, that is, trust exerted a major impact and perceived value did not present a significant coefficient estimate, rejecting hypothesis $H_{12B}$. The proportion of variation of the word-of-mouth about the web site dimension explained by trust in the firm’s web site (0.74) support the importance of trust on the consumer intention to recommend a firm’s web site and on the development of ongoing relationships between the consumer and the firm. Finally, the impact of trust in online purchasing on repurchase intention from the Internet and on WOM about online purchasing, predicted by $H_{12A}$ and $H_{12B}$, posits trust as an important antecedent of the customer’s actions toward the Internet in the future. Moreover, the $R^2$ estimates also reveal that, besides the large effect of trust, other predictors may be employed to improve the proportion of variance explained.

CONCLUSIONS AND IMPLICATIONS

This article aimed at providing and testing a theory-based framework for mapping the mechanisms underlying recovery process regarding online exchanges. This study offers three distinct contributions. First, we conceptualize consumer trust as a bi-dimensional construct to obtain a fine-grained understanding of its differential effects. This conceptualization is sustained by the recognition of trust’s multidimensionality in the interorganizational and marketing literature. Second, it proposes a model with interrelationships among web site-specific recovery evaluations and cognitions about online purchasing as a whole (e.g., intention to repurchase online and positive word-of-mouth about Internet shopping). This provides valuable insights for a dynamic portrayal of online purchasing. Third, our results support the view that justice concepts, in the online context, provide an effective theoretical framework for explaining satisfaction with complaint situations, which in turn is strongly associated with both trust and loyalty, offering empirical support for the proposition that complaint handling is tied closely to relationship marketing. Each contribution provides new insights on recovery process involving consumers and virtual providers.

While the bi-dimensionality of trust is ultimately an empirical question (not just psychometric), systematic studies establishing the validity and usefulness of trust dimensions have been lacking in the literature (Singh and Sirdeshmukh 2000). While these dimensions of consumer online trust has been supported in previous research (Chow and Holden 1997), their interrelationships have not been proposed and tested heretofore. However, differently of the confirmatory results related to the two first propositions, we found no influence of the trust in company’s site on the trust in Internet purchasing, and vice-versa. It offers support for distinct nodes on which each dimension of consumer trust is formed. Moreover, the results reveal that, not only the trust in the web site and in the Internet medium are not associated, but also that constructs related particularly to the web merchant (e.g., satisfaction with complaint handling and trust in the company’s web site) do not impact more “general” variables such as trust and loyalty to the online environment. This lack of influence shed some light about the existence of other mechanisms and variables, such as consumer overall satisfaction (not measured in this study). The results reveal that recovery efforts are essential for maintaining long-lasting relationships with the company’s web site but do not influence customers’ view about Internet shopping as a whole. One explanation for this is that we dealt with initiated consumers since a large part of our sample is composed by consumers who had reasonable shopping experience on the Internet. These consumers know exactly how Internet works and are less inclined to change attitudes by a singular experience.

Analyzing the links between the dimensions of trust and the dimensions of loyalty, consumer trust emerged as the strongest antecedent of repurchase and recommendation intentions. This result is in accordance with the logic that by increasing consumer trust, they start to believe that the company will continue to act consistently and competently in the future, thus reducing the risks associated to service purchase and creating the belief that consumers will continue to obtain value in further businesses with the provider. In other words, the higher the consumers trust the higher the probability to make future exchanges with this company. An inappropriate complaint handling would generate a “double deviation,” that is, the company fails twice to meet the customer’s needs. Then, consumer trust...
is reduced, or even destroyed, leading the customer to a competing company.

Another point to emphasize refers to the impact of interactional dimensions of justice on satisfaction with complaint handling. Both past research into the service encounter and Fairness Theory (Folger and Cropanzano 1998) suggest that considerations of interactional justice are crucial in service recovery situations. In the online environment, the role interpersonal treatment was supposed to be weaker or even not exist because there are few opportunities for employees to be in contact with e-consumers. Contrary to this, the findings establish that in online purchase recoveries poor personal treatment violates basic human needs such as fairness and a sense of self-worth and may result in customer defection and high intention to spread bad words in an effort to restore self-esteem. Therefore, the present study advocates for the role of interpersonal treatment in customer–web merchant interactions in online recovery situations.

The significant impacts of prior experiences and familiarity on trust, lead to the idea that investigates the impact of the complaints in the virtual context without including aspects related to the “history” of the consumer with this context (i.e., prior experiences, familiarity, and perceived value), would mean to omit important casual variables, and ignore the dynamic that guides marketing exchanges. Besides, it was expected that online consumers would value aspects such as time, convenience, and effort on future exchanges with the same provider, but we found a very weak impact of value on loyalty to the website. Although it seems surprising, this lack of influence was already found by other authors (e.g., Baptista 2005; Warrington 2002). One explanation for this is that consumers can easily make comparisons online and do not distinguish the attractiveness of alternative suppliers. As the Internet provides convenience and information almost instantaneously, consumers do not construct a distinguished value for a singular web merchant.

We recognize that the proposed model is an initial attempt toward modeling complaint handling in the online environment phenomenon. We do not view our model as a novel approach for understanding failure-recovery process related to online exchanges. Rather, our model brings together different perspectives and streams that are well grounded, and we hope that it will serve to motivate interest and encourage future researchers to refine and enhance the proposed framework.

Contributions brought by this study should be considered bearing in mind its limitations. This paper used a cross-sectional approach, based on a non-probabilistic sample, composed of people who were online when data were collected. Under this perspective, the generalization of results is limited. We believe that future focus on interactions between the dimensions of justice and its impact directly on consumer trust will promote a better understanding on the service recovery phenomenon. We also instigate other researchers to the study the role of switching costs and its effect directly on loyalty and as a moderator in the proposed framework. Another recommendation for future research is the analysis of the impact of the types of relationships between consumers and the company – a more transactional or relational orientation – on those constructs and also moderating the relationships established in the model, following Gabarino and Johnson (1999).

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MEASURING THE PERCEIVED IMPORTANCE THAT CONSUMERS PLACE ON THE BENEFIT OF FREE TECHNICAL SUPPORT: A NEW SCALE

Lee Hibbett, Freed-Hardeman University, Henderson
Keith Absher, Union University, Jackson
Joshua Shackman, Touro University International, Cypress
Darin White, Union University, Jackson

SUMMARY

Today’s consumer durable goods marketplace is abundant with brands attempting to increase customer value and gain competitive advantages by adding intangible features to their core products. Add-ons such as warranties and guarantees have received extensive attention in marketing literature. Another prevalent type of intangible offering is free technical support to aid in product performance and customer satisfaction. However, despite the popularity of technical assistance programs, the authors reveal a significant gap in the research regarding this non-feature benefit. Specifically, little consideration has been given to measuring consumers’ perceptions of just how important it is to have free technical support included with the purchase of a product and how the inclusion of free help affects purchase decisions. The purpose of this study is to validate a new scale to measure the importance consumers place on the benefit of this type of service for a specific product domain.

It might be assumed that one’s perception of importance is a one-dimensional construct that could probably be measured adequately with a single, straightforward question. In fact, marketing studies have utilized single-item rating scales to determine consumers’ perceptions regarding which product or service attributes are more or less important. However, research indicates that single-item scales tend to be highly unreliable. Also, the purpose of this study is not to compare the importance of various factors with one another, but instead, is to arrive at a measurement that meaningfully depicts consumers’ attitudes toward the feature of free help/technical assistance. Thus, validating a scale with multiple items should shore up the scale reliability by making sure the respondents display consistency in attitude for similar questions regarding this concept.

This three-study project placed convenience samples of university students in a purchase situation for a new, digital camera for personal use. This scenario was selected primarily because it presented a realistic purchase decision task for the sample. This product category was also deemed appropriate because some brands do, in fact, offer free technical support as a feature. Relevant camera features were chosen by referencing 34 university students, two shopping guide Web sites, and two professional photographers. A final list of 18 features was included in various combinations for three to nine unnamed brands representing the evoked set for respondents to evaluate as they made their hypothetical purchase decisions. After reviewing the camera choices and features, the participants were asked to answer the survey questions regarding the importance of free technical support as a product benefit.

Because the concept of perceived importance is based on individual attitudes, this study chose attitudinal research in the psychology and marketing literature for item development. Specifically, twelve Likert-type questions were either created or borrowed from previous research with the goal of tapping into the cognitive, affective, and behavior components of the sample’s attitudes regarding the importance of free technical support. Half of these items were worded negatively and reverse scored to ensure that respondents were not inadvertently led toward a particular attitude. Before progressing to the three validation studies, an assessment of the instrument was conducted by two Ph.D., marketing professors and two college students to ensure external and face validity.

The first study, which was completed by 40 undergraduate university students, attained an acceptable Cronbach’s Alpha of .79. A factor analysis suggested that two of the twelve items should be deleted due to cross-loading concerns, thereby increasing internal reliability to .83. Additionally, convergent and discriminant validity were confirmed by comparing the behavior of this new scale with various concepts deemed to be related and unrelated.

Using the ten-item scale, the second study was completed by 30 students, and attained a Cronbach’s Alpha of .95. All items loaded onto a single factor, and no single item was recommended for omission in order to improve internal reliability. Once again, this construct’s behavior suggested both convergent and discriminant validity. However, retaining ten items is inconsistent with most attitudinal, marketing scales. So, a step-wise regression was performed to isolate the few items that best predicted
the construct. Through this step, four items were eliminated, while maintaining an R² of .993 and a Cronbach’s alpha of .93 with the remaining six items.

A final study to authenticate this scale utilized a much larger sample of 277 respondents. An acceptable Cronbach’s Alpha of .91 was produced, and once again, all six items loaded onto a single factor. These similar results produced by a much larger sample suggest that this purified scale is adequate for measuring the importance consumers place on the benefit of free technical assistance in future research.

This new scale may serve a number of research functions. First, it can help marketers understand how free help is valued within their particular product category. This information will aid practitioners in building strategies regarding whether or not to offer free help, how much to offer, and how to position and promote the support feature. Second, by collecting demographic and psychographic data from consumers, this scale can be used to investigate the type of individual that values free help in contrast to the type that does not. This insight would prove valuable for segmentation purposes. Third, this scale can be studied in conjunction with other consumer behavior concepts and models to determine what relationships exist. The findings from such research could prove useful as marketers seek to understand their target markets and the situational interactions that affect purchase decisions. References are available upon request.

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ABSTRACT

Customer rage is a phenomenon which has received considerable attention from service marketing researchers. The following paper provides a comprehensive overview of customer rage in the context of spectator sport. The authors present a myriad of issues which make spectator rage a unique, complex and challenging concern for the marketers of such services. The discussion is framed by Grove, Fisk, and John’s (2004) 4-T’s of customer rage. The authors consider the variety of and access to rage Targets, the psychological and sociological influences on Temperament prevalent in live sport, and the sundry of Triggers which make sport a more likely venue for aggressive behavior. The concluding Treatment section presents current issues and trends facing marketers and some of the strategies at work by sport organizations to address the problem of spectator rage.

INTRODUCTION

The potential impact of customer to customer interaction upon one’s assessment of a service encounter has been recognized for some time (Arnould and Price 1993; Bittner, Booms, and Mohr 1994; Grove and Fisk 1997). How organizations handle such incidents is a critical factor affecting customers’ view of a service organization and may affect future patronage (Bittner 1990; Grove and Fisk 1997; Lovelock 1994). Consequently, the topic has received significant attention in services marketing literature (e.g., Bittner 1990; Frankel and Tresniowski 2000; Grove, Fisk, and John 2004; Harris and Reynolds 2003; McColl-Kennedy, Daus, and Sparks 2003).

One service industry in which customer rage has gained a great deal of notoriety is that of spectator sport. While rage in this context has been examined in other disciplines, it has received little attention by marketers (Hunt, Bristol, and Bashaw 1999). Spectator sport falls within the Sports, Arts, and Entertainment category in Fisk and Tansuhaj’s (1985) classification of service fields. As with services in general, spectator sport events are comprised of four key components that combine to create a service encounter (Fisk, Grove, and John 2004): a setting (the venue), customers (the spectators), employees (the athletes and the venue staff), and the service performance (the athletic contest and all of the facets of its staging within the venue). Each component has the potential to impact upon one’s service experience and perception of service excellence (Langeard et al. 1981).

In the subsequent discussion of incidents of rage in the context of spectator sport, the terms spectator is used to identify an individual that attends a live sporting event; this conceptualization distinguishes those individuals from others which observe a sporting event through other channels (e.g., radio, television, Internet). Hence, spectator rage represents a particular form of customer rage. In addition, it is our contention that spectator sport is characterized by a number of features that are unique among service contexts and that may ultimately increase the likelihood and severity of fan rage. An understanding of those features and the dynamics of customer rage in general are critical for both the marketers of live sporting events (i.e., teams and leagues) and those that use spectator sport as a vehicle for marketing communications (i.e., sponsors and media partners). Obviously, any circumstances that undermine the attractiveness of sporting events – such as the occurrence of spectator rage – may have an adverse effect upon the industry and significant financial impact for a sundry of stakeholders.

The term rage throughout our discussion refers to “violent and uncontrolled anger” (Merriam Webster’s Online Dictionary), and we suggest that the term is synonymous with the concept of aggression, defined as “verbal or physical behavior grounded in an intent to dominate, control, or do harm to another person” (Coakley 1998, p. 175). Acts of spectator rage may include a wide range of behaviors such as taunting opposing players, coaches, and fans; harassing officials; verbal abuse, throwing objects on the field of play; tossing a beverage or food item at another fan; refusing to move out of another’s line of sight; obscene gestures; destruction of the physical setting; and pushing, shoving, or striking another person.

To better understand incidents such as these and to provide a means to systematically examine their occurrence, we utilize a framework introduced by Grove, Fisk, and John (2004) to organize thoughts regarding customer rage in general. The following discussion will apply that framework to the phenomenon of spectator rage with a goal of providing arguments pertaining to marketing’s influence upon its occurrence and its remedies.
THE FOUR T’S OF SPECTATOR RAGE

To examine the phenomenon of spectator rage we adapt a framework that was originally proposed by Grove, Fisk, and John (2004) as a means for analyzing the phenomenon of customer rage. In their treatment, Grove, Fisk, and John (2004) posit four categories of factors related to the occurrence of rage, which they labeled the “4 T’s”; included among these categories are the targets of consumer rage behavior, the temperament of customers expressing rage, the triggers that spark such behavior and the treatments for preventing and managing consumer rage.

TARGETS

Perhaps more so than any other service encounter, the live sporting event is characterized by rich and complex interactions among spectators (i.e., customers) and service providers, often within a well-defined service setting. As with customer rage in general (Harris and Reynolds 2003; Lovelock 1994), both the participants (fans and employees) and the service organization (particularly aspects of the physical setting) may become targets of raging spectators. The consumption experience of a live sporting event involves interactions with a number of stadium, arena or team representatives responsible for support services. Such services include concessionaires, ushers, ticket-takers, and security personnel. Whether provoked by their actions or the unfortunate recipients of behaviors played out due to other causes, such personnel sometimes become targets of the raging fan. As representatives of the sport venue, spectators who have a “bone to pick” with the organization may direct their disdain upon them.

Sporting events also involve interaction, albeit relatively indirect, between spectators and those participating in the game itself such as players, coaches, and referees. Indeed, the interaction between spectators and game participants (e.g., cheering, distracting an opponent with noise, shouting at an umpire, or official) may be best described as a fundamental component of the service experience. Unfortunately, some spectators who are displeased with the on-field performance or shoddy officiating sometimes cross the line of civility and hurl insults and objects at those deemed responsible. Recently, throngs of NASCAR fans who were upset that Jeff Gordon passed beloved Dale Earnhardt in career victories hurled beer cans and debris onto the track fans who were upset with Jeff Gordon (Ryan 2007).

In addition, the live sporting event offers the opportunity for substantial interaction between spectators. Fans are often seated close to one another, a circumstance that sometimes makes one a party to another’s unwelcome verbal and physical behavior, – behaviors that may incite rage. Innocent bystanders’ spectator experience can easily become ruined by others prompting varied responses (Grove and Fisk 1997; Harris and Reynolds 2003). Furthermore, team sporting events and many individual athletic contests are typically attended by supporters of opposing teams or individuals involved in the competition. Consequently, the ideal outcome of the spectator sport service encounter may vary substantially based on which team or individual a spectator supports, and interactions among spectators may reflect this conflict of objectives.

Sometimes the target of fan rage is not another person or persons, but rather the physical setting housing the sporting event (McCull-Kennedy and Smith 2006). Whatever the cause of their anger, like customers in general, spectators have been known to strike out at their surroundings when emotions boil over. Ripping seats apart, pounding partitions, marring walls or equipment and damaging the landscape are common expressions of spectator fury. Sometimes the fury is not rooted in anger, but rather it develops as a tumultuous celebratory expression such as in the case of goal posts being torn down and the like. Regardless of its underpinnings, in truth, no aspect of the service setting is safe from such exuberance.

TEMPERAMENT

While a number of physiological factors may increase the likelihood of rage across any service context, there also exist a number of powerful psychological and sociological factors unique to the sport consumption experience. Consider the phenomenon of identification. Identification has been defined as the process of maintaining a positive, self-defining relationship with others one deems attractive (Kelman 1958, 1961). Sport fans often view a team or a player as an extension of their self (Kahle, Duncan, Dalakis, and Aiken 2001). In this respect, identification may be described as a psychological orientation of the self whereby individuals define themselves in terms of their group membership and derive strength and a sense of identity from the affiliation.

Identification often leads spectators to form a link between their favorite sport properties and their self-concept (Hunt, Bristol, and Bashaw 1999). With this link in place, threats to the sport property (i.e., losing, supporters of an opponent, etc.) may be viewed as a threat to one’s self. In such instances, fans are likely to engage in a process of “blasting” or derogation as a means of enhancing their identity or restoring self-esteem (Branscombe and Wann 1992, 1994). Aggression is one defense strategy that spectators of sport may adopt when their self-concept is threatened (Wann, Melnick, Russell, and Pease 2001) and a number of studies have linked identification with a sports team or athlete and hostile behavior (e.g., Branscombe and Wann 1994; Wann, Peterson, Cothran,
There are other explanations for fan rage that emerge from one’s psychological profile. For example, people with passive-aggressive personalities are prone to antagonistic verbal displays and may seek retribution for the slightest of perceived transgressions by other fans or stadium personnel (Stone 1993). Similarly, spectators with Type A behavioral patterns (i.e., highly competitive, intense achievement orientation) often allow their free-floating hostility to be triggered over minor incidents (Holmes and Will 1985; Friedman 1996) that manifests itself as fan rage. Even those with borderline personalities (BP) marked by feelings of low self-worth, obsessive behavior and need for assurance can become hostile and provocative or push others to act similarly (Mahari 2006).

There also exist sociological explanations for spectator rage. For instance, the role often prescribed to spectators of live sporting events may encourage such aggressive behavior. As noted by Pratt and Cardador (2006), roles tend to dictate behavior and “complying with behavior norms and expectations may predispose one to identify with a role” (p. 177). Role theory is the “study of the conduct associated with certain socially defined positions rather than of the particular individuals who occupy these positions” (Solomon et al. 1985, p. 102). Part of the role assigned to spectators of sport may be to foster a hostile environment for an opponent. Behaviors consistent with this role include the creation of noise and heckling or taunting opponents in an attempt to influence their performance. Such behaviors can provoke or incite the opponent’s fans as well as their intended target. In a sense, then, aggression and its expression as fan rage may be learned via socialization as appropriate behavior (Bandura 1973, 1986), a circumstance that is underscored to some degree by the names of the stadiums in which athletic contests occur. Stadiums and arenas are frequently branded with names such as “Death Valley,” “The Pit,” and “The Swamp – where only Gators come out alive” and the like. Promoting such names may also encourage the acceptance of aggression as a means of fulfilling the role of spectator. As noted by Brad Davis, an associate commissioner of the N.C.A.A.’s Southeastern Conference, “what becomes acceptable is to do your best to create an intimidating (home-field) atmosphere. And that has taken a toll on sportsmanship” (Weiberg 2002, p. 1).

Part of the acceptance of such a role for spectators of sport may be that for both players and spectators, sport is set apart both cognitively and emotionally from the everyday world. Both anthropologists and sociologists have observed that sport requires a radical transformation in cognition and perception. This characterization suggests that moral norms which prescribe equal consideration of all people are often suspended during sporting events in favor of a more egocentric moral perspective (Bredemeier, Shields, and Horn 1985).

Sporting events are also characterized by groups of spectators. A characteristic of group dynamics is that, all else being equal, social consequences for individuals will be less in groups than they are when a person acts alone (Guerin 1994, 1998; LeBon 1960). Because an individual’s visibility to outsiders is reduced when he or she is in a group, groups also usually involve less individual evaluation, less accountability, less assignment of responsibility to individuals, and less direct reinforcement or punishment. In this respect, spectators may also learn that as members of a crowd attending a sporting event the crowd provides a degree of anonymity which protects them from repercussions for their hostile behavior (Wann, Peterson, Cothran, and Dykes 1999; Wann, Hayes, McLean, and Pullen 2003). This is perhaps most evident when the target of the hostility is an athlete or official on the field. Moreover, it may well be that the collective excitement of the crowd at a spectator sport event intensifies the emotional responses of those among those in attendance making them more susceptible to rage behavior (Coakley 2006)

TRIGGERS

The context of spectator sport offers many potential triggers prompting fan rage. At issue are the causes, expression, and controls pertaining to spectator hostility. Ironically, there may be no service industry where an organization’s interest in reducing or eliminating the acts of aggressive behavior more directly conflict with the organizational objectives assigned to marketers. Among others, sport marketers are charged with the responsibility of providing spectators with a fun and exciting entertainment experience, developing and managing sponsor relations, and maximizing revenue opportunities. Yet, many of the same marketing strategies employed to achieve such objectives may also provide the triggers that increase the likelihood of rage incidents.

The triggers of spectator rage are essentially situational factors that are present and affect spectators’ experience at the sporting event. Like people in general, some spectators are more likely to be affected by situational variables than others (Bandura 1973). Some time ago, Belk (1974) argued that situational factors fell into five categories: physical surroundings (environmental or atmospheric aspects of the setting), social surroundings (the number, status and characteristics of those present), task definition (the purpose or motivations one brings to the place), temporal perspective (the impact of time on subsequent behaviors) and antecedent states (transitory physical or psychological conditions that one brings to an event).
For the purposes of brevity, Table 1 provides a list of the situational factors most likely to serve as triggers of spectator rage. Each of these triggers has been empirically linked to aggressive behavior.

It should be noted that these factors often operate in combination (e.g., crowded circumstances and excessive alcohol consumption) to create the propensity to rage. It should also be restated that many of the triggers that prompt rage are, to some degree, a byproduct of a sport organization’s marketing effort (e.g., seating arrangements close to the contest) and/or its lack of foresight regarding the triggers themselves. Fortunately, there are ways in which fan rage can be addressed. Some of these are discussed in the following section.

**TREATMENT**

Those organizations seeking a more responsible competitive environment can successfully address some of the key issues contributing to inhospitable sport environments. First, organizational capacity to deal with fan rage will vary significantly depending upon the category of factors that might have contributed to the rage event (Figure 1). For example, events that occur at a sport venue and serve as triggers for a spectator’s wrath offer greater potential for control and treatment than other factors related to rage, i.e., targets and temperament. In large part, trigger events are traceable to a distinct cause and effect relationship that may be minimized by organizational action. Fan rage emanating from this set of factors is somewhat predictable and can be mitigated by sport organizations wishing to create a less volatile setting through their game-day management efforts. Actions such as lowering the music volume, curtailing alcohol sales and the like play a role here.

Slightly less treatable are those incidents initiated under the target category of rage factors. Targets of fan rage are often institutionalized as part of the contest and can not be removed effectively without altering the essence of the contest itself. For instance, the fans, players, officials, coaches, and support personnel that may become targets of spectator rage contribute significantly to the overall consumption experience. One can not simply eliminate interaction between them and maintain the experience that fans expect and desire. In reality, sport organizations build an infrastructure that often supports a high degree of interaction and intimacy that fans relish. Moreover, millions of dollars would be required to correct servicescape dimensions that may contribute to potential fan rage, e.g., seating sections close to the action or cramped seating arrangements. Organizational change with respect to these dimensions would likely only address fringe issues.

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<tr>
<th><strong>TABLE 1</strong> Situational Factors as Triggers of Spectator Rage</th>
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<td><strong>Situational Factor</strong></td>
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Adapted from Belk (1974)
The least addressable category of factors contributing to spectator rage resides in the temperament category. Knowing that some people may be predisposed to rage incidents are certainly unsettling. However, with the exception of transitory intensifiers of rage, enduring personality characteristics or less obvious physical states can only be managed through employees trained to monitor and recognize inappropriate behavior as it becomes manifest. Thus, preemptive actions necessary to screen for the potential disruptive fan are very difficult, and offer the least opportunity for treatment options. One way to categorize treatment options is to think of actions that might be taken by the organization before the event (pre-game planning), during the event (game day activities) and after the event (post game follow-up). Obviously, the result of pre-game planning will be evident during the contest, but for discussion purposes we have tried to categorize activities based on when the substantive work required for implementation would likely take place.

Pre-Game Planning

Recently, the NCAA held a sportsmanship summit where several helpful ideas were put forth by coaches and athletic administrators (Brown 2003) for curbing violence at NCAA events. Some of the recommendations included encouraging staff from opposing teams to participate in pre-game planning, to meet with key student groups before/during seasons to review consequences of negative behavior, and to consider equipment issues such as the installation of breakaway football goal posts. In general, some of these collegiate examples may be adopted more broadly by all sport organizations. Certainly pre-game planning that would include representatives from the opposing teams would be helpful in communicating in-game security enforcement issues and, fines and sanctions that might differ from venue to venue. Leagues could be proactive in this planning phase as well. Monitoring systems (e.g., closed circuit cameras), require considerable planning prior to game day to ensure effective coverage of potential trouble locations. Such systems have aided numerous professional teams in attempts to identify disruptive spectators and more recently have become mandatory components for all Greek and Italian professional soccer stadiums. (Gatopolous 2007; Samminiutelli 2007) Employee training and incentive programs might be developed that emphasized effective management of service failure and customer rage incidents (Grove, Fisk, and John 2004); such activities obviously require lead time. Development of signage and other communication devices that remind fans of appropriate behavior and potential consequences of inappropriate behavior may aid management in realizing results from pre-game initiatives. Finally, reconfiguring seating options to allow more logical fan segmentation (i.e., students, opposing fans) might be explored and implemented. Professional teams such as the Seattle Seahawks offer family sections inside the stadium “free from alcohol sales, exposure to alcohol, and foul, suggestive or vulgar language” (www.seattleseahawks.com, accessed June 1, 2007).

Game Day Activities

As previously mentioned, the influx of fans that converge on the sport venue the day of a contest are likely to be exposed to a variety of rage triggers that must be managed well by the sport organization to minimize disruptive actions by a few fans. While not exhaustive, the following categories of action represent areas most likely to yield positive results in curbing violence during game day.

Spectators attending a live sporting event expect to encounter security screening at facility entrances. While serving the purpose of ticket validation, most sport arenas use entry gates as an opportunity to screen spectators for items banned from the facility. Items commonly banned include any object that could be used as a missile or projectile, alcoholic beverages, weapons/fireworks, lasers and umbrellas. The N.F.L. recently announced a policy requiring teams to establish a screening process subjecting spectators to the possibility of a random search. The policy received legal scrutiny from a fan claiming it violated his constitutional protection against unreasonable searches (Nagel 2005; Varian 2005). A U.S. Federal Appeals court rejected the fans contention clearing the way for other sport organizations to follow the precedence (Washington Post 2007).

Most sporting events are also staffed by security and law enforcement; the presence of such personnel is intended to both deter acts of aggression and enforce stadium policies regarding breaches of acceptable behavior. Sport organizations have adopted a number of strategies intended to reduce the probability of hostile behavior on the part of spectators. Many of the strategies are reactive and consist of various punishments for spectators who commit acts of rage. A common approach is to remove those individuals from the stadium or venue. For rage behavior that is also criminal in nature, spectators may face charges from local or state authorities. More recently, sport organizations have adopted technologies to assist in the identification of fans engaging in hostile behavior. In the mid-1990’s the New England Patriots of the N.F.L. mounted cameras inside the stadium – an activity that requires pre-game planning as noted above – to capture images of inappropriate behavior during the contest. Spectators who were identified as engaging in such incidents faced sanctions from the team. In 1995, the first year of the camera system, a total of 70 Patriot season ticket holders were refused their request to renew the tickets for violations of the team’s policies on appropriate behavior (Weisman 1995).
Recently, sport organizing bodies have subjected teams to significant financial penalties for failing to enforce security policies. For example, in 2005 the international governing body for soccer (F.I.F.A.) fined three national football clubs “for lack of proper security arrangements for that match” (CNN.com, September 26, 2005). Similarly, the Southeastern Conference (S.E.C) fined the University of Arkansas $5,000 when spectators stormed the court to celebrate a victory by the men’s basketball team (Associated Press, February 21, 2006). The Italian Soccer Federation, with the backing of the Italian government, passed several “zero tolerance” rules intended to curb fan violence at soccer matches. A soccer match will be abandoned if anything is thrown onto the field and the team whose fans perpetuated the act will be penalized with an automatic 3–0 loss. Moreover, local law enforcement has the right to cancel a game should violence erupt either inside or outside of the stadium before the start of a match or if offensive signs, banners, or symbols are seen inside the venue (Associated Press, April 14, 2005).

Sport organizations use a variety of promotional media to inform spectators of behaviors which are inappropriate and subject to sanctions. The list of actionable offenses is commonly found on the backside of game tickets and in game day programs. Stadium signage, scoreboard messages and audio announcements, particularly when used to fill wait time during the consumption experience, may be used to remind all spectators of appropriate behavior and the potential sanctions for violations.

Service providers have long discussed the importance of managing wait times as a way of improving a customer’s service experience. Haynes (1990) offers a number of guidelines many of which are applicable in a sport setting. For example, concession waits might seem shorter if sport venues offered fans closed circuit viewing of the action they are missing or facts about the team and/or opponent. Additionally, creatively reviewing ways to make the wait seem fairer depending on the purchase expectation is possible. Purchasing only a bottle of water at a concession stand should be much quicker than the purchase of multiple food items and soft drinks. Perhaps having separate lines or stationing individuals selling single items from portable packs could be considered. Making the wait as comfortable as possible is also advisable. During very hot outdoor events having a fan/air conditioner blowing on those inline might lessen the angst felt by many.

Other proactive strategies attempt to minimize the influence of alcohol as a potential trigger for hostility. The N.C.A.A. prohibits the sale of alcoholic beverages in on-campus athletic facilities. Further, some universities have recently placed restrictions on “pass-outs,” a term used to describe the practice of allowing spectators to exit and reenter the stadium, the occasions for which are frequently used as an opportunity to consume more alcohol. The National Football League places strict restrictions on the sale of alcohol. Most notably, the sale of beer inside N.F.L. stadiums is terminated at the start of the final quarter of play. However, more recently, sport organizations have taken an even more aggressive approach to curbing the influence of alcohol as a potential trigger for rage behavior. Governmental officials in the state of Hawaii are considering a ban on alcoholic beverages in the parking lots outside of Aloha Stadium – home of the University of Hawaii’s football team (Associated Press, November 1, 2005). In November of 2005, prior to the N.F.L. contest between the New York Jets and New England Patriots, the Jets (the host team) and the New Jersey Sports and Exposition Authority (the stadium owners) agreed to ban the sale of alcohol inside the stadium in an attempt to reduce hostilities during the event.

**Post Game Follow-Up**

Significant incidents of spectator rage should be catalogued and reviewed following every sporting event. A structure can be developed wherein official who are a party to the rage are required to file a written report detailing their perspective. These can then be aggregated and examined for trends and patterns. Management can also review these “critical rage incidents” and determine if the customer(s) were principally at fault or if the organization/service employee seemed instrumental in triggering the hostile action. In addition, if the right type of information is collected, such an activity may offer the sport organization an opportunity to engage in service recovery for those parties who have been significantly impacted by the rage event. Finally, using the post-game information, sport organizations must embrace an organizational learning perspective that welcomes process review and improvement.

Since the potential for rage events to morph into a full-blown crisis sometimes exists, sport organizations should develop and follow a set of protocols for crisis management. Even when not operating in a crisis intervention mode these groups should meet frequently to confirm existing routines and procedures. The upshot is such an undertaking would elevate the importance of managing rage events and institutionalize the significance of its control function for all employees. This committee might also serve as a proactive force charged with regular upgrades aimed at creating a more reasonable competitive environment at the sport venue.
STRATEGIC RECOMMENDATIONS AND CONCLUSION

Ultimately, sport organizations must be willing to recognize that inappropriate hostile action by fans diminish the game day experience they invest so heavily to create. There exists a misbehavioral line for fans that if crossed, is likely to erode the organization’s brand equity. Strategically, some sport enterprises will need to revisit how they energize their fans before and during games with messaging, how they associate competitive play of their teams with a winning at all cost mentality, and what the fans role should be in creating the shared experience that reflects key principles of the sport brand. If organizations are serious about reducing increasingly rowdy fan behavior, a repositioning of the brand is likely to be needed for many.

Efforts at repositioning might receive valuable assistance by league or governmental organizations. In the early 1990’s the Canadian government initiated a marketing campaign aimed at reducing the number of violent behaviors in amateur sports. The “Setting the Score will not Even the Score” campaign featured prominent professional athletes urging both players and fans to exhibit good sportsmanship (McLean’s 1993). The Jupiter-Tequesta Athletic Association in Florida has been referred to as a model for educating parents and spectators. The organization annually packs more than 1,500 parents into a stadium to watch a video on how to be a good sports parent, pick up a handbook describing sportsmanship, and sign a sportsmanship pledge (Cary, Dotinga, and Comarow 2004). These and similar campaigns attempt to introduce an alternative to the hostile fan role assumed by many spectators.

When properly positioned, a sport brand can serve as a mechanism to encourage civil behavior. To the extent that the sport enterprise emphasizes responsible competition and a positive fan experience, its fans should exhibit those properties as well. Moreover, aggression of hostility toward opposing fans or others as a means of restoring self-esteem when poor performances occur should diminish as an acceptable defense mechanism. Hence, building and reinforcing a brand image for the sport organization that includes and conveys positive attributes of sportsmanship and is void of those elements that undermine it has the potential to curb the likelihood of spectator rage.

Spectator sports present a myriad of unique challenges for those concerned about the potential deleterious consequences of aggressive behavior. Such service scenarios are typically characterized by numerous and accessible targets. Consumers, in the form of spectators, are frequently influenced by a variety of psychological and sociological influences which may promote such behavior. Finally, a wide variety of triggers unique to sport may help to facilitate rage.

Leagues and governing bodies, teams, and facility managers are all impacted by spectator rage and create their own strategies for addressing the concern. A challenge in such an environment is communication among the various constituents to insure the implementation of a comprehensive plan. As an example, teams are typically responsible for providing information regarding inappropriate behavior on the tickets and brochures mailed to season ticket holders while arena managers are most likely responsible for reminding spectators with arena signage and audio messages. As noted by Ron VanDeVeen, V.P. and Associate General Manager for New Jersey’s Meadowlands Sports Complex, each event is unique and requires the interaction of various parties in the decision making process. “Seton Hall, which plays home games in our Continental Airlines Arena, restricts the sale of alcohol. However, when we contracted with Duke University and the University of Texas to play a game in the same arena, the contract included a stipulation allowing for the sale of alcohol. Many of these and other issues regarding stadium security are key components of contract negotiations and the approach taken to address the issue of spectator rage varies between sports, leagues, and teams” (VanDeVeen, personal communication, May 30, 2006).

In some instances, the policies of one stakeholder may contradict the policies of other stakeholders. For example, the Tampa Sports Authority, the managing body for Raymond James Stadium, has concessionaires remove the plastic caps from water bottles purchased inside the stadium. The policy exists to prohibit fans from using the caps as projectiles. However, at a game in December of 2006, fans entering the stadium were handed a metal key chain as part of a promotional giveaway prior to a Tampa Bay Buccaneer football game. The metal key chains may be thought of as a much greater threat as a potential projectile than the plastic caps. This contradiction underscores the importance of collaboration and communication between stakeholders associated with sporting events.

Spectator rage has been persistent throughout the history of sport and is likely to remain a concern for the foreseeable future. Further, with greater and greater competition for the sport consumer dollar, marketers must continue to employ tactics to enhance the game experience; some of which may increase the likelihood of incidents involving spectator rage. For example, teams continue to seek seating options providing fans with close proximity to the game. When doing so, it is critical for teams to inform spectators of what is considered inappropriate behavior and the consequences of engaging in the behavior. Further, stakeholders must communicate and employ a variety of tactics to enforce such polices includ-
ing the training and presence of security personnel, the use of camera systems and the implementation of penalties to deter such behavior.

Sport has long served as an invaluable social function for societies. It offers an unmatched forum for intense physical competition, self expression, identification and connection to one’s past. Today, we have the opportunity to stem what some have noted as a general erosion of civility in society (Brown 2003; Kelley 2007). Sport is well positioned to serve as a cultural change agent for civil exchange. Might sport properties teach us all what it means to engage one’s adversary in a manner that elevates the human spirit? Perhaps rugby leagues have it right; compete ferociously for 60 minutes, then let’s have a beer.

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AN ARGUMENT FOR CO-OPETITION’S PRO-CONSUMER POSTURE

Michael A. Levin, Texas Tech University, Lubbock
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ABSTRACT

Traditional American antitrust enforcement focuses on rents. A recent federal court case shifted that focus from rents to deadweight loss. The meaning of deadweight loss has changed over time. The implication of this case affects co-opetition, a form of competition. This paper argues for a view of co-opetition as pro-consumer.

INTRODUCTION

The marketing literature champions the concept of competition where firms form alliances to share resources, create a sustainable competitive advantage, and to achieve superior financial rewards (Hunt 2000; Lambe, Speckman, and Hunt 2002; Williams 2005). Different forms of alliances include buyer-seller dyads, and wholesaler-retailer-consumer chains. These different forms of alliances fit within the overall context of relationship marketing. Relationship marketing specifies that all firms maintain four types of relations: supplier, lateral, buyer, and internal (Morgan and Hunt 1994). This paper focuses on an example of a lateral relationship, or alliance, created by independent firms working together to set a technology standard. In these alliances, firms create and/or maintain resources to produce a market offering that might not otherwise exist (Levin and McDonald 2006). Brandenburger and Nalebuff (1996) as well as Sheth and Sisodia (1997) refer to this type of alliance as “co-opetition.” A co-opetitive is defined here as an alliance of independent, competing firms that share resources to create a good or a service more effectively and/or efficiently.

Public policy makers typically view cartels in general and co-opetitives in particular as harmful to markets because of certain strategies like erecting barriers to market entry, fixing prices, artificially dividing markets, or a combination of these strategies (Lande 1993; Schleicher 1997). Levin and McDonald (2006) show that these strategies are inconsistent with the intent of the Sherman Antitrust Act, and with resource-based theories of competition (Barney 1991; Hunt 2000). Recently, public policy makers adopted the view that consumer choice, even in absence of these strategies, must be protected (Lande 2001). Lande (2001, p. 514) writes “The ultimate point to note here is that the Microsoft case is being argued in terms of consumer choice and in terms of price. The case thus dramatically illustrates how consumer choice is emerging as an explicit paradigm for antitrust.” This view is problematic because equilibrium-seeking economics cannot demonstrate directly how co-opetitives harm consumers. Resource-advantage theory (hereafter R-A Theory) can explain how co-opetitives do not inherently harm consumers. Therefore, the purpose of this paper is to address the issue of the co-opetitive’s effect on consumers (Levin and McDonald 2006) and to extend marketing’s role in public policy (Gundlach 2001; Gundlach and Phillips 2002; Gundlach, Phillips, Desrochers 2002; Sheffman 2002; Sullivan 2002).

The marketing literature has examined different issues related to a firm’s strategies and tactics as they relate to antitrust, competition, and public policy. For example, Heil and Langvardt (1994) examine the use of signaling, Gulitman (2002) argues for the inclusion of consumer behavior, Gundlach (2001) discusses the nature of exchange within marketing strategy, and Pertiz (2002) and Sullivan (2002) review business strategy within antitrust policies. In the antitrust debate, marketing strategy so far remains an afterthought (Foer 2002; Hawker 2002). Overall, antitrust analysis is underserved because it “ignores how customers respond to changes” in products offered in the marketplace (Levin and McDonald 2006, p. 2). This “third leg of the antitrust stool” (Foer 2002, p. 227) supports Hunt’s (2000) argument that competition is pro-consumer because firms produce more effective and/or efficiently in order to achieve superior financial rewards through the process of competition.

Public policy makers and researchers alike generally accept that consumers benefit from firms competing in the marketplace. A firm can respond to what it learns from customers and competitors by offering new or improved products, or by adopting a new or improved process. Through the process of competition, consumers benefit from the increased value generated by firms attempting to improve their competitive position in the marketplace (Hunt 2000).

If consumers benefit from this aspect of competition, then consumers may also benefit from co-opetition, or an alliance comprised of competing firms that cooperate to share resources in order to produce a product that might otherwise not exist (Levin and McDonald 2006). Consumers may benefit through the efficiencies gained when firms within an industry cooperate to establish an industry standard. For example, consumers benefitted when firms formed a co-opetitive that resulted in a standard for Digital Versatile Disc (hereafter DVD) players (i.e., hard-
ware) and titles (i.e., software). Without this co-opetitive, manufacturers, suppliers, retailers, and consumers would have faced incompatible standards similar to the Betamax and VHS dichotomy.

Traditionally, public policy makers viewed co-opetitives as inherently harmful to the marketplace because they were thought of as resulting in an inefficient allocation of resources in pursuit of rents, and, ultimately, prevented economies from reaching full potential. Over time, public policy makers have shifted their stance on co-opetitives and their potential effects. This paper recognizes that co-opetitives represent a type of alliance that leads to benefits for consumers. Recently, the investigation of the harm caused by co-opetitives has shifted from the accrual of rents (rectangle ABCD in Figure A-1) to the creation of deadweight loss (triangle CDE in Figure A-1). “(Consumer choice) would represent a change of emphasis from traditional emphasis” (Lande 2001, p. 516). This change of emphasis represents a specious argument and further signifies that antitrust policy has less to do with a theory of competition and more to do with public policy makers’ whims.

To recognize how co-opetitives adopt a pro-consumer posture, a theory is needed that explains the disequilibrating nature of competition while accepting that firms form alliances without harming society. We argue for the adoption of the R-A theory by marketing researchers, practitioners, and public policy makers because it views co-opetitives as pro-consumer, treats competition as a dynamic process, and can incorporate antitrust immunities created by the Supreme Court. Additionally, R-A theory can explain why firms form co-opetitives and why such alliances are not “naked restraints” of trade. Rather, such alliances may result in per se antitrust violations in the form of “ancillary restraints” (Cartensen and Roth 2000, p. 355), or alternatively may meet the U.S. Supreme Court’s Rule of Reason defense.

REVIEW OF LITERATURE

In 1890, the United States government formalized its policy toward competition with the passage of the Sherman Antitrust Act. The Sherman Act consists of two sections. The first section (hereafter Sherman I) states that “every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several states or foreign nations is declared to be illegal” (U.S. Code 2005). Since every contract is potentially collusionary in nature, the Supreme Court establishes the Rule of Reason where the defendant argues for the reasonableness of the alleged collusionary behavior due to improved efficiencies and/or creation of consumer benefits (Utton 2003). However, the Court does not normally accept this defense in cases involving Sherman I violations (Cartensen and Roth 2000).

The second section (hereafter Sherman II) states that “every person who shall monopolize, or attempt to monopolize or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a felony” (U.S. Code 2005). In Sherman II, the firm’s behavior in the market remains key to constituting legality. Sherman II does not define whether the goal is to protect markets or consumers. Instead, public policy makers, including regulatory agencies such as the Department of Justice, jurists such as the Supreme Court, and elected officials such as members of Congress, shoulder the responsibility of deciding what needs protections and what constitutes collusion.

Neither Dickson and Wells (2001) nor Hunt and Arnett (2001) mention a desire by Congress to protect consumers in their respective reviews of the Sherman Act’s passage. Rather, as Levitt (1952) and Thorelli (1955) show, the Sherman Act’s direct intent is preserving economic freedom, lowering prices, and protecting the market from perceived increasing power exercised by large firms. Consumers’ benefit becomes an indirect result in the interpretation of the Sherman Act. Because of Sherman’s vagueness regarding protection and collusion, public policy makers (i.e., regulators, jurists, elected officials) have a wide berth in Sherman’s interpretation (Dickson and Wells 2001; Hunt and Arnett 2001). The interpretation of Sherman varies over time (Hunt and Arnett 2001; Pertiz 2002; Schlericher 1997). Indeed, five periods of interpretations are delineated from Sherman’s enactment to Eastman Kodak Co. v. Image Technical Services (1992; hereafter Kodak).

These interpretations rely on theories and arguments centering on competition, and resource allocation. In the following sections, two theories, (1) cartel and (2) resource advantage, are discussed and compared.

Cartel Theory

In a cartel, a collection of firms attempts to control the market (Armentanto 1982; Utton 2003). The process of several firms working together to erect barriers to entry, attempt to maximize profitability by setting prices, limit production, or otherwise artificially control the market is known as collusion. By restricting the quantity of a product through these attempts, the cartel seeks to accrue cartel rents. In Figure 1, rectangle ABCD represents cartel rents. These rents represent profits from prices that exceed those allowed under perfect competition, which is represented by line AE. To achieve these cartel rents, the colluding firms reduce quantity available \( Q_{competition} - Q_{cartel} \). In turn, rents increase \( P_{competition} - P_{cartel} \). Thus, firms have a financial incentive to engage in collusionary behaviors (Varian 2003).
FIGURE A–1
Cartel Rents and Deadweight Loss

Source: Varian (2003). Note: Figure A–1 appears in many sources including Armentano (1982), Hunt and Arnett (2001), and Viscui et al. (2005).
In order to raise prices, cartels create a deadweight loss (Armentano 1982). In Figure A–1, triangle CDE marks the deadweight loss. The deadweight loss occurs because consumers must pay higher prices for the product, and manufacturers must produce lower levels of the product. The impact of the deadweight loss can be illustrated through an example drawn from the personal computer (hereafter PC) industry. If the manufacturers of memory chips form a cartel, the harm extends eventually to consumers. Because memory chip manufacturers produce below capacity, PC assemblers such as Dell and Apple must produce below capacity. This leads to reduced inventory levels and higher retailer prices for consumers.

Since all firms must produce below capacity, all firms require less labor. As a result, the economy will be unable to maximize employment. Because the economy is unable to maximize its employment resource, many consumers lack the necessary means to purchase products. Therefore, a cartel results in a deadweight loss that affects many facets of society (Viscui, Harrington, and Vernon 2005).

The meaning of deadweight loss shifts over time. Historically, the deadweight loss represents the misallocation of resources caused by the cartel producing below efficiency. Cartels embody inefficient production because the members must produce below efficiency in order to accrue rents (Armentano 1982; Varian 2003).

Recently, the meaning of deadweight loss became a loss of technological innovation. Members of the cartels have little incentive to innovate because innovations may cause a cartel to collapse (Viscui et al. 2005). Sullivan and Grimes (2006, p. 725) note, “Credible (economic) theory

### TABLE A–1
Summary History of Antitrust Enforcement

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<th>Interpretation Periods</th>
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<td>Classical Economics</td>
<td>United States v. Trans–Missouri Freight Association (1897)</td>
<td>Public policy focuses on freedom to contract, and restraint of trade. “The more freedom to contract, the more competition there is” (Peritz 2002, p. 237).</td>
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has never suggested that concentration (i.e., many firms in the marketplace) enhances innovation.” The loss of technological innovation represents another form of misallocation of resources because technological innovation requires the efficient allocation of resources (Hunt 2000). Deadweight loss also encapsulates a lack of consumer choice (Lande 2001) and a lock in strategy based on switch costs (United States v. Microsoft Corp. 1999; hereafter Microsoft).

Until Microsoft, public policy makers did not rely on deadweight loss alone. Sherman II fails to explicitly mention deadweight loss, or harm to consumers caused by firms’ collusionary behavior. In Microsoft, both sides agreed that Microsoft did not accrue rents (Cavanagh 2003); rather, Microsoft created a deadweight loss sufficiently large enough to warrant public policy makers’ intervention (Lande 2001).

This intervention is consistent with Harberger’s (1954) and Lande’s (2001) assertion that the aim of public policy must be to protect consumers from collusionary behavior, or minimize and perhaps eliminate deadweight loss. This aim is difficult to achieve because of measurement problems.

Sherer and Ross (1990, p. 631–633) estimate that deadweight loss represents between 0.5 and 2 percent of gross national product. To measure the deadweight loss, the researcher must calculate the consumer surplus under perfect and imperfect conditions. The residual, or difference between these two results, represents the deadweight loss. Equilibrium-seeking economics cannot directly measure deadweight loss because it relies on a system of equations to derive a solution. Only resources that are measurable such as land, labor, and capital are included in these systems of equations. Because the residual captures only tangible deadweight loss, a deadweight loss including intangibles becomes open to interpretation. These interpretations of deadweight loss include inefficient allocation of resources (Varian 2003), lack of technological innovation (Viscui et al. 2005), reduced consumer choice (Lande 2001), and lock in costs (Microsoft).

Microsoft presents four pressing issues with the U.S. antitrust enforcement, collusionary behavior, and Cartel Theory: (1) discussion of deadweight loss appears spurious, (2) use of deadweight loss instead of rents to investigate if collusionary behavior actually harms consumers, (3) equilibrium-seeking economic thought no longer serves as the dominant language of competition, and (4) marketing practitioners and researchers, as well as public policy makers need a theory that accepts co-opetitives as a, possibly even necessary, relationship in the competitive process. R-A theory fulfills the needs of marketing practitioners and researchers, as well as public policy makers while addressing the issues related to co-opetitives and deadweight loss raised in Microsoft.

R-A Theory

Hunt (2001, p. 527) defines R-A theory “as an evolutionary, disequilibrium-provoking process theory of competition, in which innovation and organizational learning are endogenous, firms and customers have imperfect information, and in which institutions and public policy affect economic performance.” In R-A theory, firms use their resources to maintain a position of competitive advantage, and, ultimately, achieve superior financial rewards. To maintain this position of competitive advantage related to competing firms in the marketplace, a firm allocates its available resources effectively and/or efficiently.

Resources, as conceptualized in R-A theory, extend the traditional view of resources (i.e., land, labor, capital, and management) to include financial, legal, human, information, organizational, and relational (Hunt 2001, p. 529–530). A firm can combine these seven types of resources into higher order resources. Market orientation exemplifies a higher order resource because it combines elements of human, information, organizational, and relational resources (Hunt and Morgan 1995). A firm relies on its higher order resources to produce a market offering that satisfies consumers’ heterogeneous demand.

All firms may possess these seven lower order resources. However, firms possess different degrees of these resources (Barney 1991). If the firm wants to improve its degree of a resource, the firm can improve it internally, acquire it, or enter into an alliance. Lambe et al. (2002, p. 141) define an alliance as “collaborative efforts between two or more firms in which the firms pool their resources in an effort to achieve mutually compatible goals that they not achieve easily alone.” Sheth and Sisodia (1999) argue for marketing’s continued research into co-opetitives, or when competing firms form an alliance to achieve a mutually desirable outcome. Sheth and Sisodia (1999, p. 81) note that such alliances “involve mutual dependence and a degree of shared decision making between separate firms.” Despite the interest in alliances comprised of competitors, rarely does the alliance literature discuss antitrust implications (Fontenot and Hyman 2002).

R-A Theory and Antitrust

The Department of Justice’s Antitrust Division Manual (1998) lists 10 industries that hold immunities from antitrust enforcement. Many of these immunities allow for the creation of alliances that share information related to the marketing mix. For example, in the agricul-
tural industry, growers who belong to the co-operatives exchange resources as part of the development of pricing and promotional strategies. The cooperative of cranberry growers that owns Ocean Spray shares information as part of their competitive effort in the market place. By allowing competing firms to form alliances to exchange resources, the U.S. government takes a pro-competitive public policy stance. Yet, immunities such as the one that allows for the formation of an agriculture cooperative conflict with equilibrium-seeking economic thought.

Equilibrium-seeking economic thought treats these immunities as aberrations because, at their core, the firm (i.e., Major League Baseball) or firms (i.e., technology standard setting co-operatives) benefitting from the immunities are viewed as engaging in collusory behavior. These immunities are granted by law and, therefore, can also be removed by law. For example, the National Cooperative Research and Production Act encourages the formation of research-focused co-operatives (U.S. Code 2005). However, Sullivan and Grimes (2006) write that firms may not freely form such co-operatives; albeit, these co-operatives must meet review guidelines (i.e., market definition, market power) that are informed by equilibrium-seeking economic thought.

R-A theory, however, allows for precisely these types of co-operative arrangements because they enhance competition in the marketplace and represent a pro-consumer posture. That is, competing firms share information regarding elements of the marketing mix as part of the competitive process. In R-A theory, these exemptions to antitrust enforcement would not be immunities, rather recognitions of allowable behavior, because the court could recognize that competing firms enter into alliances to achieve superior financial rewards without malice of forethought to limit competition or raise prices.

R-A theory acknowledges that co-operatives do not inherently lead to cartel rents. For example, standard setting alliances, which have been held as an example of per se violations of antitrust statutes, coordinate with firms in the marketplace to set a standard for an emerging technology. In light of Microsoft, public policy makers may take a less than favorable attitude toward such alliances because they may harm the spurious consumer choice.

Without these co-operatives, many firms could hypothetically produce and sell market offerings using disparate and incompatible technology. A manufacturer then might have difficulty gaining market power because retailers can select from many different technologies. Likewise, consumers can choose to purchase a product from many different retailers because no retailer will likely stock all available technological formats. Thus, consumer surplus would be maintained. However, without the critical mass created by a uniform standard, manufacturers of complementary products (i.e., software) hesitate to invest in the development of new products. Therefore, consumers have fewer choices and face a higher price. Prices are high because manufacturers cannot achieve economies of scale. Indeed, many consumers may not purchase anything out of fear of choosing the “wrong” technology (i.e., one that might be later outdated or not supported by complementary products), which leads to a loss of sales and profit.

The Court ruled that Microsoft benefited from a deadweight loss by locking in consumers because consumers would incur switch costs if they purchased a PC that deviated from Microsoft’s operating system software. In the PC industry during the 1980s, several incompatible operating system locked consumers into one technology standard (e.g., Apple, Atari, Commodore). When Atari, and Commodore withdrew from the market, their customers were stuck with hardware and software that no longer received updates (i.e., no technological innovation). Further, customers could not use the software on operating systems from Apple or Microsoft nor could these operating systems work on their computers. The government did not sue Apple, Atari, or Commodore for following the same strategic behavior as Microsoft.

Manufacturers of DVD players avoided the operating system scenario by forming an alliance to coordinate an industry standard. Time Warner, Toshiba, Philips, and IBM among others formed a co-operative, which agreed upon technological standards that created a single format for the DVD and for the DVD players (Frankel 2007). Hardware suppliers (i.e., Toshiba), intellectual property rights owners (i.e., Philips), software suppliers (i.e., Time Warner), and assemblers (i.e., IBM) exchanged resources to create a single product. Many firms supply DVD players and several firms release DVDs titles. Retailers select from various DVD suppliers and assemblers, and consumers purchase from the retailer they chose. Because of the DVD co-operative, the DVD quickly gained adoption among consumers, providing consumers with increased entertainment value compared to the existing videocassette technology. Unlike in the operating system software industry, the government has not sued a member of the DVD co-operative for anticompetitive behavior.

In the DVD industry, firms had an incentive to form a co-operative in order to use their resources more efficiently and effectively. Deadweight loss did not occur despite the appearance of collusion (Shughart and Tollison 1998). The co-operative did not lead to inefficient allocation of resources, discourage technological innovation, or limit consumer choice. Rather, in all likelihood, the co-operative led to a more efficient allocation of resources, encouraged technological innovation, and increased consumer choice. Instead of many firms allocating resources to create duplicate products, members of the co-operative
enhance efficiency by sharing resources within the alliance. The resulting technology standard encourages firms to produce a market offering that builds on the industry standard and improves technological innovation. To achieve superior financial rewards, it is in the best interest of the co-operative’s members to produce an innovative product that offers superior value to consumers.

Finally, a technological standard enhances adoption as seen through the diffusion of innovation curve. The diffusion of innovation of the videocassette recorder has a flatter slope because two incompatible technological formats competed in the marketplace. In contrast, the diffusion of innovation of the DVD player has a steeper slope because only one technological format was offered in the marketplace, facilitating consumers’ adoption of this technology. This is due in part to the network externalities of complimentary product availability, movies on DVD. Without a sufficient number of movies to watch on DVD, consumers would not purchase the technology. Without its co-opetitive, it is doubtful that the DVD would be as ubiquitous as it is (Brull 1999). Consumers purchased DVD players over a shorter period compared to videocassette players because regardless of which DVD player was purchased, the consumer could watch any DVD. Assemblers were free to add features such as scan, menu, and other items to differentiate their DVD player from other DVD players but the underlying technology remains the same.

The DVD co-opetitive illustrates a co-opetitive’s pro-consumer posture. Society benefits from a co-opetitive when it results in (1) a greater sensitivity to differences in consumers’ needs, wants, tastes, and preferences, (2) higher quality goods and services, (3) greater innovativeness, (4) higher productivity, and (5) greater economic growth (Hunt and Arnett 2006; Ellig 2001). Unlike Apple, Atari, Commodore, and Microsoft, the DVD co-opetitive ensured that customers did not face lock-in to a particular manufacturer, nor the risk of obsolescence due to withdrawn or incompatible hardware and software.

**DISCUSSION**

The pro-consumer posture of co-opetitves carries several implications for public policy makers, marketing practitioners, and researchers. Historically, public policy makers viewed co-opetitves as inherently harmful to society because co-opetitves create a deadweight loss. Although deadweight loss has been discussed in the economics literature, the interpretation of a deadweight loss has shifted over time. Deadweight loss has been thought of as a byproduct of collusionary behavior, a misallocation of resources, a loss of technological innovation, and as harmful to consumer choice. The reinterpretation of deadweight loss illustrates the idea that antitrust enforcement has less to do with theory and more to do with public policy makers’ whim.

Public policy makers should view co-opetitves as inherently beneficial to consumers instead of inherently harmful. Investigation of co-opetitves should follow a procedure of naked and ancillary restraints. Public policy makers would prohibit a naked restraint such as a co-opetitive that agrees to set a price for all market offerings. Alternatively, public policy makers would allow an ancillary restraint such as a co-opetitive that sets a technological standard. To allow ancillary restraint such as a co-opetitive, public policy makers need to adopt R-A theory because it accepts a co-opetitive’s pro-consumer posture. Unlike equilibrium-seeking economic thought, which views a co-opetitive as inherently harmful to consumers, R-A theory can explain how consumers benefit from co-opetition (i.e., the DVD technology standard format).

Co-opetitves benefit consumers as the DVD co-opetitive exemplifies. Firms do not misallocate resources; rather, they share resources to produce a market offering that meets the heterogeneous demands from consumer segments. By achieving higher efficiency and greater effectiveness through co-opetition, firms can achieve positions of competitive advantage in the marketplace, and, ultimately, superior financial rewards. Marketers would benefit from the resulting steeper diffusion of technology.

Finally, researchers should continue to investigate co-opetitves. Many issues remain unsolved, such as why some firms form and participate in co-opetitves, why some co-opetitves are more successful than others, and why public policy makers must rethink the ten immunities if they adopt R-A theory as the prevailing view on co-opetitves. These answers better reflect how businesses compete in the marketplace. Thus, public policy becomes normative rather than positive in nature.

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FUNCTIONAL FOOD PRODUCTS: ISSUES AND IMPLICATIONS FOR SOCIETY AND FIRMS

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SUMMARY

In about two decades, the proportion of people who are obese has increased from one-sixth of the population to almost one-third (Taylor and Leitman 2002). Furthermore, Food Marketing Institute (2006) reports that 59 percent of all grocery shoppers are overweight. Also, this problem is not limited to adults. Even for the youth in the United States, the health statistics do not look very promising. One in eight children has two or more risk factors for heart disease, 10% of teens have total cholesterol levels above 200 mg/dL, and as many as 31 percent of the youth are at risk of or are overweight (Sloan 2006). Among other things, food is considered a major reason for causing such unhealthy trends.

As obesity is reaching almost epidemic proportions in the United States, the food industry is responding with healthier options for consumers. For example, for the younger consumers, the industry has come out with milk drinks with added vitamins and calcium, and less sugar, cereal bars enriched with folate and DHA (omega 3 fatty acids), and baby food products with iron and DHA (Sloan 2006). Information Resources Inc. (2006) revealed that, in 2005, over half of the most successful new U.S. consumer food and beverage brands had “good-for-you” benefits. Food products that offer health benefits are often included under the rubric “functional foods” and are believed to have the potential to benefit society and firms. For Mark-Herbert (2002), from a societal point of view, preventing diseases or delaying the onset through certain food products holds great promise. For firms, the growing self-care movement and the overwhelming scientific evidence highlighting the critical link between diet and health resulted in the functional foods category’s enormous potential (Hasler 2000).

However, three critical issues hinder our society (consumers) and firms from benefitting from functional foods. First, there is no clarity on the definition of functional foods and, therefore, (1) consumers are often confused about the claims of the products that they purchase and (2) some firms could potentially take advantage of the situation and introduce products with false or inflated claims. Second, current public policy falls short of regulating firms’ claims with regards to functional foods. As functional foods are loosely defined, firms have the opportunities to market several products as functional foods. Third, there is very little medical/nutritional research and marketing/consumer research with reference to functional foods. Addressing these three issues, this paper, first, discusses the various definitions of functional foods and proposes a classificational schemata for functional foods. Second, the adequacy of current regulations in the context of functional foods is assessed. Third, the current medical/nutritional research and marketing/consumer research for functional foods is evaluated. Finally, the paper concludes with a discussion of implications of our paper for researchers, firms, and society. References are available upon request.

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WHO IS ON YOUR SIDE? AGENCY REPRESENTATION AND CONSUMER WELFARE IN REAL ESTATE MARKETS

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ABSTRACT

Often, the most expensive and emotional purchase an average consumer makes is that of a house. Statistics hint at a complex and uncertainty-laden purchase process in which a consumer actively views anywhere from eight to sixteen houses over eight to ten weeks (Anglin 1997; Bishop, Hightower, and Bickicioglu 2005), invests over $200,000 in the purchase (median U.S. single-family house in 2006 was $221,900, and U.S. mean was $269,500; National Association of Realtors 2007), borrows a significant amount of that from a lending institution, and pays off the loan over several years. New consumers constantly enter the marketplace, and almost 40 percent of homes sold are to first-time homebuyers (Bishop, Bickicioglu, and Hightower 2006).

INTRODUCTION

Like many professional service situations (e.g., health care, law, and accounting), homebuyers and sellers end up relying on someone else to resolve the uncertainty for them. In 2005, 90 percent of buyers utilized the services of a real estate agent in the process of purchasing a home (Bishop et al. 2005). From a marketing strategy perspective grounded in economic theory, the use of agents is rational—constructs such as search costs, relative uncertainty among alternatives, expertise, and information asymmetry can be invoked to motivate the discussion. At the same time, however, uncertainty for some represents exploitable opportunities for others.

Consider the 2000 case of Bonnie Mehner, a real estate agent in the state of Alaska, who represented a homebuyer in finding a new home. Like all good real estate agents, Ms. Mehner showed the potential homebuyer several available properties. Unbeknownst to the potential homebuyer, however, she was also the listing agent (that is, representing the sellers) for several of these properties. Following the search process, Ms. Mehner proceeded to assist the homebuyer with selecting a home, and writing a purchase contract that was later accepted. What was special about the house that was bought? Ms. Mehner also represented the seller, but never disclosed her “dual agency” status to either the buyer or the seller. Later, after discovering this “dual agency” behavior and believing that this lack of disclosure led to misrepresentation that resulted in overpaying for his home, the homebuyer sued Ms. Mehner and the case was taken to court. In court, Ms. Mehner, in response to a question as to why she did not disclose her relationship with both parties (which at the time was required by law in the state of Alaska, and by industry standards), was quoted saying, “I’m afraid that I’m one of a thousand (real estate agents) who don’t quite live up to the standard because it is not practical” (Evans 2002a). The end result? Ms. Mehner and her real estate company were fined more than $200,000 for their roles in this transaction. The case went to spark legislation that resulted in the practice of dual agency being outlawed in the state of Alaska as of January 1, 2005.

From a consumer welfare perspective, it would be ideal if cases like Ms. Mehner’s were the exception rather than the rule. Ms. Mehner’s quote, however, seems to indicate to the contrary. In the U.S., about 28 percent of home sales fall under the same structural description as the ones sold by Ms. Mehner, that is, where the same agent/real estate company represents both the buyer and the seller (Turnbull and Dombrow 2005). Consistent with industry terminology, we refer to such transactions as dual agency transactions. If Ms. Mehner’s sentiment captures the pulse of the real estate community in general, there are enormous consumer welfare and policy implications. As we will see shortly, though there is little systematic academic research to date on the implications of dual agency, burgeoning anecdotal evidence indicates that this is a real problem that should be addressed.

The goal of this research, therefore, is to understand the implications, if any, of dual agency on market outcomes in general and on consumer welfare in particular. Specifically, do dual agency transactions result in higher sale prices and hurt buyers? The research is motivated by several considerations. First, home ownership often represents the life-savings of individual consumers—making a mistake or a bad investment can lead to financial struggles, if not financial ruin. Second, the relative experience of many homebuyers, particularly first-time homebuyers, in navigating the real estate transaction process results in agents and agencies having a relative advantage because they control most of the information. Third, most of the research on sale prices of homes has been conducted utilizing a “hedonic price” model (Epple 1987; Griliches 1961), which operates under the traditional economic assumption of perfect equilibrium—the sale price of each home is seen as the market clearing price.
price that is based on specific attributes represented in the
property. However, given that buyers and sellers have
competing motivations to secure the “best price,” coupled
with the motivations inherent in real estate agents, this
model may not fully capture the process through which
houses are eventually sold.

To address our research objectives, we first describe
the dual agency landscape and the specific aspects of such
contexts that bear potential to harm consumer welfare. We
then describe our study to determine the current impact of
dual agency on market outcomes. Focusing squarely on
the potential impact of dual agency on real estate prices,
we develop models that trace a house from the original
price that is set by the seller to the final sale price of the
house. We utilize multiple listing service (MLS) data
describing home sales in a large U.S. city in the Midwest
to address our research objectives. The analysis proceeds
in two stages: (a) we estimate an asking price model that
reflects the latent value of the house (represented by the
attributes of the house and location differences) and
unobserved seller heterogeneity in how far above the
latent value they set the asking price, and (b) we develop
a sale price model that recognizes that the sale price is
arrived at through a process of negotiation in which
buyers are anchored at some aspect of the asking price and
agents help converge the buyer and the seller. We con-
clude with a discussion of key findings and the research
and consumer welfare implications.

DUAL AGENCY AND CONSUMER WELFARE
IN REAL ESTATE MARKETS

Agency Representation in Real Estate Markets

Search theory indicates that the need for search arises
only when there is relative uncertainty about alternatives
in the market, that is, when there is uncertainty about
which alternative is the “best” (Moorthy, Ratchford, and
Talukdar 1997). Such relative uncertainty about houses is
a defining aspect of real estate markets. Real estate agents
have come to be viewed as expert sources of information,
and a real information asymmetry exists in the market-
place (Levitt and Dubner 2005; Levitt and Syverson
2005). There are several forms of relationships between a
customer (either a buyer or a seller) and the real estate
service provider, ranging from full-service representation
to merely facilitation (no legal representation). There are
also two primary levels of dual agency relationships,
ranging from situations when same agent represents both
the buyer and the seller, to situations when two separate
agents from the same real estate company represents the
parties. In this research, we are concerned with transac-
tions conducted under dual agent relationships (i.e., situa-
tions when the buyer and seller have the same individual
agent).

Expectations in the Agent-Consumer Relationship.
In most U.S. states, industry-level standards, as well as
real estate law, dictate that a listing agent and firm (that is,
the party that represents the home seller) has a fiduciary
duty to the home seller, while the buyer’s agent and firm
has a fiduciary responsibility to the home purchaser. From
a compensation perspective, most real estate agents are
compensated through 100 percent commission and are
considered independent contractors of the brokerage firm.
Therefore, agents are compensated only when a transac-
tion closes (when funds and ownership are transferred). In
the U.S., total commission on a home sale is typically 5–
6 percent of the final sales price, and it is split between four
parties: the seller’s agent, the seller’s agent’s company,
the buyer’s agent, and the buyer’s agent’s company.

Tensions in the Agent-Consumer Relationship. In
reality, there is some inherent conflict between agents and
their clients from the outset. Though the total commission
on a house sale may be 6 percent, the listing agent and
buying agent would typically each receive only 1.5 per-
cent of the final sales price. As a result, from a self-
interested perspective, real estate agents would prefer to
close a sale faster than for more money. Therefore, if an
agent is helping a prospective buyer look for a house
around $100,000, that agent will make $1,500 commis-
sion regardless of whether they find a house within one
week or within 10 weeks. Here, the buyer’s objective
would be to find the best house for $100,000, while the
agent’s objective might be to find a “suitable” house as
quickly as possible (notwithstanding the ethical require-
ments of serving the consumer without such a self-inter-
ested preference guiding their behavior).

The relative attractiveness of a faster sale, however,
may be lower for dual agents. This is because the potential
for double commission may lower the time-sensitivity of
returns. For instance, in the context of the above example,
the house that sells for $240,000 will net the dual agent
$7,200 rather than the $3,600 from a non-dual agent
situation. Evidence that a real estate agent’s proclivity for
“faster” sales is diminished when confronted with signifi-
antly higher returns is revealed by Levitt and Syverson
(2005), who found that agents who sell their
own homes tend to sell them for more money (on average
$7,600 more amounting to about 3.7 percent in their
study) and leave them on the market 10 percent longer.
This suggests that there exists a monetary value above
which the agent is willing to spend more time searching
for a buyer.

Potential and Evidence for Consumer Harm

In a dual agency situation, it is not only very difficult
for a single agent to fulfill all required services to either
party, but she is now faced with earning double commis-

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sion, which will only serve to increase the chance of self-interested behavior. Certainly, the dual agent can perform well in these situations and conduct herself in an honest and fair manner by disclosing any known material defects or other non-confidential information. However, the dual agent cannot truly negotiate or advocate on behalf of either buyer or seller or disclose any confidential information of either party (e.g., why a homeowner is selling, the actual price at which homeowner will sell or the buyer will be willing to purchase). Instead, she may end up acting more as a facilitator, essentially leaving the buyer and the seller to represent themselves.

**Lack of Disclosure.** In 1997, the Massachusetts Office of Consumer Affairs conducted a statewide study to test the compliance of real estate agents with agency disclosure laws. Among the 45 real estate companies tested, not one complied fully (Cassidy and Curran 1997). Two years later, a study by the Massachusetts Board of Registration of Real Estate found that fewer than 10 percent of agents fully complied with agency disclosure laws (Perkins 1999). Likewise, a study by the National Association of Realtors (NAR) found that while 30 percent of buyers did not receive agency disclosure, did not know, or were unsure if they received disclosure, only 23 percent were informed of potential dual agency at the first meeting (Evans 2006; the comparable value among repeat home buyers was 35%).

**Insurers and Policy-Makers Are Anxious.** In the real estate industry, agents and companies are required to purchase Errors and Omissions (E&O) Insurance (quite similar to malpractice insurance for doctors). As an indicator of a potential problem with dual agency, E&O Insurance premiums are higher for real estate companies that practice dual agency, with some insurance companies refusing to provide insurance if dual agency transactions exceed 20–25 percent of all sales within the company (Evans 2002b). Policy makers are also concerned about dual agency. Among legislation, 40 percent of all new real estate laws introduced in government in 2005 had to do with agency law (Legal Scan 2005). Further, in the period from 2003–2005, 18 statutes or regulations, among 10 U.S. states, were enacted dealing specifically with dual agency, with a few states outlawing dual agency altogether (e.g., Colorado, Florida, and Kansas).

**Empirical Evidence.** Overall, the evidence in the literature, largely based on “cross-sectional, hedonic methods,” (Evans and Kolbe 2005, p. 290) appears to find little harm as a result of dual agency (e.g., Black and Nourse 1995; Elder et al. 2000. However, Zeitz and Newsome (2001) find that when buyer agent incentives are offered, buyers agents tend to “steer” buyers to those homes, which reflects the potential for self-interested behavior.

### Modeling Pricing in Dual Agency Transactions

#### Asking Price (AP)

We start with the extant hedonic price model that largely focuses on attributes of a house to influence the value of the house (Epple 1987). The attributes can be seen in terms of both the physical attributes of the house (e.g., number of rooms, bedrooms, bathrooms) as well as the location of the house (e.g., suburb).

We extend the hedonic price model by recognizing that sellers approach the sale of their house from above the “latent value” (LV) of the house (reflected in attributes and location), that is, they desire to set the asking price higher than the latent value of the house. Sellers, however, are likely to evidence heterogeneity in this motivation — sellers are not equally motivated to seek more than the latent value of the house. We therefore specify the asking price model as follows:

\[
\ln AP_i = \ln LV_i + |\alpha_i| + \varepsilon_i
\]

where \(\ln AP_i\) denotes the log of the asking price of house \(i\) in suburb \(j\), \(\ln LV_i\) denotes the log of the latent value of house \(i\) in suburb \(j\), \(\alpha \sim N(0, \sigma^2)\) captures the randomly-distributed tendency of sellers, \(|\cdot|\) denotes the absolute value, and \(\varepsilon\) is an error term \(N(0, \sigma^2)\). The key here is the absolute value of \(\alpha_i\) because \(|\alpha_i| > 0\) and is randomly distributed across sellers, the model recognizes that though sellers have a tendency to set higher asking price (note the “+” sign preceding \(\alpha_i\)), they differ in this underlying tendency. The latent value of the house is then specified as a function of the attributes of the house:

\[
\ln LV_i = \lambda S_j + \lambda S_j + \lambda S_j + \lambda S_j + \lambda S_j
\]

where \(A\) captures the attributes of the house, \(\lambda S_j\) captures the importance of location \(j\) to asking price from the seller’s perspective, \(\tau\) captures attributes weights from the seller’s perspective.

### Sale Price (SP)

We start with the recognition that the sale price of a house is arrived at through a process of interaction between the buyer and the seller. Clearly, in this interaction, the seller agent and buyer agent play central roles. Our theory has three components:

a. The buyer-seller interaction process can be captured through an anchoring-and-adjustment process in
which buyers will first anchor on some price. The agent will help the buyer formulate the anchor price, and then help the buyer adjust the initial anchor to arrive at a final sale price. The sale price therefore will typically be less than the asking price.

b. In contrast to the sellers, buyers will approach the sale from below the anchor price. Buyers, however, are likely to differ in the intensity of this motivation. For instance, some buyers may be less concerned about the final price, instead being governed by the aspects of getting a loan and the dynamics of dealing with financial institutions. Other buyers may be less concerned about the dynamics of getting a loan and instead focus on getting the best price possible.

c. Houses that remain on the market for a longer period of time are eventually sold for lower prices (Knight 2002; Turnbull and Dombrow 2005), and marketing actions in which agents engage (e.g., pictures or virtual tours of the house on the internet), that can reduce search times for the buyer and/or increase the perceptions of value embodied in the house over and above that due to the attributes of the house.

The sale price model is therefore expressed as:

\[
\ln SP_{ij} = \text{DA}(\eta_{DA} \ln \text{Anchor}_{ij}) + \beta_1|\ln | + \delta \text{DOM}_{ij} + \gamma \text{MKTG}_{ij} + \xi_{ij}
\]

where \(\ln SP_{ij}\) denotes the log of the sale price of house \(i\) in suburb \(j\). \(\ln \text{Anchor}_{ij}\) denotes the log of the anchor price that is adopted by the buyer, \(\text{DA}\) is a 1/0 dummy variable denoting whether or not a house sold under dual agency, \(\text{DOM}\) denotes the “days on market,” and \(\text{MKTG}\) represents a vector of variables that describe any marketing activities associated with the house; \(\beta \sim N(0, \sigma^2_\beta, |\cdot|)\) denotes the absolute value, and \(\xi\) is an error term \(\text{Nid}(0, \sigma^2_\xi)\). Because \(|\beta| > 0\) and is randomly distributed across buyers, the model recognizes that buyers differ in their motivation to approach the sale from below the latent value (note the ‘-‘ sign preceding \(|\beta|\)).

**Formulating the Anchor.** Which anchor does a buyer use in arriving at a sale price? Two possible candidates exist:

**ANCHOR 1 – Asking price.** In the absence of any market-based knowledge informing pricing, the asking price is a readily available anchor, and could be utilized by a naïve buyer. Sellers may even reduce their asking price following an initial period, which is often presented to potential buyers as a signal that the price is closer to market value.

**ANCHOR 2 – Latent value.** In contrast to individual buyers who are uncertain about the market, real estate agents will recognize that even a “revised” asking price still reflects a tendency on the part of the seller to be “above” the latent value of the house. The buyer’s agent could have a model of latent value of houses that may return a value closer to that predicted by asking price model (right-hand side of equation 2a). This anchor, would be given by \(\ln LV = \frac{\xi_A}{S_j} + \frac{\lambda}{S_j}\), which will always be lower than the asking price.

We theorize that non-dual agents are likely to anchor buyers on the latent value of the house, while dual agents are likely to anchor buyers on the original asking price (or the revised asking price, if a revision exists). Consequently, a buyer under dual agency will anchor at the higher asking price, while a buyer under non-dual agency will anchor at the lower latent value.

These expectations are captured with the following model for sale price:

\[
\ln SP_{ij} = \eta_{DA}(\ln AP_{ij})^{\text{DUAL}} + \eta_{NDA}(\ln LV_{ij})^{\text{NDA}} + \beta_1) + \delta \text{DOM}_{ij} + \gamma \text{MKTG}_{ij} + \xi_{ij}
\]

Extensive research documents that once anchored consumers do not adjust “sufficiently.” This may occur due to premature cessation of the adjustment process, or the tendency of decision makers to minimize cognitive effort, or even a self-generated process that increases the selective accessibility of an anchor (see Simonson and Drolet 2004 for a discussion of these themes). We would expect the final sale price to be below the initial anchor (i.e., both \(\eta_{DA}\) and \(\eta_{NDA}\) will be less than 1.0). We, however, believe that is more likely to be the case for \(\eta_{NDA}\) than for \(\eta_{DA}\). This is because in a dual agency situation, the agent simply cannot work vigorously to help the buyer obtain the “best” possible price. Because dual agents’ ability to deliver on the fiduciary duty to both parties has been compromised by their dual agency status, buyers are left to fend for themselves. All three factors discussed above may converge to produce little adjustment by buyers under dual agency representation. In contrast, non-dual agents are not laboring under the same tensions as dual agents, and are more likely to actively pursue a better deal for the buyers. Thus, we expect \(\eta_{DA} = 1.0\) and \(\eta_{NDA} < 1.0\).

**METHOD**

**Data and Variables**

We utilize single-family home sales data, spanning one year (April 2005–April 2006) from a large Midwest-
ern city in the United States. The data come from the Multiple Listing Service (MLS) of that city. Utilizing MLS data has several advantages: it provides an unbiased source of data that will accurately provide information on original price set by the sellers, the final sales price and days on market; the data identifies the seller’s and buyer’s agents by name and company affiliation, allowing us to create a dual agent dummy variable; the dataset includes home attribute control variables (e.g., size of house, number of bedrooms and bathrooms, number of garage spaces, etc.); the data allow us to trace the journey of a house from the initial asking price to final sale price – we can therefore calibrate both stages of the theorized model; the data includes another important control variable, location, including the area of town and suburb corresponding to each house, which permits the estimation of fixed effects regression models that account for sources of unobserved heterogeneity due to location differences.

Despite the high quality and detailed nature of the data, it is pertinent to point out that MLS data also have some disadvantages, including not having any information about buyer characteristics. Further, because individuals in real estate offices enter MLS data, it is subject to human error (e.g., not entering the correct number of bedrooms or entering incorrect room sizes) and potentially missing information (e.g., not reporting the lot size or number of garages). Finally, data is only available for those homes that were listed with a real estate agent. Therefore, the data cannot account for homes sold by owner or by non-members of the MLS. On the whole, however, MLS data is the most accurate data for the largest volume of homes sales. Indeed, MLS data has been the primary data source for most real estate research focused on home sales. To be consistent with prior real estate research using MLS data, we deleted observations with missing data on variables of interest, as well as observations with infeasible values for the variables (e.g., a house with zero bathrooms). A final sample size of 2351 homes was used in the present study. Table 1 presents the variables used in the research. Table 1 presents the variables used in the research.

RESULTS

Asking Price Analysis

Two sets of results emerge from the analysis of asking price. First, and of main interest at this stage, we focus on the unobserved heterogeneity among sellers in approaching the sale from “above.” We thus focus on the question: Is there any value of including the $\alpha_{oj}$ term in equation 1? Utilizing a Likelihood Ratio (LR) test, the null hypothesis $H_0: \sigma^2 = 0$ was rejected ($\chi^2 = 18.48, p < .0001$). This reveals that there is significant heterogeneity among sellers to approach the sale from “above,” and that recognizing this source of heterogeneity results in a better overall explanation of the asking price dynamics.

Second, and of less importance in this research, is the impact of house attributes on asking price. The estimates revealed, not surprisingly, that while asking price decreases with the age of the house, it increases with the number of rooms, the number of bathrooms, the number of full-baths, the number of garage spaces, the number of levels in the house, and the presence of air conditioning.

Sale Price Analysis

Results of estimating equation (4) are presented in Table 2.

Test 1 – $\sigma^2 = 0$? This test corresponded to the value of including the $\beta_{ij}$ term in equation (4). A LR test rejected the null hypothesis ($\chi^2 = 13.36, p < .0001$), revealing that there is significant heterogeneity among buyers to approach the sale from “below” the initial anchor price – recognizing this source of heterogeneity results in a better explanation of sale price dynamics.

Test 2 – Do dual agents and non-dual agents anchor buyers at different prices? We first compared the hypothesized model to a “no anchor price” model (MR1; in which we allowed the house attributes and location to have direct effects on the sale price of the house). Utilizing non-nested tests, results indicated the superiority of the hypothesized model (AIC = 621.4 and 1248.6 for the hypothesized model and MR1 model, respectively, and BIC = 661.7 and 1640.5 for the hypothesized and MR1 models, respectively). Next, the hypothesized model was found to be superior to the “same anchor price” model (MR2; in which both dual and non-dual agents anchored their clients on the lower latent value of the house) – AIC and BIC values for MR2 were 1177.3 and 1217.6, respectively. This supports our expectation that while non-dual agents are more likely to anchor buyers at the lower latent value of the house, dual agents are likely to anchor buyers at the asking price.

Tests 3 and 4 – Adjustments to initial anchor in dual and non-dual agency situations. The results presented in Table 2 indicate that the anchored price is adjusted downwards in both agency situations to arrive at the final price. Both estimates are less than 1.0 ($\eta_{DA} = .962$ and = .983). Results indicated that while the adjustment in non-dual agency situations ($\eta_{DA} = 1 - .962 = .038$) was significantly different than zero ($t = 4.774, p < .0001$), the adjustment in dual agency situations ($t = .498, ns.$) was no different than zero ($t = .498, ns.$). These results support our theorizing.

Stemming from the “higher anchor-no adjustment” “double whammy” in dual agency transactions, we computed the implied difference in sale price paid by buyers...
in dual agent and non-dual agent transactions. Based on the estimation results presented in Table 2, we found that on average, buyers in dual agent transactions paid $16,486.67 more than their counterparts who were in non-dual agent transactions.

Results also indicate that the marketing variables have the expected impact – promotion of the house via multiple pictures or a virtual tour on the Internet increases the sale price. And consistent with expectations, houses on the market longer tend to sell at lower prices.

---

**TABLE 1**  
Variable Definitions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROOMS</td>
<td>The total number of rooms in the house.</td>
</tr>
<tr>
<td>BED</td>
<td>The total number of bedrooms in the house.</td>
</tr>
<tr>
<td>BATH</td>
<td>The total number of bathrooms in the house.</td>
</tr>
<tr>
<td>FBATH</td>
<td>The number of full bathrooms in the house.</td>
</tr>
<tr>
<td>BSMT</td>
<td>basement type (= 0 for no basement, =1 for crawl space only, = 2 for partial basement; = 3 for full basement).</td>
</tr>
<tr>
<td>FP</td>
<td>0/1 variable indicating absence/presence of a fireplace in the house.</td>
</tr>
<tr>
<td>GARSPC</td>
<td>Number of garage spaces in the house.</td>
</tr>
<tr>
<td>AIRCON</td>
<td>1/0 variable indicating the presence/absence of airconditioning.</td>
</tr>
<tr>
<td>LVL1, LVL15, LVL2 and LVL3</td>
<td>1/0 variables representing one storey, 1.5 storeys, 2 storeys, and 3 storeys, respectively (baseline was the collection of bi-, tri- and quad-level houses).</td>
</tr>
<tr>
<td>LOTSZ</td>
<td>The total size of the lot in acres on which the house sits.</td>
</tr>
<tr>
<td>AGE</td>
<td>The age of the house in years.</td>
</tr>
<tr>
<td>DUAL</td>
<td>1/0 variable indicating non-dual agent/dual agent representation in the sale of the house.</td>
</tr>
<tr>
<td>MKTG1_PIC</td>
<td>1/0 variable indicating the presence/absence of multiple pictures of the house on the internet.</td>
</tr>
<tr>
<td>MKTG2_VT</td>
<td>1/0 variable indicating the presence/absence of a virtual tour of the house on the internet.</td>
</tr>
<tr>
<td>AP</td>
<td>Original asking price, in dollars, when the house was initially listed.</td>
</tr>
<tr>
<td>SP</td>
<td>Final selling price, in dollars.</td>
</tr>
<tr>
<td>DOM</td>
<td>Number of days the house was on the market prior to its sale.</td>
</tr>
</tbody>
</table>

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**DISCUSSION AND CONCLUSION**

The key objective of this paper was to examine whether dual agency representation had an effect on market outcomes in general and on consumer welfare in particular. We advanced the view that, in transactions where the same real estate agent represents both the seller and the buyer, there is a potential for disadvantage for one or both parties. We articulated a model that recognized the inherent tension between the home seller and the homebuyer in negotiating a final sale price. In particular, we theorized...
that the home seller approaches the sale from “above” the latent value of the house, the homebuyer adopts an initial price anchor with the help of the agent and approaches the sale from “below” this anchor, and the real estate agent is meant to help “converge” the two parties to an agreed sales price. This perspective stands in contrast to extant real estate research that espouses the view that real estate markets are largely efficient, and that the sale price of a home is not influenced by the real estate agent (Elder et al. 2000). Within the hypothesized model of sale price, the real estate agent played a crucial role in anchoring buyers to a price point and then influencing the adjustment from this initial anchor to arrive at a final sale price. We theorized that both aspects in the convergence process – the selection of the anchor and the amount of adjustment – would be compromised in dual agent situations because the agent cannot truly act in both parties’ best interest to achieve a sales price that is fair. Offering a potential generative mechanism for why dual agency homes may sell for more than non-dual agency homes, we tested the hypothesis that dual (non-dual) agents will anchor buyers at a higher (lower) price and work less (more) vigorously that result in lower (greater) adjustments to the initial anchor. The results strongly supported our theorizing and demonstrated that homebuyers who are represented by a dual agent are disadvantaged because they will pay more for a home than homebuyers represented by a buyer agent. In particular, buyers represented by dual agents will, on average, pay over $16,000 more than buyers represented by buyer agents. The findings reveal a process that may govern agency representation and contributes to a better understanding of the residential real estate transaction process and its potential for consumer harm.

While the results of this research are compelling and important, the research is not without limitations. Although MLS data is often viewed as the most unbiased form of real estate transaction data, it does have boundaries in its ability to describe the entire home selling or purchase process. For example, from this data, we cannot detect whether the disadvantage detected is a result of deliberate actions on the part of real estate agents, or whether they are unintentional. In addition, MLS data also only contains information on home sales that were actually listed with a real estate agent/company. Therefore, we cannot account for any homes that sold outside of this domain (e.g., 13% of homes sales are For Sale By Owner). A limitation outside of the MLS data is that the sample is drawn from only one metropolitan area. Consistent with extant real estate research, we chose a metropolitan area that has achieved a stable growth rate, rather than an excessive appreciating or depreciating one. Over the past three years, the real estate market on which we focused has achieved growth of 8.6 percent, compared to a national average of 31 percent (National Association of Realtors 2006).

<table>
<thead>
<tr>
<th>Effect Investigated</th>
<th>Independent Variable</th>
<th>Parameter</th>
<th>Estimate</th>
<th>t-ratio</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anchor price under dual agency</td>
<td>(lnAP)*DUAL</td>
<td>η_{DA}</td>
<td>0.983</td>
<td>28.42</td>
<td>&lt; .0001</td>
</tr>
<tr>
<td>Anchor price under non-dual agency</td>
<td>(lnLV)*(1-DUAL)</td>
<td>η_{NDA}</td>
<td>0.962</td>
<td>120.35</td>
<td>&lt; .0001</td>
</tr>
<tr>
<td>Days on market</td>
<td>DOM</td>
<td>δ</td>
<td>-0.0004</td>
<td>-4.381</td>
<td>&lt; .0001</td>
</tr>
<tr>
<td>Marketing actions</td>
<td>MKTG1_PIC</td>
<td>γ_1</td>
<td>0.146</td>
<td>10.12</td>
<td>&lt; .0001</td>
</tr>
<tr>
<td>Virtual tour</td>
<td>MKTG2_VT</td>
<td>γ_2</td>
<td>0.052</td>
<td>3.221</td>
<td>&lt; .01</td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>-303.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.908</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE: The estimates were obtained from the estimation of equation 4.

a: The anchor price under dual agency was the asking price, while the anchor price under non-dual agency was the latent value obtained from the asking price model (equations 1–2).
A key motivating consideration in this research was the consumer welfare implications of dual agency. The finding that buyers represented by dual agents pay significantly more than buyers represented by non-dual agents is troubling. Real estate agents and agencies promote their ethical standards and practices as being industry-leading. However, the results in this study point to a problem with dual agency transactions. From a public policy perspective, the implications of this research are vast. Several stakeholders, including community groups, the government and industry groups like National Association of Realtors, would be able to take steps to lessen the effect of this market inefficiency.

In this research, we have demonstrated that one of the most important financial decisions that a consumer can make can be harmed by whom he chooses to represent him. Although this is an important contribution to both the literature and to society as a whole, further research can enhance the knowledge of this process. For example, future research can investigate the impact of dual agency at the company level. Even if public policy eventually dissolves the dual agent relationship, it is unlikely that real estate firms will be excluded from servicing both buyers and sellers. As such, future research needs to understand the implication of allowing this market structure to continue.

From a consumer welfare perspective, future research should also investigate whether any specific groups of buyers or sellers are more or less likely to be disadvantaged by dual agency. For example, researchers should seek to understand whether the disadvantage of dual agency differs by socio-economic status of the buyer and/or seller — in other words, do lower income or higher income customers suffer effects of dual agency differently? Finally, future research should seek to understand whether there is a relationship between subprime loans, foreclosures and dual agency. If these three market realities converge to create a “perfect storm,” consumers and public policy makers need to understand this and take action. We look forward to developments in our literature and in practice.

ENDNOTE

1 The basic structure of the model is similar to that used in the economics literature focused on modeling production outputs and costs of firms. Although firms desire to minimize costs, inefficiencies, which vary across firms, lead to costs always being higher than they could be. Starting with the work of Aigner, Lovell, and Schmidt (1977), the contribution of these “stochastic frontier models” has been to explicitly recognize that process outcomes may be “nonoptimal” because of system inefficiencies in addition to random statistical noise (see Kumbhakar and Lovell 2000).

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MARKETING IN SECOND LIFE: IF YOU BUILD IT, WILL THEY COME?

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Sonja Prokopec, ESSEC Business School, France

ABSTRACT

Virtual worlds present a new channel for communication, information dissemination, and business transactions. The purpose of this paper is to provide a starting point for a discussion on the value of virtual worlds, and strategies that organizations may adopt when establishing a virtual presence in them.

INTRODUCTION

Traditionally, three-dimensional (3D) environments have been used for modeling in the fields of engineering, architecture (e.g., Whyte et al. 2000), education (e.g., Bouras et al. 2004), and product development. More recently, interactive 3D environments are popular platforms for gaming and entertainment. Internet-based 3D virtual environments, or virtual worlds, are the next evolution in technology that promise to transform the current mode of communication and information dissemination. While the Internet today is primarily two-dimensional and communication is through text, audio, or video files, persistent virtual worlds provide an immersive environment where “avatars” can touch and feel, and interact with other avatars or objects in real-time. The business implications of these virtual worlds, while potentially vast, have thus far not received much scholarly attention. Early innovators have established a presence in virtual worlds such as Second Life, and practitioner outlets discuss the potential and current problems, faced in these environments. The purpose of this research is to draw on literature in marketing and strategic management to analyze the impact of the virtual presence of organizations on customers. In doing so, we discuss strategic elements that should be borne in mind by organizations that wish to establish a presence in a virtual world.

Virtual Worlds

As 3D virtual environments have become more readily available and open in some aspects, applications of these “virtual worlds” have grown beyond gaming and 3D modeling to other forms of entertainment and information assimilation such as virtual real estate, brand building, and marketing. Businesses are beginning to see them as opportunities for collaboration or as a new vehicle for reaching customers or business partners. One reason is “Moore’s Law” which steadily produces cheaper and more effective hardware (Schaller 1997), resulting in faster and richer 3D environments. A second could be the evolution of representation of information from basic text to richer, more intuitive forms that include multimedia such as sound, video, animation, and life-like structures. The “milleneals,” the generation born after 1980, has grown up with digital media during their formative years and are accustomed to visual and auditory channels such as high-definition television, podcasts, surround-sound systems, e-books, email, and instant messaging, and social networking tools such as MySpace and FaceBook. This generation is comfortable using virtual platforms for social networking, education, business transactions, and telework. Virtual networks and crowd-sourcing platforms (such as Wikipedia, opinions, MySpace, and YouTube) are a prominent source of information for the millenials. With required technological development to support them, it seems intuitive that 3D environments that support networking with richer audio, visual, and textual features will replace the current form of standard two-dimensional information representations on the web.

Early innovators such as IBM have set up “islands” in Second Life, an internet-based persistent 3D world, exclusively for the purpose of providing a virtual meeting place for its employees to interact. Organizations such as Sony and Dell use Second Life as a channel for promoting their brand image. STA Travels, a travel agency catered to students, has set up an island in Second Life to reach the milleneals, and expand its customer base. Toyota and Reebok, amongst others, use Second Life to collect customer preference information and expand their marketing channels. Such applications could, in time, lead to serious economic and business transformation (Hemp 2006).

E-Commerce and Virtual Worlds

With the popularity of the Internet, there has been a plethora of research that looks at leveraging virtual opportunities for e-commerce. Advantages of web channels over physical channels, derived from transaction cost economics, include economies of scale from reaching a wider customer base, lower sunk costs in “brick-and-mortar” set-ups and inventory, lower costs due to bypassing retail distribution intermediaries, higher degree of transaction automation, and availability of the channel 24/7 at no extra cost.

The decision to engage in a particular e-commerce strategy can be seen to stem from three factors – Cost
Reduction, Value-Addition, and Market Extension (Steinfield et al. 2001). 3D worlds, by virtue of being internet-based, can be hypothesized to enjoy the same advantages of traditional web channels. However, the new environment presents unique opportunities for representation of products and services. Unlike at a 2D web site, customers can be greeted in real-time by a virtual sales representative, can try on clothes to see how they fit their body specifications, can test-drive cars while sitting at home, and can experience a virtual vacation in Hawaii when deciding to buy from a travel agent. Hence, virtual worlds can be hypothesized to provide a higher level of Value-Addition and Market Extension than 2D web sites. Given the newness of the concept and the technology, little is known about whether the same strategies that were used for web-channels will apply to virtual worlds. However, we believe that virtual worlds overcome some limitations of traditional web channels.

One major limitation of web-based channels is that of Trust. Research in e-commerce has recognized that a significant impediment of virtual stores is the consumers’ lack of trust in its legitimacy (for example see Grabner-Kraeuter 2002 or Bramall 2004). Perceived risk is found to be significantly lower in physical establishments where consumers feel they have a place where they can return goods, register complaints, or speak with someone (Lee and Tan 2003). Additionally, physical businesses are often embedded in social networks, which enhance trust (Granovetter 1985). Consumers see, and can interact with each other when shopping through physical channels. Consequently, organizations try to create online social networks through virtual forums where consumers can exchange opinions, chat with customer service personnel, and rate products or services (Jarvenpaa et al. 2000; Stewart 2003; Achrol and Kotler 1999). It can be hypothesized that virtual worlds provide a richer platform for development of social networks, and hence increased trust, among consumers.

The Effects of Types of Products and Services

Some strategies used by organizations that have virtual and physical presences are that of “virtual,” “parallel,” “mirror,” and “synergy” (Steinfield et al. 2000). A virtual strategy is one where the organization does not have a physical presence. A parallel strategy is one where an organization’s physical presence is not explicitly linked to its physical presence. When adopting the mirror strategy, firms develop a web channel that resembles their physical channel in terms of the look and feel, and the offerings of products and services. When adopting a synergy strategy, firms explicitly link their virtual and physical presence, but exploit each channel’s unique strengths. While organizations are testing virtual worlds for different purposes (e.g., brand awareness, customer preferences), we believe that the type of product that the firm offers has a moderating effect on the impact of its presence in the virtual world, on consumers. In particular, we feel that virtual worlds are more suited for certain types of products, and hence may influence what strategy the firm should adopt. Hence, our research question is: What strategies are best suited for organizations that wish to establish a presence in virtual worlds, based on the type of product they offer?

In terms of service, virtual worlds provide a channel for adding value to a customer’s experience. Companies such as STA Travel have hired full time employees in Second Life that perform as managers in their virtual showroom. Websites may offer real-time chat facilities or customer support via email or telephone, but having an avatar of an employee sharing the same virtual space with the customer synchronously while providing information about the product or service, enhances the experience of the customer. Additionally, such service enhances the level of trust as discussed earlier. For a customer based in Dallas who wishes to plan a holiday in Australia, interacting with a travel agent from Sydney in Second Life adds far more value than meeting an agent in Dallas in real life. However, for the purpose of this study, we focus solely on the products offerings of organizations in virtual worlds.

In order to arrive at a classification for products, we utilize a matrix that differentiates between products based on two-dimensions – product value, and an “experiential” component. The term “experiential” has traditionally been used to differentiate consumption that emphasizes sensory pleasures, playful leisure activities, and emotional responses (analogous with “hedonic” consumption) from “utilitarian” consumption, which focuses on problem solving (Holbrook and Hirschman 1982). However, this dichotomy of “hedonic” versus “utilitarian” consumption has been used for analysis of shopping experience and shopping value (Babin, Darden, and Griffin 1994; Jones, Reynolds, and Arnold 2006), or to analyze the activity of online purchases (Maenpaa, Kanto, Kuusela, and Paul 2006); to our knowledge, it has not focused on the nature of products. We use the term in the same vein as this prior literature, but emphasize the nature of certain products that have a higher degree of the need to be “experienced” before they are purchased – such as a car, or a new perfume. Based on these dimensions, we classify products as Low-Value Low-Experiential, Low-Value High-Experiential, High-Value Low-Experiential, and High-Value High-Experiential. We discuss these below.

Low-Value Low-Experiential. Examples of such products include text books, paper towels, or pencils. Consumers typically do not need to spend much effort in buying such products because they are typically inexpensive and do not need to be tried-out or experienced before the purchase is made.
High-Value Low-Experiential. Examples of such products include office furniture, or the encyclopedia books. These products are typically more expensive, but the consumer knows what to expect when purchasing this type of a product.

Low-Value High-Experiential. Products such as apparel, accessories, music, and electronic gadgets such as cell phones would fall in this category. These products, even though typically inexpensive, more often than not require consumers to try them on, feel them and/or experience them.

High-Value High-Experiential. Products such as cars, expensive art, or an overseas vacation are products that are high in both value and experiential component. They are the most risky purchases because they are not easily returnable. They also require the most effort and commitment from the consumer.

PROPOSED RESEARCH METHODOLOGY

This paper is primarily intended to be of a conceptual nature and aims to provide a starting point for a discussion on how companies can use virtual worlds. In order to test and support hypotheses derived from our research questions, we intend to conduct experiments and surveys with consumers in virtual worlds. A theoretical sampling of organizations that offer products based on our categorization will be done. We will use scales validated by prior literature to assess various outcomes such as customer satisfaction, brand identification, trust and intention to buy a product.

In this paper, we present some preliminary qualitative data that was gathered for an exploratory study of consumers in virtual worlds. While we do not claim that this data is representative or generalizable, and fully recognize the need for an in-depth study to support our claims, we use this data to get an initial impression of themes and concepts for our research.

Our subjects are avatars who visited three islands in Second Life – Sony BMG, Scion City (Toyota), and Reebok. The avatars interviewed were asked open-ended questions about their satisfaction with the virtual stores, perceptions of the brand, and a description of their experiences with the products and services the stores offered. While some products and services are designed exclusively for avatars in the virtual world rather than for individuals in real life, we believe that these transactions play an increasingly important role in the organization’s commerce. Some virtual worlds such as Second Life have an economy of their own. Currency in Second Life is in Linden Dollars which has an exchange rate of 265 Linden Dollars for 1 U.S. Dollar. Avatars in Second Life can own, and create products and services in Second Life and retain the exclusive rights for them. They can buy and sell these products and services “in-world” for Linden Dollars, which are fully transferable with U.S. Dollars. In May 2007, 293,102 customers spent approximately $1,931,011 in one day in Second Life. (See more statistics at http://secondlife.com/whatis/economy_stats.php). Second Life has a total population of 7,472,404, with 1,677,740 members active in the last 60 days. Hence virtual worlds have a growing healthy economy that mimics that of the real world. Experiences of consumers at each store are described next.

Sony BMG primarily uses their island for showcasing artists, latest music and upcoming events. Avatars can browse through different areas of the virtual store and listen to streaming music. The store also offers free goodie bags with clothes and music for the avatar. While the virtual store looks like a physical store of Sony BMG, it does not allow avatars to buy CDs or DVDs, but instead provides music and videos for enjoying in-world. The virtual store is customized to avatars in Second Life. This suggests that the purpose of establishing a virtual store in Second Life was to get avatars (who already are or might become consumers in real world) aware of their presence and more comfortable with the store. Hence we can infer that Sony BMG followed a synergy strategy for enhancing company’s brand image when designing their virtual store in Second Life.

When asked their impressions of the store and the brand, some comments from avatars in Sony BMG were:

I felt amazed by the multitude of activities that are available. And you can definitely tell the huge difference between Sony and other locations. They are

TABLE 1
Product Classification Matrix

<table>
<thead>
<tr>
<th>Low Experiential</th>
<th>High Experiential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Value</td>
<td>e.g., Textbooks, office supplies</td>
</tr>
<tr>
<td>High Value</td>
<td>e.g., Office furniture, encyclopedias</td>
</tr>
<tr>
<td></td>
<td>e.g., Electronic gadgets, cell phones, CDs</td>
</tr>
<tr>
<td></td>
<td>e.g., Cars, perfumes, art</td>
</tr>
</tbody>
</table>
ahead of the game. I feel that the store (brand) appreciates me as a customer because they offered me to take me to other web pages for me to learn more details about their features. I felt like they really wanted to do business.

I like the store because I was able to hear and see actual artist videos and music in a dynamic environment. The image of this store (brand) has improved because they already have a presence on second life.

I like the store because I could dress up my character and add music.

I feel that the store (brand) appreciates me as a customer because they made a virtual world for me to explore with a map for easy exploration.

The brand image is enhanced as consumers feel that Sony BMG is an innovator by establishing a virtual store. The primary product, music, is easily marketed and showcased in the store.

The second island visited was Scion City (Toyota). This island is used by Scion as a virtual car store where avatars can see new models and test drive the cars. While it is common for avatars to create and own vehicles (though they are not of much use since avatars can fly and teleport in Second Life), being able to test-drive a car from a real world company was unique. This is reflected in the quotes below:

I felt like this could be a place where I could hangout with friends and why not organize a race!!!!

The image of this store (brand) has improved because I would not think they would have a store on secondlife. They are trying to stay ahead of the game, which I believe is a positive message.

I feel that the store (brand) appreciates me as a customer because they offered me to test drive a Scion. I think this a great way to remind people about the brand.

The image of this store (brand) has improved because their presence shows that they are interested in using new technology to get to their potential customers.

The consumers appreciated the fact that Scion is one of the early adopters of virtual worlds and enjoyed the driving experience from the perspective of their avatar. However, this did not reflect the strategy of Scion, which was to mirror a physical showroom where potential customers can test drive new models of their cars. Simulating the high degree of the sense of experience, and look-and-feel associated with test-driving a car is difficult. From the quotes below, it is clear that customers felt a sense of disappointment with the experience:

[The store] wasn’t attractive in the first place, it looked dull, the cars were placed here and there and didn’t have the style or anything to attract me as a customer. The driving experience was strictly ok; it was more similar to driving a car in a video game. I don’t think they made it feel like a virtual store or anything.

I felt disappointed. There’s really nothing to interact with other than the cars to test-drive them.

The test drive felt like a video game that was hard to control. I test drove different looking cars, but the feel was the same in each.

I didn’t like the store because they focused on testing the car but the reality is that the customer won’t really know what the car is like just by testing it on Second Life. More company and vehicle information or video ads should be available.

As can be seen in the quote above, the problem is not with the technology, but rather with the inadequacy of the experience of test-driving a car virtually.

The third island visited for interviews was that of Reebok. Reebok allows avatars to buy “blank shoes” which are basic white shoes in different sizes. Each pair of shoe costs 50 L$ (approximately 18 cents USD). The avatar can then customize the shoe by changing colors of different areas in the shoe. Each additional customization costs the avatar 5 L$. Reebok can easily gather data of how consumers customize their shoes. The virtual store also advertises sports apparel of the brand on posters displayed on the walls of the stores. Hence, the products offered are for in-world avatars, but the channel is also used for brand imaging and marketing real-world offerings. This suggests that the company follows a combination of mirror and synergy strategy. Excerpts from some interviews in Reebok are given below:

I like the store because I was able to customize Reeboks product real time and was able to zoom in for detail.

The image of this store (brand) has improved because they already have a presence in second life even though it is a somewhat new system.

It was how real life shoe stores are and they took a detailed step to make the customer feel at home, like the poster and the way it was arranged.
I feel that the store (brand) appreciates me as a customer because the store was made just for the customers, selection is easy, customization also was quite easy though it was a bit hard initially but then it was fine. So it did care about the customers.

It was a very easy experience to buy the shoes and wear it, just needed to left click on it and we had the option to pay it right away and get it, wearing the shoes also was really easy so over the purchase at Reebok was pretty much similar to what was in the real life world so it was a very neat kind of thing which second life provided in the Reebok store

Hence, customers appreciated the fact that Reebok had a presence in the new environment, and that there were products targeted for in-world avatars.

**DISCUSSION**

Since virtual worlds are relatively new and untested in terms of their potential as a main channel of sales and marketing, it is early to draw conclusions on their applicability. However, from previous literature, and some preliminary insights, we can arrive at the following propositions:

**P1:** Virtual worlds provide a greater degree of value addition, a new channel for market expansion, and higher trust, than traditional web channels such as websites.

Given the volume of traffic in virtual worlds today, early adopters are able to reach a greater customer base. By customizing products and services to be inline with the new environment, and by providing a different way for customers to experience these products virtually, there is added value to the product or service. The nature of these virtual worlds enables virtual co-location of multiple “avatars” in the same virtual space. This is not possible in traditional online forums where communication is mainly through asynchronous text between people represented through nick names. Avatars are customizable in several dimensions, based on body size, shape, hairdo, makeup, clothes, accessories, and possessions (such as virtual houses or vehicles). Having such a virtual “life” and interaction with other avatars in this persistent world increases the “embededness” of individuals in the social networks, increasing their sense of trust. There is previous research that shows online retailers that use avatars have a competitive advantage because they provide customers with enhanced perceptions of human connections and the formation of emotional bonds (Wang, Baker, Wagner, and Wakefield 2007). This proposition is also in line with research that studies economic leverage gained by activities associated with being embedded within virtual communities (which is difficult to achieve through websites) (Balasubramanian and Mahajan 2001). Drawing on this as well as literature in social networks in real life (Granovetter 1973), we posit that organizations may thus, find it easier to build trust in brands in virtual worlds, as compared to websites.

**P2:** The type of product offered must guide the strategy employed by an organization seeking to establish a presence in a virtual world.

We draw upon the classification we had introduced earlier to differentiate products. We believe that organizations can draw greater benefit from virtual worlds if they choose a strategy based on their type of product offering.

*Low-Value Low-Experiential.* Products belonging to this product category (Table 1) also benefit from the Cost Reduction afforded by virtual channels. However, consumers are usually more likely to trust physical channels when buying high-value products. Having social networks that enhance trust helps companies market such products virtually. Examples are websites like e-pinions, which provides a forum for consumers to discuss electronics such as laptop computers and Amazon.com’s or Ebay’s features of rating of suppliers and shopping experiences. A parallel strategy would be most suited for these types of products. With virtual channels becoming more accepted by consumers, it has become more commonplace for a pure virtual strategy, even for high-value products. Virtual worlds may provide Value-Addition and Market-Extension for such products.

*High-Value Low-Experiential.* These products, we believe, benefit most from virtual worlds. Consumers shopping for music or cell phones can experience a richer representation of the product in virtual worlds. Hence stores such as Sony BMG and Reebok are well positioned to adopt a mirror strategy which extends their existing marketing channels. Avatars can easily make a purchase for shoes or music CDs to be delivered home after they have experienced the products on their avatars. The functionality of the virtual channel would work exactly in the same manner as an e-commerce website, with the added advantage of the consumer experiencing the product in a 3D virtual world. Musicians and painters frequently hold shows and exhibition on Second Life where they can showcase their art at minimal costs. Avatars pay
to attend some shows and may choose to buy from the artist.

**High-Value High-Experiential.** Products such as cars, expensive art, or an overseas vacation are difficult to sell through virtual channels. Hence adopting a mirror strategy may not be optimal for companies such as Scion. Instead, by employing the strategy of synergy, an organization can customize offerings in the virtual worlds to boost their brand image in real world. For example, creating a virtual café where avatars can “hang-out,” drink coffee, and interact may help a restaurant’s image more than a website that lists the prices of its products. Scion can provide automobiles for avatars that fly and are more in line with the environment in the virtual world, rather than try to imitate their real life showrooms. Similarly, virtual art can be made available for use by avatars in their virtual offices or homes. Table 2 summarizes our recommendation for the strategy that organizations should adopt based on the value and experiential attributes of their products.

We would like to point out that adoption of one strategy does not necessarily preclude the adoption of another. For example, for Low-Value High-Experiential products, a mirror strategy may be combined with a synergy one – as done by Reebok. Also, this categorization is by no means static. As virtual channels and virtual worlds become more mainstream and consumers know what to expect when making purchases, more types of products are bought online. For example, it is now not uncommon for consumers to book hotel rooms for vacations online. Hence a combination of synergy and mirror strategies may be adopted for even High-Value High-Experiential products in virtual worlds.

**MANAGERIAL IMPLICATIONS**

This study was exploratory in nature. The purpose of this research was to draw on literature in marketing and strategic management to analyze the impact of the virtual presence of firms on customers. While early innovators such as IBM, DELL, Sony, BMG, and others have established a presence in virtual worlds such as Second Life, it seems that many of them do not have a clear idea of how consumers are responding to it. Additionally, many firms do not exactly know what strategy is the optimal one to follow. We suggest a framework to help firms market themselves more effectively in 3D virtual worlds such as Second Life. The contribution of this research is twofold. First, we present a product classification matrix that can help firms place their products more effectively in 3D virtual worlds. Second, we suggest that firms think of what strategy to adopt in virtual worlds based on the products they offer.

This research should be taken as the beginning stages of a research program that shows promise in regards to the role of firm’s virtual presence on its customers.

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>Recommended Strategy based on Product Classification</th>
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<tr>
<td></td>
<td>Low Experiential</td>
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<tr>
<td>Low Value</td>
<td>Parallel or Virtual</td>
</tr>
<tr>
<td>High Value</td>
<td>Parallel</td>
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**ENDNOTES**

1 A virtual environment (or virtual world) is “a computer-based simulated environment intended for its users to inhabit and interact via avatars . . . The world has some real world rules such as topography, real-time actions, and communication. Communication has, until recently, been in the form of text, but now real-time voice communication using VOIP is available.” (from http://en.wikipedia.org/wiki/Persistent_world)

2 A persistent world is a virtual world that is always available and world events happen continually and change is persistent even if a user is not logged-in. The persistency comes from maintaining and developing the state of the virtual world around the clock. Characters in these virtual worlds can influence and change a persistent world. (from http://en.wikipedia.org/wiki/Persistent_world)

3 An avatar is an Internet user’s representation of himself or herself . . . in the form of a three-dimensional model used in computer games . . . (http://en.wikipedia.org/wiki/Avatar_(virtual_reality))

4 “Crowd sourcing” is a term employed for leveraging the productive potential of an undefined group of people, usually connected to the internet to pool resources such as information, images, videos etc. For example, see http://www.wired.com/wired/archive/14.06/crowds.html.
Stenfield et al. (2000) identify two more – “anti-mirror” and pure “physical.” A company that adopts a pure physical strategy does not have a virtual presence, and one that adopts an anti-mirror strategy changes its physical channel to resemble its virtual one. Since our focus is on the virtual channels, we choose to examine the other strategies, which are concerned with how organizations use the virtual channels.

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PROPOSING AND CONCEPTUALIZING A SERVICE-DOMINANT STRATEGIC ORIENTATION

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ABSTRACT

In a seminal article Vargo and Lusch (2004) present a service-dominant (S-D) logic for marketing that provides strategic implications for competing through service (see also Lusch, Vargo, and O’Brien 2007). Taking a strategy perspective, this study conceptualizes an S-D strategic orientation, proposes its dimensions, and looks at potential benefits.

INTRODUCTION

The service-dominant (hereafter S-D) logic of marketing (Vargo and Lusch 2004) as an emerging marketing paradigm (see Webster Jr. 2006), challenges the existing perspective and assumptions that marketing inherited from economics. For example, under an S-D logic, value is not added to a product but is what customers get out of a product and, thus, value arises within individual customer (usage) experiences (e.g., Grönroos 2006; Prahalad and Ramaswamy 2004; Vargo and Lusch 2004). Service provision rather than goods represent the core of exchange processes (Vargo and Lusch 2004). As such, the S-D logic has been characterized as a perspective or framework that promotes a service-based understanding of marketing phenomena (e.g., Lusch, Vargo, and Malter 2006; Vargo and Lusch 2004) and rests on nine foundational premises (see, e.g., Lusch, Vargo, and O’Brien 2007).

Managers might adopt the S-D logic as their own mental model or mindset for viewing the business world and identifying new ways of (co-) creating value in light of competitive advantage. However, academia currently does not provide a strategic orientation that focuses on a simultaneous and coherent set of organizational practices consistent with the S-D logic (see also Winklhofer Palmer and Brodie in press). That is, despite the significance and applicability of S-D principles in theory and practice, there are no respective strategic orientation addressing service-dominant organizational behaviors, activities, and processes.

Considering the call for a fresh contribution of marketing to the strategy dialog and the criticism of existing strategic orientations (see, e.g., Day 1992; Hunt and Lambe 2000), this is especially relevant. The primary purpose of this paper is thus to conceptualize an S-D strategic orientation and its dimensions. The focus will be directed toward organizational practices because a strategic orientation in general concerns broad strategic choices as manifested in respective behaviors/activities that enable an organization to achieve long-term success (see Gatignon and Xuereb 1997). Furthermore, we will present potential benefits of implementing an S-D strategic orientation as a combined effect of the proposed dimensions of this behavioral concept.

To this end, we will first highlight the relevance of an S-D strategic orientation in today’s challenging environment to achieve a competitive advantage. Second, we will outline the nature of S-D logic and synthesize its strategic implications. Third, we will briefly review marketing’s key contribution to the strategy dialog and emphasize the necessity for a new strategic orientation that addresses the fundamentals of S-D logic concurrently. Fourth, we will propose an S-D strategic orientation that is consistent with S-D logic but focuses on activities, behaviors, and processes. Fifth, the five proposed dimensions of the S-D strategic orientation will be discussed and specified. Finally, potential benefits of the presented S-D strategic orientation will be suggested.

STRATEGY IN TODAY’S BUSINESS REALITY

The reasons as to why and how firms succeed or fail in business present the central question in strategy (Fréry 2006; Porter 1991). From a strategy perspective, achieving and sustaining competitive advantage in today’s highly competitive, proliferated, and dynamic market environments is increasingly challenging (e.g., Court, French, and Knudsen 2006). For instance, strategists have to increasingly deal with intensified global networked competition, segment-of-one demand characteristics, and more empowered customers (see, e.g., Cares 2006; Oliver, Rust, and Varki 1998; Pires, Stanton, and Rita 2006). As the nature of the business arena is transforming, the traditional roles of economic actors are changing and becoming blurred (Prahalad and Ramaswamy 2004). For example, customers progressively take on employee roles and perform activities in value creation processes. As such, more informed, connected, and active customers progressively demand participation in service provision processes even in traditional manufacturing industries,
while organizations encourage and enable customers to do so (e.g., Bendapudi and Leone 2003; Firat and Venkatesh 1995).

Consequently, the central element of marketing represents joint processes (of providing benefit) and service flows rather than finished units of output (Vargo and Lusch 2004). Organizations thus constantly strive to provide better service outcomes and seek to compete based on service principles, independent of their industry or “pure” service business nature (Berry et al. 2006). Accordingly, it is here argued that organizations could benefit from implementing a strategic orientation consistent with the principles of the S-D logic as it guides organizational strategy-making activities and service-like interactions with the market, both internally and externally. It also provides a way of responding not only to the challenges but the opportunities of the current business environment.

THE NATURE OF S-D LOGIC

The S-D logic of marketing has been described as a lens, mindset or philosophy for understanding marketing phenomena (e.g., Lusch, Vargo, and Malter 2006; Vargo and Lusch 2004). As such, the S-D logic represents a certain perspective for viewing strategically relevant aspects like customers, goods, value creation, among others in light of service provision. For example, service provision rather than goods constitute exchange processes, while interactions and operand resources form the basis for meaningful experiences and co-value creation (Lusch Vargo, and O’Brien 2007; Prahalad and Ramaswamy 2004). To date, there exists neither a theory nor an orientation of the firm explicitly based on the S-D logic (see, e.g., Vargo in press; Vargo and Lusch 2006). Nevertheless, S-D logic may lead to a general theory of marketing and, as such, is “[...] implicitly normative and thus can point managers toward practical actions and organizations to standards for ethical interaction and social well-being” (Lusch and Vargo 2006, p. 407). Adopting S-D logic as an informing perspective for strategy allows this study to merge the strategic implications of S-D logic and related literature streams such as service, relationship, and network marketing into a coherent S-D strategic orientation of the firm.

THE CORE STRATEGIC IMPLICATIONS OF THE S-D LOGIC

S-D logic assumes that service is the vantage point and core of every exchange, rather than goods being the central element of a market offering (Vargo and Lusch 2004). As such, “[i]nteractivity, integration, customization, and coproduction are the hallmarks of a service-centered view and its inherent focus on the customer and the relationship” (Vargo and Lusch 2004, p. 11). Recently, Lusch et al. (2007, p. 8) provided a set of propositions for competing through service grounded in the premises of the S-D logic. Based on these and the associated S-D logic literature (e.g., Ballantine and Varey 2006; Flint 2006; Grönroos 2006; Kalaignanam and Varadarajan 2006; Lusch et al. 2006; Lusch et al. 2007; Rust and Thompson 2006; Vargo and Lusch 2004), the following core strategic implications are proposed: (1) focusing on individual customers’ own value creation processes and experiences; (2) taking a long-term relational and partnering approach for interacting with value creation partners; (3) offering and engaging value creation partners in coproduction activities; (4) developing and leveraging operand resources (capabilities) among value creation partners; and (5) aligning and coordinating value network wide processes and service flows. Accordingly, we suggest that these five aspects should represent the fundamental dimensions of an S-D strategic orientation that is consistent with S-D logic.

STRATEGIC ORIENTATIONS IN LIGHT OF THE S-D LOGIC

Both the marketing and management literature provide various examples of strategic orientations and typologies (see, e.g., Gatignon and Xuereb 1997; Lumpkin and Dess 1996; Miles and Snow 1978; Noble, Sinha, and Kumar 2002; Porter 1980). Despite conceptual differences, a common characteristic of strategic orientations is that they are assumed to play an essential role in the pursuit of competitive advantage as they are concerned with the decisions that businesses make to achieve a competitive edge (e.g., Slater, Olson, and Hult 2006). As such, they can be seen as informing and directing a firm’s strategy-making activities while guiding interactions with the marketplace (Hunt and Morgan 1995; Noble et al. 2002). As an essential contribution of the marketing discipline to the strategy dialogue (Hult, Ketchen, Jr., and Slater 2005; Hunt and Lambe 2000), market orientation (Kohli and Jaworski 1990; Narver and Slater 1990) has also been considered a strategic orientation (Hunt and Morgan 1995; Zheng, Zhou, Yim, and Tse 2005). Accordingly, market orientation is assumed to guide and affect strategy selection. However, our in-depth literature review shows that the existing marketing and management literature is lacking a strategic orientation that addresses the above identified five strategic implications of the S-D logic at once.

Contemporary strategic orientations seem to be limited in light of emerging academic thought and business practice. For instance, it has been shown that market orientation does not sufficiently explain the variance in firm performance and that companies often adopt multiple orientations at the same time (Fritz 1996; Gray, Matear, and Matheson 2002). Furthermore, Hunt and Lambe (2000) observe that a “partnering orientation”
(p. 28) is missing in the current conceptualization of market orientation, as is the notion of co-production. Both are increasingly important for co-creating value and co-producing market offerings with customers and other value creation partners. On the other hand, the relevance of collaboration, relationships, and pan-organization-wide strategies has long been promoted in, for example, the service, relationship, and network literature (e.g., Achrol and Kotler 1999; Anderson, Håkansson, and Johanson 1994; Grönroos 2000; Gummesson 1995).

In summary, contemporary (strategic) orientations (see, e.g., Gatignon and Xuereb 1997; Helfert, Ritter, and Walter 2002; Kohli and Jaworski 1990; Lytle, Hom, and Mokwa 1998; Zheng, Zhou et al. 2005) only address certain elements of the S-D logic and of a service-based competition respectively. Furthermore, the applied notions of service in these orientations are typically grounded in traditional understandings of a goods-dominant (G-D) logic and, thus, do not respond to today’s marketing thought and practices which are mirrored in the S-D logic.

CONCEPTUALIZATION OF AN S-D STRATEGIC ORIENTATION

Based on this paucity in the literature in regards to a strategic orientation that is consistent with S-D logic, we will present such a strategic approach that is grounded on the fundamentals of competing through service. In this study, we adopt a conceptualization of a strategic orientation that concerns broad strategic choices as manifested in respective behaviors/activities that enable an organization to achieve long-term success (see Gatignon and Xuereb1997). That is, rather than focusing on an underlying relatively abstract philosophy or mindset, this paper emphasizes organizational behaviors, activities, and processes reflecting a strategic orientation that is in line with S-D logic. In view of empirical testing, our behavioral conceptualization reduces the difficulties of capturing a dominant managerial logic as cognitive processes or schemata that management scholars have issued caution against (see, e.g., Lampel and Shamsie 2000; Prahalad and Bettis 1986). Based on Vargo and Lusch (2004) and the above discussion, we define an S-D strategic orientation as:

Organizational behaviors, activities, and processes concerned with the joint creation of superior value and service experiences with value network partners, while focusing on mutually beneficial relationships, operant resources, and coordinated service flows.

Grounded in the aforementioned strategic implications derived from the S-D associated literature, we propose five corresponding dimensions of an S-D orientation. These are hypothesized to be correlated and to reflect the complex notion of interactive value creation for superior service outcomes. We label the dimensions as follows: “Experience Orientation,” “Relational Orientation,” “Co-Production Orientation,” “Capabilities Orientation,” and “Process Flow Orientation.” These are depicted in Figure 1 and will be discussed and defined in the following.

Experience Orientation

As Flint (2006) puts it: “The S-D logic of marketing seems to be largely about the marketer’s role in helping [individual] customers to create valuable experiences at all stages of the ‘consumption’ process including planning, selection, purchase, consumption, and disposal. The key concept is servicing an experience” (p. 350). As such, experiences are the loci of value creation (Berry 1995; Prahalad and Ramaswamy 2003) where service partners directly or indirectly interact through touch points such as goods, employees or IT infrastructures. Organizations do not create value for and deliver value to customers but instead assist customers in their own value creation and solve problems (e.g., Grönroos 2006; Vargo and Lusch 2004). The center of attention and, thus, the unit of analysis shifts from products to customers and with that to service processes and individual value creation partners’ experiences (e.g., Lusch et al. 2007; Rust and Thompson

![FIGURE 1](image-url)
2006). Accordingly, we propose that firms adopting an S-D strategic orientation have an “Experience Orientation,” which we define as:

**Organizational behaviors, activities, and processes that reflect a firm’s emphasis on understanding and enhancing value creation partner experiences over time.**

### Relational Orientation

A second key aspect of the S-D logic refers to a relational approach when interacting with value creation partners such as customers and suppliers (Vargo and Lusch 2004). Customers are hence treated as partners and operant resources rather than targets (Lusch et al. 2007). In general, firms “[…] move away from transaction oriented marketing strategies and move toward relationship oriented marketing strategies for enhanced performance” (Sheth and Sharma 1997, p. 91). The creation, maintenance, and cultivation of mutually beneficial interactions and relationships with a long-term focus has been highlighted in the context of the S-D logic (Bolton et al. 2004; Vargo and Lusch 2004) and in the marketing and management literature in general (e.g., Grönroos 2000; Gummesson 1995; Pine II, Peppers, and Rogers 1995). However, emphasizing a relational approach does not mean having deep/strong relationships with every customer, since this might not be desired or beneficial for one of the involved relationship parties (e.g., Grönroos 1997).

Under this condition of mutual interest, firms implementing an S-D strategic orientation have a “Relational Orientation,” which we define as:

**Organizational behaviors, activities, and processes that reflect a firm’s approach in creating and maintaining relational exchanges with value creation partners over time.**

### Co-Production Orientation

In line with S-D logic, organizations increasingly encourage and engage customers and other value creation partners in co-production activities. That is, they empower customers and strive to maximize the involvement of value creation partners in the customization of service outcomes (Lusch et al. 2007). For example, they might open up their service production processes during the ideation, innovation, production, and/or distribution phase of the core of the market offering. However, some customers might not necessarily want to be highly involved in service processes (see, e.g., Kalaignanam and Varadarajan 2006) as this participation might increase their perceived costs. Therefore, competing strategically through service entails offering “service co-production opportunities and resources consistent with the customer’s desired level of involvement […]” (Lusch et al. 2007, p. 8). Technology plays a critical role in facilitating co-production activities and managing the trade-off between offering an individualized service and the respective costs associated of it (Lusch et al. 2007; Rust and Espinoza 2006; Rust and Thompson 2006). We define a “Co-Production Orientation” as:

**Organizational behaviors, activities, and processes that reflect a firm’s enabling of value creation partners to participate in co-constructing market offerings.**

### Capabilities Orientation

“A service-centered view identifies operant resources, especially higher-order, core competences, as the key to obtaining competitive advantage” (Vargo and Lusch 2004, p. 12). The relevance of such effect-driving core competencies and dynamic capabilities for achieving competitive edge has been emphasized in the past (e.g., Day 1994; Prahalad and Hamel 1990; Teece, Pisano, and Shuen 1997). Yet, while the focus previously has often been on developing, as well as sharing core competencies and capabilities across departments or divisions (e.g., Narver and Slater 1990), firms with an S-D strategic orientation aim to cultivate and leverage these within the value network. In a value network environment that is increasingly characterized by mutual dependencies, what a firm is able to offer and the outcome of a service does not only depend on one’s own operant resources but is a function of available and useable capabilities of the value creation partners (e.g., Håkansson and Ford 2002; Lusch et al. 2007). Internal and external operant resources are thus deployed for superior service provision. We define the “Capabilities Orientation” as:

**Organizational behaviors, activities, and processes that reflect a firm’s sharing and leveraging of operant resources with value creation partners.**

### Process Flow Orientation

Under S-D logic, the central elements of marketing are processes and service flows rather than units of output (Vargo and Lusch 2004). Accordingly, market offerings become processes of providing benefit in business reality rather than finished products. These value creating processes can be viewed within a value creating network, where customers are an integral part of the system (e.g., Normann and Ramirez 1993). In such a connected environment, organizations move away from unidirectional, sequential value chains to multidirectional, synchronic, interactive, and dynamic value networks (Lusch et al. 2007; Prahalad and Ramaswamy 2004). However, where more than one party is involved in service provision processes, these need to be coordinated and synchronized for smooth operating value systems and process flows that
facilitate flexible service on demand (see, e.g., Flint and Mentzer 2006; Lambert and García-Dastugue 2006). The constant fine-tuning, streamlining, and re-configuration of the value network supports the attainment and maintenance of efficient and effective end-to-end service processes (Normann and Ramírez 1993). Hence, we define a “Process Flow Orientation” as:

*Organizational behaviors, activities, and processes that reflect a firm’s alignment and coordination of service provision processes among value creation partners.*

**POTENTIAL BENEFITS OF AN S-D STRATEGIC ORIENTATION**

The five dimensions function as cumulative proxy for an overall S-D strategic orientation. Since the components of an S-D orientation as such are seen as being of strategic nature and relevance, the superior implementation and execution of this strategic orientation relative to competitors should support the achievement of competitive advantage. Figure 2 accordingly highlights exemplary activities reflecting the underlying dimensions of an S-D strategic orientation and summarizes the potential benefits and outcomes. These outcomes are grouped around: (1) improved service experiences; (2) improved service interactions; (3) improved service offerings; (4) improved service potential; and (5) improved service flows. It is assumed that all dimensions contribute to at least one or a multiple of these expected potential improvements.

In general, S-D logic is grounded in and largely consistent with the resource-based view (RBV) and the resource-advantage (R-A) theory. The two perspectives basically maintain that resources influence performance as they are not quantitatively and qualitatively equally distributed or accessible among firms. Idiosyncratic and difficult-to-imitate resources thus create heterogeneous resource pools among firms that provide an important foundation for superior value creation with value network partners, relative to competitors (e.g., Barney 1991; Das and Teng 2000). The R-A theory complements the RBV, for instance, by assuming not only resource but also demand heterogeneity from the customer’s perspective (Hunt 2002). In line with these frameworks, organizations focus on core competencies and dynamic capabilities, which are commonly seen as higher-order resources, rooted in casually ambiguous, idiosyncratic, and tacit routines/processes (e.g., Hunt 2002; Prahalad and Hamel 1990; Teece et al. 1997). In turn, this emphasis supports the superior co-creation of subjective value and contributes to the achievement of competitive advantage (Hunt and Madhavaram 2006). In S-D logic, the effect-prompting operant resources such as knowledge, receive special consideration as they are seen to be the critical source of competitive advantage (Lusch et al. 2007; Vargo and Lusch 2004). Thus, the RBV and R-A theory serve as theoretical frameworks for the following discussion.

The first potential benefit of the implementation of an S-D strategic orientation relates to improved service experiences. Lusch et al. (2007) state that “[c]ompetitive advantage is a function of how one firm applies its operant
resources to meet the needs of the customer [. . .]” (p. 8) relative to competitors. As experiences result from direct or indirect interaction and are the loci of value creation (Berry 1995; Prahalad and Ramaswamy 2003), a firm’s focus on superior application of its critical resources and/or the provision of superior resources that customers interact with during their own value creation processes, contributes to better value creation partner experiences. On the other hand, a firm’s service provision processes are here seen as core competencies themselves that assist customers’ value creation and problem solving. The improvement of these processes and the involved resources are expected to lead to better value creation partner experiences. In the long-run, higher customer satisfaction, and in turn higher loyalty, will result in positive outcomes that support business success.

The second potential benefit of an S-D strategic orientation concerns improved relationships with value creation partners. As such, long-term firm relationships with customers and suppliers are considered to be essential resources of a firm. Treating customers as long-term partners and, thus, as effect-triggering and dynamic operand rather than passive operand resources (Vargo and Lusch 2004), while fostering two-way communication and information symmetry, supports the development of better relationships among the value creation partners. Long-term relationships foster trust which facilitates deriving deeper insights, mutual learning, and better transfer of valuable knowledge (e.g., Pine II et al. 1995). The establishment of relational rather than transactional interactions with partners who prefer this type of exchange thus promotes the cultivation of critical operand resources for the firm and among its value creation partners. Furthermore, good relationships may also contribute to better experiences as they can generate positive emotional benefits and thus influence perceived value. Again, more satisfied value creation partners, and in turn loyalty, lead to positive outcomes that support a firm’s success.

The third potential benefit of an S-D strategic orientation addresses improved or more effective market offerings. The involvement of customers in different stages of the service chain, such as during ideation or production of a good, allows them to generate more realistic expectations about the outcome as well as directly influence the actual outcome itself. Via this higher personalization customers can ensure that they get what they really want, and therefore achieve a closer fit with their unique preferences (Kalaignanam and Varadarajan 2006; Lusch et al. 2007; Wind and Rangaswamy 2001). However, it is critical to “[d]esign a mutually beneficial operating role for customers” (Frei 2006, p. 100) at their desired level of involvement (Lusch et al. 2007). Through co-production activities, organizations can thus capitalize on value creation partner competencies (e.g., Prahalad and Ramaswamy 2000) and even lower labor costs (Bendapudi and Leone 2003; Mills and Morris 1986), leading to innovation and financial gain of the firm.

The fourth potential benefit of an S-D strategic orientation pertains to improved service potential. S-D oriented firms focus on their own core competencies while sharing and leveraging operand resources among value creation partners (Vargo and Lusch 2004). In fact, competencies and resources are the basis for superior service provision and with higher access to valuable operand resources organizations can improve the service potential of the value network (Lusch et al. 2007). Furthermore, by providing operand resources to value creation partners, firms can leverage these into beneficial outcomes in the spirit of mutual service provision. Organizations that foster the superior cultivation, sharing and application of a value network’s idiosyncratic and difficult-to-copy capabilities will take a significant step toward competitive advantage (Lusch et al. 2007). Service-dominant organizations thus understand their own competencies and operand resources in terms of value creation as well innovation potential that can be enhanced throughout a value creation network (see also Golfitto and Gibbert 2006).

The fifth potential benefit of an S-D strategic orientation tangents improved service flows in the value network. As such, the ability to conceive the entire value creating system and make it work is a critical aspect of networked service processes (Duncan and Moriarty 2006; Normann and Ramirez 1993). An implemented process flow orientation supports effective and efficient service processes. On the one hand, “lean” service processes that are coordinated and aligned consequently waste fewer resources, which in turn reduce the costs of the involved value network partners. On the other hand, customers are buying and participate evermore intensely in service flows (Lusch et al. 2006). Since customers are part of these service provision processes, smooth and efficient working processes contribute to better experiences and, thus, higher satisfaction. Furthermore, improved service flows represent an important leverage for optimized resource deployment among value creation partners.

In summary, the aforementioned examples highlight potential benefits of implementing an S-D strategic orientation. While S-D logic rationalizes exchanges, markets, organizations, and competition based on service (Lusch et al. 2007), it directs managerial focus toward operand resources such as competencies, relational collaboration, and alignment of customers’ and other value-network partners’ value-creating processes. Accordingly, superior service flows, service potential, service offerings, service relationships, and service experiences are expected. As a combined effect of the five dimensions of the S-D strategic orientation, firms strengthen their competitive position, which is supported in this context by the RBV and R-A theory.
CONCLUSION

The service-dominant logic of marketing focuses on “interactivity, integration, customization, and coproduction [. . .]” while highlighting the centricity of customers and relationships (Vargo and Lusch 2004, p. 11). These aspects have been considered, synthesized, and conceptualized here into a coherent strategic orientation that fosters service-based competition. Accordingly, we fill the identified gap of the lack of an existing strategic orientation that corresponds to the identified managerial implications of the S-D logic. As such, we propose and specify five dimensions of an S-D strategic orientation grounded in the S-D literature. We also provide insights into the potential benefits of an implementation of the S-D strategic orientation. Thereby, we focus on five beneficial outcomes that improve a firm’s overall competitive position, which is largely grounded in the RBV and R-A perspective. These lay the foundation for further knowledge advancement. For instance, through the empirical development of a respective scale and testing of potential relationships such as its impact on customer satisfaction and organizational performance.

An S-D strategic orientation reflects a different approach in comparison to the traditional differentiation strategies based on added service (Lusch et al. 2007). As such, competing through service by adopting an S-D strategic orientation focuses strategy on superior processes of providing benefit and, thus, on joint outcomes rather than finished output. Service is not just added to the market offering to increase the value potential; rather, it is the critical process of benefit provision in concert with value creation partners that is the foundation for service-based competition (Vargo and Lusch 2004). As experiences, relationships, interactions, collaborations, and integrations within these processes in today’s networked business arena gain significance, an S-D strategic orientation provides a response to managerial challenges in the pursuit of competitive advantage.

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PERFORMANCE IMPLICATIONS OF DEVELOPING CUSTOMER-LINKING CAPABILITIES

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SUMMARY

This research adds to the growing literature on dynamic capabilities by introducing a model that describes how firms convert existing marketing capabilities and resources into the dynamic capability of customer linking (i.e., connecting a firm’s business processes to customers thereby leading to durable relationships). To achieve this goal, the current study presents and empirically tests a model of how market-sensing capabilities are leveraged with the intangible, complementary business resources of top management commitment, capability strategy, and workforce flexibility to improve organization performance. Specifically, the focus is on the creation of customer-linking capabilities via the implementation of e-business technology. With the dynamic capabilities view serving as the primary conceptual lens, literature from marketing strategy and management strategy is used to propose and test a conceptual model of how advantageous capabilities can be identified, developed and measured within organizations.

Day’s (1994) seminal work posits that a capability, which he defines as the bundling of skills and abilities that facilitate the execution of business processes, can develop into a distinctive capability that is difficult to match by rival firms. These distinctive capabilities are what provide superior customer value in Day’s view of the market-driven organization. In parallel with the marketing literature’s attention toward the strategic importance of capabilities, Teece, Pisano, and Shuen (1997) introduce the dynamic capabilities view in the strategic management literature. This perspective, which highlights how some firms develop and sustain competitive advantages and superior profitability, extends the resource-based view (RBV) of the firm. The dynamic capabilities view emphasizes the key management role of appropriately adapting, integrating, and reshaping organizational skills and resources as well as internal and external functional competences.

From a marketing strategy perspective, the dynamic capabilities view suggests that internal capabilities, such as the outside-in capabilities of market-sensing, must be combined and integrated with other complementary resources or capabilities to generate and sustain a competitive advantage. In our investigation, we focus on the complementary capability of customer linking and examine its critical dimensions that lead to performance. Extant literature suggests that the coordination of activities with customers is one of the skills, abilities and processes that must be mastered to develop customer-linking capabilities. From this we identify the deployment of marketing-related information technology as a specific instance of an activity-coordinating mechanism that links a company to its customers.

Our conceptual model is informed by an information technology and an innovation capability framework from the management literature in addition to the rich body of market orientation literature. Our model suggests that market orientation (viewed as a specific instance of a market sensing capability) is a critical antecedent to the development of customer-linking capabilities. Furthermore, the model explains how the business resources of e-business strategy are integrated with the complementary human resources of top management team commitment and a flexible culture to form a new, distinctive capability. It is through the successful development of this new capability that firms can enhance their performance.

Structural equation modeling was used to analyze survey data from 584 top management team members of Belgium-based firms. The results support our position that market orientation is an important driver in the successful deployment and subsequent performance of new capabilities that connect a firm’s business processes to its customers. Specifically, we find that when market orientation is coupled with managerial commitment, an overall strategy, and a supportive and flexible workforce that embraces the new capability, firm performance can be positively influenced.

From a theoretical perspective, this study provides evidence that taking a capabilities-based approach toward the examination of a market-oriented philosophy can reveal new insight into how firms develop, integrate and deploy specific capabilities to create sustained competitive advantage. To our knowledge there is currently no model to describe how market-driven firms identify, develop and measure the marketing capability of customer linking. Additionally, by viewing marketing capa-
ilities as a form of innovation, as was done in this study, researchers can leverage a rich body of the innovation and technology literature found in the management discipline. While a specific instance of a capability is selected for this study (i.e., customer linking), it is expected that this model can be useful for exploring how firms identify and develop other marketing-related capabilities. References available upon request.

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WHEN CAN WE MEASURE WILLINGNESS TO PAY DIRECTLY? AN EMPIRICAL STUDY ON THE ROLE OF CONSUMERS’ INVOLVEMENT IN THE DIRECT ELICITATION OF RESERVATION PRICES

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SUMMARY

A key challenge in applied market research is the precise identification of consumers’ willingness to pay (WTP), which denotes the maximum amount of money a consumer is willing to pay for a given quantity of a good. Researchers usually focus on consumer’s hypothetical willingness to pay (HWTP; i.e., no obligation of respondents to buy the product), which may deviate from consumer’s actual willingness to pay (AWTP). This deviation is known as the “hypothetical bias.” Two different approaches are used to elicit consumers’ HWTP: the indirect and the direct approach. If the researcher applies the indirect approach (e.g., conjoint analysis), then he calculates a consumer’s HWTP based on his or her preference in alternative product profiles, which vary in price and other product attributes. For the direct approach, the researcher asks consumers directly to explicitly state their HWTP. In direct WTP measurement techniques and procedures of applied market research usually three different question formats are used. For the open-ended (OE) question format, respondents are asked to state their maximum WTP for a specific product in an open-ended field. For the dichotomous choice (DC) question format, respondents are asked whether they will accept or reject a stated price for a specific product. For the payment card (PC) question format, respondents are asked to select one of several proposed prices as their maximum WTP for a specific product.

The number of studies which compare the different direct question formats (OE, DC, and PC) with regard to the hypothetical bias is limited. Specifically, we know of only four studies on this issue. These studies empirically compare the DC and OE formats for hypothetical bias. The results of those four studies do not provide a clear picture of the superiority of the DC over the OE question format. To our knowledge, the PC question format has not yet been empirically compared with the other two direct question formats. The research deficits of the literature on the direct approach to measure consumers’ WTP can be summarized as follows: prior empirical studies originate in environmental economics (the contingent-valuation literature) and measure WTP for public goods such as air quality, groundwater, or forest wildlife resources. In the context of such public goods the social desirability of answers may play a certain role and hence have an impact on the magnitude of the hypothetical bias. There is a lack of research on the direct approach to elicit consumers’ WTP in the context of private (i.e., consumer) goods. Measuring WTP for private goods may be different (e.g., due to better product knowledge of respondents or lack of social desirability of responses). Another research deficit refers to the observation that prior empirical studies are rather exploratory and do not provide strong conceptual arguments concerning the existence and antecedents of hypothetical bias. Furthermore, the validity of alternative direct question formats is empirically compared without discussing the effect of contextual factors such as consumers’ product-related involvement on the magnitude of hypothetical bias. This may explain some of the conflicting findings with regard to the supremacy of alternative question formats. By taking an exploratory empirical focus and by neglecting the role of contextual factors, prior studies tend to miss the core issue relevant for applied market research, that is, under what circumstances is the direct approach a valid instrument to measure consumers’ WTP? Based on these research deficits, we will answer the following research questions: (1) Do alternative direct question formats differ in their hypothetical bias? (2) How does the level of respondents’ product-related involvement affect the validity of the direct approach?

In order to answer our first research question, we compared the bias of alternative direct question formats: open-ended (OE), dichotomous-choice (DC) and payment-card (PC). We were able to show that all three question formats lead to hypothetical bias, which we defined as the difference between hypothetical willingness to pay (HWTP), and actual willingness to pay (AWTP). As hypothesized, we did not find significant differences in hypothetical bias in paired comparisons of either the PC and OE question formats or the DC and OE question formats. We found a significant difference in hypothetical bias only in paired comparison of the DC and PC question formats. However, our results indicate that the somewhat larger bias with the DC question format...
may be the consequence of what method is used to measure AWTP in a within-subject design. In contrast, HWTP values across the three question formats do not differ significantly. These results show that in a general context (i.e., not taking contingency variables into consideration), the various direct question formats can generate similar results for HWTP and hypothetical bias. Hence, we find no generally superior direct question format for measuring WTP. Our second research question addresses the issue that seems to have been neglected in prior research, that is, under what circumstances is the direct approach a valid instrument to measure consumers’ WTP? After a conceptual discussion of possible drivers of hypothetical bias, we focused on the role of respondents’ product-related involvement. We found a significant negative linear relation between hypothetical bias and the product-related involvement of the consumer, which may even eliminate hypothetical bias in the case of extremely high involvement. In other words, when consumers show high product-related involvement, HWTP statements seem to be more accurate than are HWTP statements from consumers with low product-related involvement.

Our study suggests several opportunities for further research. For example, future research could empirically examine the causes of hypothetical bias in a more comprehensive way. An empirical examination of the underlying motivation and ability of the respondents to disclose their true WTP may help managers to better interpret estimated HWTP values. Our research has several implications for management. First, our results indicate that the direct approach, which only measures consumers’ HWTP, may result in WTP estimates that are significantly different from AWTP. Hence, when interpreting HWTP estimations that were generated with a direct approach, managers should bear in mind that the estimated HWTP may be considerably overestimated. A failure to adjust for hypothetical bias might lead managers to substantially overprice their products. Second, the direct approach leads to more valid HWTP estimates (smaller hypothetical bias) when product-related involvement of consumers is high. With consumers that show high product-related involvement, hypothetical bias disappears. This finding is relevant for applied market research: In the case of highly involved respondents and/or in the case of high involvement consumer goods, the direct approach to measure consumers’ WTP can provide valid results in a cost- and time-efficient way. In the case of low or medium involvement consumer goods, researchers are well-advised to additionally elicit product-related involvement of their respondents in order to better interpret the validity of the resulting WTP data.
AN INVESTIGATION OF THE RELATIONSHIP BETWEEN THE NUMBER OF RESPONSE CATEGORIES AND SCALE SENSITIVITY

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SUMMARY

Category rating scales are frequently used in social science research as well as in opinion polling to measure attitude or reaction to a stimulus. Hence, the issue of whether the number of response categories included in the category rating scale affects scale sensitivity, i.e., the ability to statistically separate mean ratings for different stimuli, is important to researchers and practitioners alike. There are two conflicting views regarding the relationship between the number of categories in an itemized rating scale and scale sensitivity (Parasuraman et al. 2004). On one hand, increasing the number of scale categories arguably enhances the precision of a scale by providing more options for respondents, and thus increases sensitivity (Krosnick and Fabrigar 1997). On the other hand, the greater the number of categories included in a scale, the higher the variance or noise in the measurement, and these increasing the number of scale categories beyond a certain point may actually decrease sensitivity. The paper describes the results of an experiment that was conducted to evaluate and compare the sensitivities of commonly used category rating scales with different number of categories.

The experiment involved requesting consumers, intercepted and recruited in shopping malls, to evaluate three sample products in each of three very distinct product categories, orange juice, facial tissue, and writing instruments (pens). The stimuli within each product category were chosen to represent the range of quality in the category so that differences in average acceptability could be expected. Subjects were asked to rate each sample for overall acceptability using one of the four category rating scales included in the study. The rating task was then repeated using the same stimuli (this was not revealed to the participant), but using a different rating scale. Eighteen respondents were randomly assigned to each of the twenty-four groups, 6 pairs of scales (formed from the four scales studied) x 2 orders of scale presentation (e.g., 5-pt. followed by 6-pt. or vice versa) x 2 product category sequences (orange juice, facial tissue, pens or pens, facial tissue, orange juice) resulting in a total sample of 432 respondents.

Statistical analyses indicated that the ratings data, within each product category, could be aggregated across experimented conditions, e.g., whether the scale was used first or second, for each of the four scales. The ratings data (aggregated) for each product category and each of the four scales were analyzed using a repeated measures model (3 measures, one scale rating for each of three stimuli, for each subject). For each of the 12 analyses (4 scales and 3 product categories), the base size for the statistical analyses ranged from 207 to 220.

The results indicate that increasing the number of scale points/response categories do not increase sensitivity. The Eta² measure of effect size was quite consistent across scales within each product category. In particular, in the context of labeled category rating scales, the 5-point and 6-point scales appear to be at least as sensitive as a 9-point scale. In fact, there were several instances where the 5-point and 6-point scales indicated significant differences between stimuli means which were not found to be significantly different using the 9-point and 10-point scales. It is also noted that the scales with the low number of response categories take less time to administer than the scales with the large number of categories and are preferred by subjects. The longer the survey, the more expensive the data collection and the more likely a subject will terminate an interview before completion. Hence, from a practical point of view as well, the scales with 5 and 6 response categories are preferred.

In conclusion, scale sensitivity can be added to the list of constructs, including reliability and validity, not necessarily enhanced by increasing the number of response options.
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THE PUZZLE OF “ABOUT SIX” INDICATORS IN LATENT VARIABLES

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ABSTRACT

The paper investigates the observation that latent variables have a maximum of about six indicators in published substantive studies. An additional explanation for this “puzzle of about six indicators” is offered, and several approaches to utilizing more than about six indicators for latent variables are explored. A suggested additional step in item judging is offered for theoretical model tests with “weeded” measures used as latent variable indicators.

INTRODUCTION

Theoretical model tests in the Social Sciences frequently combine unobserved, or latent variables (LV’s), with hypothesized linkages among these variables (a model), and observed (reflexive) indicators of these LV’s. Commenting on the number of indicators per LV in published model tests, authors have noted that the number of indicators per LV seems to be about six (e.g., Anderson and Gerbing 1984; Bagozzi and Heatherton 1994; Gerbing and Anderson 1993; Ping 2004). This has several implications. Cattell (1973) stated that the resulting latent variable measures tend to be “bloated specific” instances of their target construct which tap only one facet of that construct. Larger, well-established measures, developed before structural equation analysis became popular, have largely disappeared from published research. When they do appear in structural equation analysis, they are frequently “shadows of their former selves” because of extensive item deletion to attain model-to-data fit (e.g., Comer, Machleit, and Lagace 1989). Because of the implications for face or content validity of “about 6-item” LV’s, this paper explores the “puzzle of about six indicators.” An additional explanation for this apparent puzzle is proposed, and previously proposed approaches to avoiding this limitation are explored. The results suggested that several proposed approaches might not always perform. Along the way, difficulties associated with “weeded” subsets of items (i.e., about 6-item subsets that result from deleting items from a measure to obtain measurement model-to-data fit), such as structural coefficient indeterminacy, are examined.

ABOUT SIX INDICATORS?

The puzzle of about six indicators is apparently the result of chronic measurement model-to-data fit difficulties (i.e., internal inconsistency, see Anderson and Gerbing 1982). Gerbing and Anderson (1993) commented that “. . . fit indices indicated less fit as the . . . number of indicators per factor, increased . . . ” They suggested that “Models with few indicators per factor . . . have fewer (degrees of freedom), leaving more ‘room to maneuver’ the parameter estimates so as to minimize the fit function, which in turn is a function of the residuals” (i.e., differences between the model implied covariances and the input covariances).

AN ADDITIONAL EXPLANATION

Intuitively, lack of (single construct) measurement model-to-data fit as caused by “unrelated” items in a measure—the result of retaining items that do not “cluster” well with other items. With lack of single construct measurement model-to-data fit, the input or observed correlation between an unrelated item and each item in a set of better-related items cannot be satisfactorily accounted for by the (usual) model paths connecting them.3 The Endnote 3 equation for the model-implied covariance of two unidimensional indicators suggests an additional explanation for the puzzle of about six indicators. Including indicators for an LV without accounting for correlations among their measurement errors (e.g., because of common method) may eventually ruin their single construct measurement model-to-data fit. In different words, by not specifying correlated measurement errors in an LV, the sum of the resulting residuals (i.e., the differences between the Endnote 3 computed covariances of the indicators without correlated error terms, and the input covariances) may eventually become unacceptably large.

CLASSICAL REMEDIES FOR LACK OF FIT

The classical remedy for lack of single construct measurement model-to-data fit (SCMM fit) was to correlate several indicator measurement errors (see for example Bagozzi 1981a; Byrne and Shavelson 1986; Bearden and Mason 1980; Duncan, Haller, and Portes 1971; Reilly 1982). However, this has been criticized (e.g., Bagozzi 1983; Fornell 1983; Gerbing and Anderson 1984), and its use has become rare in published theoretical model tests. Another remedy for lack of SCMM fit is to delete or “weed” indicators. These and other suggestions will be briefly discussed next, then their usefulness will be explored later.

CORRELATED MEASUREMENT ERRORS

Strategically including a non-zero correlated measurement error can improve the difference between a
model-implied covariance estimate and its input/observed covariance (see Endnote 3). However, authors have criticized correlated measurement errors (e.g., Bagozzi 1983; Fornell 1983; Gerbing and Anderson 1984). They are a departure from the assumptions underlying classical test theory and factor analysis. Measurement errors that are correlated are typically un hypothesized and thus they are discovered by chance. The process of finding them is tedious, and thus error-prone. And, as we will see, there may be several sets of correlated measurement errors that will produce SCMM fit, and there is no guidance for choosing the “best” set of correlated measurement errors.

**ITEM WEEDING**

In recent published LV model tests, single construct measurement model-to-data fits are usually attained by “item weeding” – dropping items to be used as indicators from a measure. However, because the resulting set of consistent items is unknown beforehand, the results of item weeding capitalize on chance. Weeding is also tedious, and thus error-prone. And, as we will see, there may be several subsets of weeded items that fit the data. Item weeding in valid and reliable measures to attain SCMM fit has been criticized because it can change content or face validity (e.g., Cattell 1973, 1978; see Gerbing, Hamilton, and Freeman 1994). As mentioned earlier, Cattell (1973) remarked that the resulting weeded measures tend to be operationally narrow instances of their construct which usually tap only one facet of the construct.

**SECOND-ORDER CONSTRUCTS**

Gerbing and Anderson (1984) proposed using a second-order construct\(^1\) as an alternative to correlating measurement errors. They argued that a pair of indicators with correlated measurement errors could be re-specified as a factor (Factor 1, without correlated measurement errors). Factor 2, containing the rest of the indicators, along with the two-indicator Factor 1, could then be specified as the “indicator” constructs of a second-order construct. However, because the Factor 1 indicators are unknown beforehand, the process of identifying the Factor 1 indicators capitalizes on chance. The process of identifying the Factor 1 indicators is also tedious and error-prone. In addition, there may be several second-order constructs that will fit the data. A second-order construct also is a more complex model specification, and thus it may be judged less parsimonious.

**AGGREGATION**

Variations of an approach attributed to Kenny (1979) and involving summed items, has been used presumably to avoid item weeding (e.g., Heise and Smith-Lovin 1981; James, Mulaik, and Brett 1982; Williams and Hazer 1986).\(^4\) This approach produces a single summed indicator for an LV, with a fixed LV variance and a fixed measurement error variance for that indicator. This full or total aggregation (Bagozzi and Heatherton 1994) alternative to item weeding has many advantages (details omitted). However, the indiscriminant use of aggregated indicators can mask the psychometric structure of a measure (e.g., a summed indicator that is composed of multidimensional items). Aggregated indicators are also non-traditional in structural equation analysis, and their use in structural equation analysis could be viewed as not particularly elegant.

**PARTIAL AGGREGATION**

Bagozzi and Heatherton (1994) used partial aggregation – items were grouped into subsets and each subset was then aggregated. This approach has the benefits and drawbacks of full aggregation. However, because the way the items should be aggregated could be unknown beforehand, partial aggregation capitalizes on chance. The process of finding consistent aggregations of items is also tedious and thus error-prone. In addition, there may be several aggregations of items that will fit the data.

**EXTERNAL CONSISTENCY ONLY**

Item weeding is typically performed one-measure-at-a-time (i.e., using single construct measurement models – see Jöreskog 1993) in order to establish the internal consistency of each measure (i.e., each measure fits its SCMM – see Anderson and Gerbing 1988). Then, to assess the external consistency of a measure (i.e., the measure fits the data in fuller measurement models – again see Anderson and Gerbing 1988), the resulting internally consistent measure is jointly specified in fuller measurement models (i.e., measurement models that contain some or all the measures). However, it could be argued that the ultimate objective of item weeding is for the full measurement model to fit the data adequately (to isolate any structural model fit problems to the structural paths among the constructs). Thus, it may be possible with real-world data to skip the internal consistency step, and attain adequate (full) measurement model-to-data fit by item-weeded in a full measurement model only. This alternative may produce measures with fewer items weeded out. However, because any weeded items are unknown beforehand, this alternative capitalizes on chance. Weeding is tedious, and there may be several subsets of weeded items that will fit the data. In addition, skipping the internal consistency step violates the “received view” in theoretical model testing using survey data (Anderson and Gerbing’s 1988 “Two-Step” approach: first verify internal consistency, then sequentially verify external consistency – see Jöreskog 1993).
MEASURE VALIDATION

Ideally, measure validation uses several data sets; one to show measure adequacy (i.e., acceptable psychometrics), and another data set to validate (i.e., disprove) the adequacy of the measure. However, this approach is comparatively rare in published survey model tests. There, measure adequacy is frequently established in a typically small pretest survey(s). These pretests are usually used to determine a response rate, as well as to preliminarily assess the measures and the model. Measure adequacy assessment is then combined with the model test in a larger survey (with possibly additional changes to the measures to achieve measure adequacy). Obviously a measure validation study is desirable. It would allow the “discovery” of, for example, “the” weeded subset, “the” correlated measurement error structure, “the” second-order LV structure, “the” partial aggregation structure, or “the” external-consistency-only structure of a measure in study one. Then, that structure could be tested (disconfirmed) in study two. In practice, however, conducting multiple surveys is expensive and time consuming, which may be more than sufficient to limit its use.

USING THESE APPROACHES

The balance of the paper investigates the above approaches using a survey data set with more than 200 usable responses. Among the nine LV’s in the hypothesized model for which the data was gathered was the single endogenous variable N that had a new 18-item measure. The eight other LV’s were judged to be valid and reliable, but while the measure for N was judged to be content or face valid, it was multidimensional (i.e., it had three dimensions using maximum likelihood exploratory common factor analysis). The items in each of the three factors were subsequently judged to be valid and reliable, but their single construct measurement models were inconsistent. Thus, item weeding or an alternative was desirable. In addition to expecting that each of the above techniques would be useful, this exploratory research investigated the following Research Questions (omitted but discussed later). I also made the following assumptions in the investigations. LV’s used in model tests should be content or face valid, and reliable. They also should be convergent valid using a strict criterion, such as Average Variance Extracted (see Fornell and Larker 1981). And, except when noted, LV’s first should be internally and externally consistent (e.g., Anderson and Gerbing 1988).

ITEM WEEDING

Appendix A investigated the use of item weeding to produce subsets of consistent indicators. Several approaches were used, including maximizing the reliability of the 18 item measure for N by successively deleting items that degraded the reliability of N, Ordered Similarity Coefficients (OSC’s) (see Anderson and Gerbing 1982), and a new procedure (see Ping 2004) that uses partial derivatives of the likelihood function with respect to the measurement errors. A total of 24 consistent subsets of the 18 item measure for N were found. While there may have been more, I discontinued the search after it became tedious to judge which subset had the “best” content or face validity. In structural models specified with 9 of these weeded subsets, the significance of all but three of the model’s 8 hypothesized associations with N varied from significant to nonsignificant depending on which weeded subset was selected to itemize N (see Table A). Stated differently, most hypothesized associations with N were significant using some (weeded) consistent subsets, but nonsignificant using others.

PARTIAL AGGREGATION

Appendix B presents the results of using partial aggregation. In summary, a psychometrically adequate (i.e., reliable, convergent valid, and consistent) logical partitioning (i.e., grouping items that appear to tap the same facet of N, see Bagozzi and Heatherton 1994) of all 18 items of N was not found. However, averaged items from forced 2, 3, and 4 factor factorizations were psychometrically adequate in full measurement models with each of the other LV’s itemized with their multiple indicators. In measurement models with each of the other LV’s itemized with fully aggregated indicators (each LV’s indicators were averaged) these itemizations were not externally consistent. In addition, two aggregated indicators for N using its Factor 1 items (i.e., an indicator that was the average of the weeded Factor 1 items, and another indicator that was the average of the Factor 1 items that were weeded out), produced similar results. In structural models specified using the items that fit the data, the significance of all but one of the model’s 8 hypothesized associations with N varied from significant to nonsignificant depending on which aggregated subset was selected to itemize N (see Table B). Stated differently, some hypothesized associations with N were significant using some partial aggregations, but nonsignificant using others.

CORRELATED MEASUREMENT ERRORS

Appendix C investigated the use of correlated measurement errors. In summary, two sets of correlated measurement errors were found that resulted in the Factor 1 items of N fitting their single construct measurement model. In addition, a set of correlated measurement errors that allowed the full 18-item set to fit its single construct measurement model was found. In structural models for the same itemization of N, significant structural coefficients and their t-values were practically identical across different sets of correlated measurement errors (see
### Table A
Hypothesized Associations with “Weeded” N (Standardized Structural Coefficients, with Standard Errors and t-values of the Corresponding Unstandardized Structural Coefficient Beneath)

<table>
<thead>
<tr>
<th>Exog Vars</th>
<th>S</th>
<th>A</th>
<th>I</th>
<th>C</th>
<th>L</th>
<th>V</th>
<th>O</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subset 0 (n_9, n_11, n_13, – n_17) Reliab = .956 AVE = .761</td>
<td>-0.425</td>
<td>-0.041</td>
<td>0.036</td>
<td>0.154</td>
<td>0.040</td>
<td>-0.261</td>
<td>-0.062</td>
<td>0.253</td>
</tr>
<tr>
<td></td>
<td>(0.091)</td>
<td>(0.087)</td>
<td>(0.082)</td>
<td>(0.062)</td>
<td>(0.103)</td>
<td>(0.105)</td>
<td>(0.070)</td>
<td>(0.071)</td>
</tr>
<tr>
<td></td>
<td>-3.465</td>
<td>-0.350</td>
<td>0.454</td>
<td>1.771</td>
<td>0.480</td>
<td>-3.026</td>
<td>-0.650</td>
<td>2.084</td>
</tr>
<tr>
<td>Subset a (n_5 – n_8) Reliab = .930 AVE = 769</td>
<td>-0.331</td>
<td>-0.362</td>
<td>0.080</td>
<td>0.266</td>
<td>0.065</td>
<td>-0.323</td>
<td>-0.240</td>
<td>-0.098</td>
</tr>
<tr>
<td></td>
<td>(0.109)</td>
<td>(0.106)</td>
<td>(0.100)</td>
<td>(0.075)</td>
<td>(0.124)</td>
<td>(0.127)</td>
<td>(0.086)</td>
<td>(0.086)</td>
</tr>
<tr>
<td></td>
<td>-2.932</td>
<td>-2.634</td>
<td>0.880</td>
<td>2.652</td>
<td>0.677</td>
<td>-3.255</td>
<td>-2.169</td>
<td>-0.710</td>
</tr>
<tr>
<td>Subset b (n_10, n_12, n_14, and n_18) Reliab = .934 AVE = 781</td>
<td>-0.373</td>
<td>-0.151</td>
<td>0.203</td>
<td>0.117</td>
<td>0.066</td>
<td>-0.345</td>
<td>-0.106</td>
<td>0.029</td>
</tr>
<tr>
<td></td>
<td>(0.111)</td>
<td>(0.108)</td>
<td>(0.103)</td>
<td>(0.076)</td>
<td>(0.128)</td>
<td>(0.130)</td>
<td>(0.087)</td>
<td>(0.088)</td>
</tr>
<tr>
<td></td>
<td>-2.795</td>
<td>-1.146</td>
<td>2.291</td>
<td>1.213</td>
<td>0.708</td>
<td>-3.622</td>
<td>-0.999</td>
<td>-0.213</td>
</tr>
<tr>
<td>Subset c (n_13, n_15 – n_17) Reliab = .952 AVE = .837</td>
<td>-0.394</td>
<td>-0.022</td>
<td>0.021</td>
<td>0.149</td>
<td>0.035</td>
<td>-0.259</td>
<td>-0.047</td>
<td>0.252</td>
</tr>
<tr>
<td></td>
<td>(0.106)</td>
<td>(0.102)</td>
<td>(0.097)</td>
<td>(0.073)</td>
<td>(0.121)</td>
<td>(0.123)</td>
<td>(0.083)</td>
<td>(0.084)</td>
</tr>
<tr>
<td></td>
<td>-3.140</td>
<td>-0.178</td>
<td>0.249</td>
<td>1.662</td>
<td>0.398</td>
<td>-2.913</td>
<td>-0.470</td>
<td>-2.013</td>
</tr>
<tr>
<td>Subset 1 (n_1, n_12, n_14, n_15, and n_18) Reliab = .785 AVE = .598</td>
<td>-0.317</td>
<td>-0.145</td>
<td>0.152</td>
<td>0.119</td>
<td>0.064</td>
<td>-0.348</td>
<td>-0.059</td>
<td>0.081</td>
</tr>
<tr>
<td></td>
<td>(0.105)</td>
<td>(0.102)</td>
<td>(0.097)</td>
<td>(0.072)</td>
<td>(0.121)</td>
<td>(0.123)</td>
<td>(0.082)</td>
<td>(0.083)</td>
</tr>
<tr>
<td></td>
<td>-2.353</td>
<td>-1.092</td>
<td>1.699</td>
<td>1.230</td>
<td>0.684</td>
<td>-3.603</td>
<td>-0.550</td>
<td>0.604</td>
</tr>
<tr>
<td>Subset 1a (n_4, n_12, n_14, n_15, and n_18) Reliab = .896 AVE = .668</td>
<td>-0.320</td>
<td>-0.149</td>
<td>0.153</td>
<td>0.119</td>
<td>0.064</td>
<td>-0.351</td>
<td>-0.060</td>
<td>0.078</td>
</tr>
<tr>
<td></td>
<td>(0.095)</td>
<td>(0.092)</td>
<td>(0.087)</td>
<td>(0.065)</td>
<td>(0.109)</td>
<td>(0.111)</td>
<td>(0.074)</td>
<td>(0.075)</td>
</tr>
<tr>
<td></td>
<td>-2.389</td>
<td>-1.133</td>
<td>1.723</td>
<td>1.235</td>
<td>0.635</td>
<td>-3.651</td>
<td>-0.566</td>
<td>0.585</td>
</tr>
<tr>
<td>Subset 2 (n_9, n_13, n_16, n_17, and n_18) Reliab = .947 AVE = .757</td>
<td>-0.399</td>
<td>-0.033</td>
<td>0.032</td>
<td>0.146</td>
<td>0.043</td>
<td>-0.274</td>
<td>-0.046</td>
<td>0.241</td>
</tr>
<tr>
<td></td>
<td>(0.104)</td>
<td>(0.100)</td>
<td>(0.095)</td>
<td>(0.071)</td>
<td>(0.119)</td>
<td>(0.120)</td>
<td>(0.081)</td>
<td>(0.082)</td>
</tr>
<tr>
<td></td>
<td>-3.237</td>
<td>-0.278</td>
<td>0.397</td>
<td>1.655</td>
<td>0.508</td>
<td>-3.133</td>
<td>-0.477</td>
<td>1.961</td>
</tr>
<tr>
<td>Subset 3 (n_1, n_10, n_11, and n_17) Reliab = .903 AVE = .716</td>
<td>-0.492</td>
<td>-0.117</td>
<td>0.093</td>
<td>0.162</td>
<td>0.066</td>
<td>-0.272</td>
<td>-0.120</td>
<td>0.210</td>
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<tr>
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<td>(0.084)</td>
<td>(0.077)</td>
<td>(0.073)</td>
<td>(0.055)</td>
<td>(0.091)</td>
<td>(0.095)</td>
<td>(0.063)</td>
<td>(0.064)</td>
</tr>
<tr>
<td></td>
<td>-3.954</td>
<td>-1.008</td>
<td>1.189</td>
<td>1.898</td>
<td>0.804</td>
<td>-3.159</td>
<td>-1.274</td>
<td>1.769</td>
</tr>
<tr>
<td>Subset 4 (n_11, n_13, n_16, n_17, and n_18) Reliab = .935 AVE = 751</td>
<td>-0.418</td>
<td>-0.049</td>
<td>0.046</td>
<td>0.157</td>
<td>0.033</td>
<td>-0.284</td>
<td>-0.090</td>
<td>0.265</td>
</tr>
<tr>
<td></td>
<td>(0.102)</td>
<td>(0.098)</td>
<td>(0.093)</td>
<td>(0.069)</td>
<td>(0.116)</td>
<td>(0.117)</td>
<td>(0.079)</td>
<td>(0.080)</td>
</tr>
<tr>
<td></td>
<td>-4.440</td>
<td>-0.411</td>
<td>0.575</td>
<td>1.807</td>
<td>0.385</td>
<td>-3.292</td>
<td>-0.934</td>
<td>2.179</td>
</tr>
</tbody>
</table>

Table C). However, different itemizations of N produced different sets of significant structural coefficients with correlated measurement errors.

**EXTERNAL CONSISTENCY ONLY**

Appendix D illustrates the omission of the internal consistency verification step to achieve full measurement
model fit using external consistency only. I itemized N with its (unidimensional) Factor 1 items obtained from a maximum likelihood exploratory common factor analyses. The resulting measurement model fit the data, and the structural model produced results that were interpretationally equivalent to the correlated measurement error results for the Factor 1 itemization of N (corresponding associations agreed in direction and significance between the models) (see Table D). However, ignoring internal consistency (slightly) degraded the “unidimensionality” of N in the full model (the loadings of the indicators of N on other LV’s). I also itemized all 9 LV’s with their Factor 1 items that were obtained from single construct maximum likelihood exploratory common factor analyses (i.e., N was itemized with its Factor 1 items, the next construct was itemized with its Factor 1 items, etc.). The resulting full measurement model containing N and the other LV’s fit the data without deleting any additional items. However, LISREL produced a warning that the number of cases was less than the number of parameters to be estimated and the parameter estimates were unreliable.

**FULL AGGREGATION**

Appendix E summarizes the results of using full aggregation. First, the full (multidimensional) 18-item measure for N was summed then averaged. Next, a full measurement model with this specification of N, and the other LV’s, was estimated. This process was repeated with a single averaged indicator for N composed of the Factor 1 (inconsistent) items, then a weeded subset of items. In all cases the full measurement models fit the data, as did the corresponding structural models. However, the significant associations varied considerably across these full aggregations, and the structural models generally displayed fewer significant associations as the number of items aggregated increased (see Table E).

<table>
<thead>
<tr>
<th>TABLE B</th>
<th>Hypothesized Associations with Partially Aggregated N (Standardized Structural Coefficients, with Standard Errors and t-values of the Corresponding Unstandardized Structural Coefficient Beneath)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exog Vars</td>
<td>S</td>
</tr>
<tr>
<td>18 Items with Forced 2 Factors; Reliab = .943(F1), .889(F2), .758(LV); AVE = .585(F1), .542(F2), .617(LV)</td>
<td>-0.209</td>
</tr>
<tr>
<td>18 Items with 3 Factors; Reliab = .943(F1), .917(F2), .749(F3), .758(LV); AVE = .585(F1), .708(F2), .605(F3)</td>
<td>-0.409</td>
</tr>
<tr>
<td>18 Items with Forced 4 Factors; Reliab = .957(F1), .930(F2), .812(F3), .938(F4), .858(LV); AVE = .737(F1), .769(F2), .530(F3), .858(F4), .637(LV)</td>
<td>-0.423</td>
</tr>
<tr>
<td>Partially Aggregated Weeded (Subset 2) and “Weeded Out” Factor 1 Items; Reliab = .947(F1), .923(F2), .933(LV); AVE = .757(F1), .753(F2), .938(LV)</td>
<td>-0.427</td>
</tr>
</tbody>
</table>

*Latent variable with aggregated factors as items.*
OTHER APPROACHES

Appendix F presents the results of investigating the remaining suggestions, second-order constructs and measure validation, and a comment on factor scores. Several second order specifications were attempted, including respecifying correlated measurement errors as second order constructs, combining consistent and weeded-out items, and logically grouping items based on their content or face validity. In summary, while not every possibility for a second-order specification was investigated, I could not easily find a second order specification of the items of N that fit the data. In order investigate the use of measure validation, and provide an example of a measure validation study that was comparatively less time consuming and less expensive, I conducted a Scenario Analysis. A Scenario Analysis is an experiment in which subjects read written scenarios that portray a situation in which the study constructs are manipulated. Then they are asked to complete a questionnaire containing the study measures. The scenario questionnaire included the Factor 1 items from the measure for N in the mailed-out study. Unfortunately, a maximum likelihood exploratory common factor analysis of N produced two dimensions for the mailed-out study’s Factor 1 items. In addition, none of the Factor 1 weeded itemizations from the full study were consistent in the scenario data. These results were subsequently attributed to N being insufficiently manipulated in the Scenario Analysis, and insufficient attention to the details of the experiment.

RESEARCH QUESTIONS

Returning to the research questions (RQ’s) and RQ1, “Would the investigation produce empirical evidence of the “unmodeled-measurement-error” explanation of the “about-six-indicators upper limit,” in the first derivative (Modification Indices) weeding procedure, the sum of Modification Indices for Theta’s (measurement errors that should be freed/correlated) declined (see Appendix A), and the process of correlating appropriate measurement errors improved model-to-data fit (see Appendix C).

Turning to RQ2a, “Would weeding produce dissimilar but internally consistent subsets,” Subset 0 was disjoint from any of the other weeded subsets, and Subsets b and c were disjoint (see Appendix A or the lists of items in Table A). The other weeded subsets contained 2 or more items in common.

For RQ2b, “Would weeded subsets produce interpretationally dissimilar structural model results,”

<table>
<thead>
<tr>
<th>Exog Vars</th>
<th>S</th>
<th>A</th>
<th>I</th>
<th>C</th>
<th>L</th>
<th>V</th>
<th>O</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1 Items with Correlated Measurement Errors; Reliab = .963 AVE = .724</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-0.386</td>
<td>-0.056</td>
<td>0.086</td>
<td>0.150</td>
<td>0.053</td>
<td>-0.305</td>
<td>-0.106</td>
<td>0.234</td>
<td></td>
</tr>
<tr>
<td>(0.089)</td>
<td>(0.085)</td>
<td>(0.080)</td>
<td>(0.060)</td>
<td>(0.100)</td>
<td>(0.103)</td>
<td>(0.068)</td>
<td>(0.070)</td>
<td></td>
</tr>
<tr>
<td>-3.158</td>
<td>-0.472</td>
<td>1.073</td>
<td>1.726</td>
<td>0.627</td>
<td>-3.501</td>
<td>-1.106</td>
<td>1.925</td>
<td></td>
</tr>
<tr>
<td>Factor 1 Items with 2nd Set of Corr Measurement Errors; Reliab = .963 AVE = .724</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-0.367</td>
<td>-0.076</td>
<td>0.086</td>
<td>0.154</td>
<td>0.054</td>
<td>-0.312</td>
<td>-0.115</td>
<td>0.241</td>
<td></td>
</tr>
<tr>
<td>(0.090)</td>
<td>(0.087)</td>
<td>(0.082)</td>
<td>(0.062)</td>
<td>(0.103)</td>
<td>(0.105)</td>
<td>(0.070)</td>
<td>(0.071)</td>
<td></td>
</tr>
<tr>
<td>-2.968</td>
<td>-0.635</td>
<td>1.055</td>
<td>1.748</td>
<td>0.632</td>
<td>-3.532</td>
<td>-1.178</td>
<td>1.955</td>
<td></td>
</tr>
<tr>
<td>18 Items with Correlated Measurement Errors; (Est.) Reliab = .947 AVE = 560</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-0.173</td>
<td>-0.089</td>
<td>0.020</td>
<td>0.081</td>
<td>0.024</td>
<td>-0.198</td>
<td>-0.111</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td>(0.103)</td>
<td>(0.100)</td>
<td>(0.094)</td>
<td>(0.071)</td>
<td>(0.118)</td>
<td>(0.121)</td>
<td>(0.082)</td>
<td>(0.081)</td>
<td></td>
</tr>
<tr>
<td>-1.843</td>
<td>-0.969</td>
<td>0.324</td>
<td>1.206</td>
<td>0.370</td>
<td>-2.975</td>
<td>-1.480</td>
<td>0.066</td>
<td></td>
</tr>
</tbody>
</table>

*Coefficient Alpha Latent variable with aggregated factors as items. Other estimates of reliability such as coefficient omega have been proposed for multidimensional items.
Subset a produced 5 significant structural model associations, while the other subsets produced fewer significant associations. In addition, three of the Subset a associations were not observed in any of the other subsets (see Table A).

Regarding RQ3, “Would structural coefficients for the same set of items be practically equivalent across the approaches,” the results were mixed. Weeded Subset a produced 5 significant associations, and an aggregated Subset 0 produced structural coefficients that were interpretationally equivalent (corresponding structural coefficients agreed in direction and significance between the specifications) and the structural coefficients were trivially different (see Table F). However, weeded Subset 1, with lower reliability and convergent validity (Average Variance Extracted), and an aggregated Subset 1 produced structural coefficients that were interpretationally equivalent, but while the significant structural coefficients differed by a few points in the second decimal place, the nonsignificant coefficients differed more as their magnitude declined.

Further, the 18 (multidimensional) items with correlated measurement errors and a full aggregation of all 18 items were not interpretationally equivalent. The same result obtained from the forced partial aggregations of the full 18 item measures. However, for the unidimensional...
Factor 1 items, full aggregation, partial aggregation that combined weeded and “weeded out” items, external consistency only, and correlated measurement errors produced interpretationally equivalent structural coefficients, and corresponding standardized structural coefficients that were within a few points of each other.

Recalling RQ4, “Would larger consistent subsets produce fewer significant structural coefficients,” its answer was generally yes. The smallest weeded subsets produced 2, 3, or 5 significant associations (Subsets 3, b, c, 3 and a respectively), while the larger Factor 1 itemization of N with 10 items produced 2 significant associations (see Table A).

This generally negative observed relationship between the number of items and structural coefficient size also may be due to unmodeled measurement error correlations, in this case between LV’s instead of within them. Using covariance algebra and the usual assumptions, the covariance between two indicators $x_1$ and $z_1$ is

$$
\lambda_{xa} \epsilon_{x1} \epsilon_{z1} + \lambda_{za} \epsilon_{z1} \epsilon_{x1} + \lambda_{za} \lambda_{xa} \epsilon_{x1} \epsilon_{z1} + \epsilon_{x1} \epsilon_{z1} + \epsilon_{x1} \epsilon_{z1} + \epsilon_{x1} \epsilon_{z1} + \epsilon_{x1} \epsilon_{z1} + \epsilon_{x1} \epsilon_{z1},
$$

(1)

and the error covariance term $\epsilon_{x1} \epsilon_{z1}$ is a “disturbance” term. While I have not worked out the matrix algebra completely, I speculate that as the number of items in X or Z increase, the estimated (fitted) covariance of X and Z is likely to decline because of the increasing number of these unmodeled “disturbance terms,” ceteris paribus.

Regarding RQ5, “Would correlated measurement errors mask internal inconsistency,” and RQ6, “Could full aggregation be used to accomplish the same thing,” one of the objectives in the investigations was to find a specification of N that used the full 18 item measure for N. However, it was apparent that the items in the full 18 item measure for N were not all measuring the same construct. Partial aggregation suggested Factors 1, 2, and 3 were externally inconsistent (they were measuring other constructs besides N). So, although correlated measurement errors and full aggregation produced a specification for N containing all the 18 items, these specifications may not have been appropriate because they masked the external inconsistency difficulty discovered using partial aggregation.

Finally, for RQ7, “Would a larger model mask external inconsistency,” the Appendix D results, where the Factor 1 items were specified in a full measurement model that fit the data, suggest the answer was yes.

**DISCUSSION**

Because second order specifications did not perform, and measure validation using scenario analysis was improperly administered, the useful alternatives to item weeding in the example data set were external-consistency-only, partial and full aggregation, and correlated measurement errors. However, ignoring the criticisms of these surviving alternatives, the practical obstacle of the attenuated structural coefficients these alternatives produced likely would have removed them from consideration for any itemization alternative in the example data set.

**ITEM WEEDING**

Thus, item weeding may continue as the preferred approach among substantive researchers to attaining measurement model-to-data fit in survey data model tests. Improvements to the current practice of ignoring the criticisms of item weeding might include reporting both weeded results and full aggregation results. However, the example suggested that one or more divergences in significance (i.e., a structural coefficient is significant in one specification and nonsignificant in the other) may result, and explaining them might be a challenge. Another improvement might be to find multiple itemizations, then re-convene the item-judging panel to determine the itemization that best taps the conceptual definition for the measure’s construct. This alternative is discussed next.

**A SUGGESTED ADDITIONAL STEP IN ITEM JUDGING**

Specifically, the factor structure of the target measure could be determined using maximum likelihood exploratory common factor analysis, preferably in a measure validation study. If the measure is multidimensional, the dimensions or factors could be considered as candidate itemizations.

Next, weeded subsets of the target measure could be found using the procedures in Appendix A (EXCEL templates are available from the author for Ordered Similarity Coefficients (OSC’s) and the First Derivative (FD) procedures). Specifically, because the number of internally consistent weeded subsets may be large, it may be sufficient to generate 1 consistent weeded subset from the full measure (regardless of its dimensionality) using the usual reliability approach (the procedure usually produces 0 to 1 weeded subset), and at least 1 weeded subset using OSC’s and FD also using the full measure. Then, 1 weeded subset per factor using reliability and FD could be generated if the full measure is multidimensional. The objective would be to find disjoint weeded subsets, or ones with minimal overlap (e.g., Subsets a-c, and 1, 1a, and 3 in the example).
Next, the resulting subsets could be judged by ranking them by how well each subset taps the target construct’s conceptual and operational definitions. Experience with weeded subset judging suggests that constructs should be judged singly – judging weeded subsets for several measures at once can be burdensome. Weeded subsets for the endogenous variables could be judged first. There also was a slight bias toward small itemizations among the judges. They reported being accustomed to smaller itemizations, and that they seemed easier to match to conceptual and operational definitions. Reliabilities and average extracted variances (AVE) should probably not be shown for judging because they may overly influence the rankings (the judging issue is content validity). Then, the bottom ranked subsets could be removed from the list for “tweaking” (re-judging) and the weeded subsets could be presented in rank order. If a larger itemization for a target construct is at the top of the judges’ overall ranking, the tweaking subsets could include its (smaller) internally consistent subsets, regardless of where they finished in the previous judging, to be certain the larger itemization is preferred.

Experience suggests that the Factor 1 items are not always picked by the judges, and they do not always produce the most significant associations (e.g., Subset a in the example, with 3 significant associations, was from Factor 2). Thus, for multidimensional measures, all factors probably should be weeded and presented as candidates. As stated elsewhere, experience suggests RMSEA probably should be used to judge internal consistency. (Unfortunately, this would have eliminated Subset 0, the reliability itemization from item judging.) External consistency judging should probably be postponed until after tweaking and final subset selection because of its complexity with multiple candidate weeded subsets.

LIMITATIONS AND FUTURE RESEARCH

(Omitted – see http://home.att.net/~rpingjr)

SUMMARY AND CONCLUSION

(Omitted – see http://home.att.net/~rpingjr)

ENDNOTES

(Most omitted – see http://home.att.net/~rpingjr).

3 Using path analysis (Wright 1934), the covariance between two unidimensional indicators \(x_1\) and \(x_2\) (i.e., two indicators with only one underlying construct) implied by a model is the product of the path coefficients on their loading paths from their common construct (i.e., the product of their loadings), plus the product of the path coefficients due to correlated measurement errors (i.e., \(\lambda_1\lambda_2^*+1^*1^*\text{Cov}(\varepsilon_1,\varepsilon_2)\), where \(\lambda\) denotes loading, \(\varepsilon\) denotes measurement error, 1 is the implied path coefficient on the path between each measurement error and their respective \(x\), and \(\text{Cov}\) denotes covariance). Because correlations between measurement errors are usually assumed to be zero, the second (covariance) term is usually ignored.

REFERENCES


APPENDIX A

Item Weeding (Omitted – see http://home.att.net/~rpingjr)

APPENDIX B

Partial Aggregation (Omitted – see http://home.att.net/~rpingjr)
APPENDIX C
Correlated Measurement Errors (Omitted – see http://home.att.net/~rpingjr)

APPENDIX D
External Consistency Only (Omitted – see http://home.att.net/~rpingjr)

APPENDIX E
Full Aggregation (Omitted – see http://home.att.net/~rpingjr)

APPENDIX F
Other Approaches (Omitted – see http://home.att.net/~rpingjr)

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THE VITAL FEW AND THE USEFUL MANY USING SUPPORT VECTOR MACHINES TO IDENTIFY FUTURE BEST CUSTOMERS

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Florian Wangenheim, Technical University Munich, Germany

ABSTRACT

Disproportionate marketing activities in the spirit of customer equity management require accurate identification of high and low value customers. However, current forecast methods suffer from severe forecasting error and make their application in managerial practice impossible. In this paper we introduce the support vector machine as promising methodology for high value customer identification and test its performance against the Pareto/NBD, BG/NBD, and logit model as well as a managerial heuristic on three data sets from three different businesses operating in non-contractual settings. We find that the support vector machine clearly outperforms the competing models and suggest further investigation of the support vector machine in marketing.

INTRODUCTION

In the spirit of customer equity management (Blattberg and Deighton 1996), customer relationships are viewed as assets that require appropriate investments and management. Valuable customers and customers that are becoming increasingly valuable should receive more investments and more management resources than less valuable customers (Venkatesan and Kuma 2004).

It is widely known that for many businesses only a small fraction of all customers accounts for a preponderant share of revenues (Mulhern 1999). Very often only 20 percent of the customers account for 80 percent of the revenues of a firm, which is yet another reflection of the Pareto-principle (Juran 1941). These very profitable 20 percent of the customer base should be given special attention, e.g., being in the focus of marketing campaigns, given special perks, and incentives that aim at retaining them and increasing their loyalty.

Disproportionate marketing is common in many businesses. Airlines offer shorter checkin queues to their best customers, board them early, give them access to the airline’s bestcustomer-lounge and give them additional frequent flier mileage. CD stores, coffee shops, and hotels may give away free units, i.e., free CDs/DVDs, free coffee, free weekend-stay, after a certain purchase amount. However, this strategy is based on a quid-pro-quo approach (Malthouse and Blattberg 2005) that is common in loyalty programs: Customers get special incentives because they have already given (their money) to the company. Nevertheless, a proactive approach would require predicting which current best customer remains future best customer and ideally which current less profitable customer will turn into a future best customer. For example, best customers of a hotel may occasionally be upgraded to a better room or have waived access fees for the hotel’s W-LAN. Car rental companies may occasionally upgrade their best customers to a better car, or waive or lower the deductible. These discretionary marketing activities aim at triggering customer (positive) surprise and customer delight, which refers to “a profoundly positive emotional state generally resulting from having one’s expectations exceeded to a surprising degree” (Rust and Oliver 2000, p. 86) and ultimately at increasing retention and increased revenues.

However, current methodologies very often suffer from severe forecasting error. In fact, using feed forward neuronal networks and regression analysis, Malthouse and Blattberg (2005) found that of the top 20 percent best customers approximately 55 percent will be misclassified, while of the bottom 80 percent, approximately 15 percent will be misclassified. This indicates that basing disproportionate marketing activities on current prediction models may result in unnecessary spendings of scarce marketing resources on less unprofitable customers or omitted spendings on more profitable customers who otherwise could further be developed by special treatment.

The field of marketing has long favored models that are based on structured parametric statistics, such as logit, probit, hazard, and NBD models, and, at the same time, are easy to interpret. However, as Bucklin et al. (2002) remark, with today’s diverse data sets, “. . . it may be counterproductive to rely primarily on standard statistical methods. Emphasizing scalable methods and predictive results may enable us to observe a richer set of behavioral phenomena. . . .” Customer bases may often be very large, containing hundreds of thousands of customers and myriad variables. Additionally, companies’ customer databases are often incomplete, i.e., not the same information is always available for all customers. For example, customers may or may not have participated in surveys, and if so, some of them may only have given partial information. Others may have had customer service contact while others have not. Last but not least, customer service employees sometimes maintain customer records care-
lessly leaving out important information they should have entered. Nevertheless, managers request tools and methods that work for all of their customers alike.

In the field of machine learning, researchers have long sought for methods that are scalable and work on large samples (cf., Schölkopf and Smola 2002). Still, recognition and diffusion of these methodologies into the marketing literature has been slow. Just recently Gupta et al. (2006) remark that “Many of these [machine learning] approaches may be more suitable to the study of customer churn where we typically have a very large number of variables, which is commonly referred to as the “curse of dimensionality.” The sparseness of data in these situations inflates the variance of the estimates, making traditional parametric and nonparametric models less useful.” In this spirit, it appears inevitable to empirically analyze the applicability, performance and limitations of these methods in marketing.

One of the most powerful and promising methodologies that recently emerged out of the field of machine learning are support vector machines (SVM; e.g., Vapnik 1998). SVMs are capable of multi-class classification and regression as well as many derived applications such as learning hidden markov models, sequence alignments, and context free grammars (Tsochantaridis 2004). Among others, they have successfully been applied in cancer diagnostics (Guyon et al. 2002), bioinformatics, i.e., gene classification (Furey et al. 2000) and character recognition (Joachims 2002). Nevertheless, in the marketing literature there exists only one work that deployed SVMs (Cui and Curry 2005). They conduct a Monte-Carlo study on simulated data and find superior prediction performance of SVMs in comparison to a multinominal-logit model. However, Cui’s and Curry’s work mainly aims at theoretically analyzing SVMs. Empirical evidence of the applicability, performance and limitations of support vector machines on actual customer behavioral and attitudinal data in services marketing is still missing.

The paper suggests SVM as a promising methodology to best customer classification. We empirically analyze the classification performance of SVM using three different datasets from three different businesses. All of these businesses operate in non-contractual settings (Schmittlein, Morrison, and Columbo 1987), i.e., the customer-firm relationship is not governed by contract which very often predetermines the contract lengths and purchase volume. Noncontractual settings make it very difficult for companies to determine whether a customer will repurchase and if so how much. As a comparative basis for SVM we also test its performance against the Pareto/NBD (Schmittlein, Morrison, and Columbo 1987) and BG/NBD model (Fader, Hardie, and Lee 2005), which are considered state-of-the-art methodologies for noncontractual settings. We also ran a logistic regression as well as a very simple management heuristic. Thus, our central contribution is to provide a first empirical test of the usefulness of a new approach for customer classification that has received substantial recognition in other scientific fields.

The paper is organized as follows. First we introduce support vector machines and give an introduction to structural risk minimization, which is the theoretical basis for SVM. Then, the data and methodological approach used in this study is presented. Finally, we present and discuss the result and wrap this work up with a conclusion.

SUPPORT VECTOR MACHINES

In this section, we very briefly introduce SVM. A detailed introduction to this methodology would be out of scope of this paper. The interested reader is referred to Burges (1998).

Given a training set \([x_i, y_i], i \in [1, \ldots, l]\), \(y_i \in \{-1, 1\}\), \(x_i \in \mathbb{R}^d\), where \(x_i\) represents a vector of an individual’s characteristics, e.g., an individual’s purchase amount, purchase timing etc., and \(y_i\) signals to which class the individual belongs, e.g., best customers \((y_i = 1)\) or less valuable customers \((y_i = -1)\). SVM looks for the separating hyperplane that has the largest margin between negative and positive examples. This hyperplane is defined through

\[
[x]w^T x + b = 0
\]

where \(w\) is normal to the hyperplane and \(b \in \mathbb{R}\). In order to find this separating hyperplane two supporting hyperplanes

\[
[x]w^T x + b = 1 \quad \text{and} \quad [x]w^T x + b = -1
\]

need to be defined that have equal and maximum distance to the separating hyperplane and that satisfy:

\[
w^T x_i + b \geq 1 \quad \text{for} \quad y_i = 1
\]

\[
w^T x_i + b \leq -1 \quad \text{for} \quad y_i = -1
\]

This is equivalent to maximizing \(\frac{1}{2}||w||\) which in turn is equivalent to minimizing \(\frac{1}{2}w^T w\) under constraint:

\[
y_i (w^T x_i + b) \geq 1 \quad \text{for all} \quad i \in [1, \ldots, l]
\]

One of the attractive features of SVM is that this optimization problem, in contrast to Maximum Likelihood Estimation, always has unique and global solution.

However, this formulation of the problem assumes that the data is linearly separable. In marketing problems...
this is generally not the case. Customers showing the same purchase pattern in the past may or may not be future best customers, i.e., one of them might have changed jobs or passed away while the other continues to pursue his current purchase pattern. In order to cater for this problem, slack variables $\zeta_i$ are introduced that in combination with a constant cost parameter $C$ allow for non-linearly separable data. This combination associates certain cost to non-linearly separable data, i.e., the higher $C$ the higher the penalty for misclassified individuals. $C$ is parameter that can be determined prior to the analysis or through experimentation. The cost parameter and slack variables change the optimization problem to 

$$
\min \frac{1}{2} w^T w + C \sum \zeta_i
$$

under constraints:

$$
x_i w + b \geq 1 - \zeta_i \text{ for } y_i = 1
$$

$$
x_i w + b \leq 1 + \zeta_i \text{ for } y_i = -1
$$

with $\zeta_i \geq 0$ for all $i$.

Another strength of SVM is that through the introduction of a so-called “kernel-function”: $R^d \rightarrow H$, non-linearly separable data can be made linearly separable (Burges 1998). In fact, this can be implemented very cost efficiently in the optimization algorithm and is therefore called the “kernel-trick.” However, no theory exists which determines the optimal kernel function. Finding the “best” kernel function and its parameters is therefore subject to experimentation only. One of the consequences of using kernel functions is that the projection space $H$ may be of much a higher dimensionality than the original train set space. This makes interpretation of the determinants of class membership particularly difficult. The theoretical foundation for SVM is called “Structural Risk Minimization” which is introduced in the next section.

**Structural Risk Minimization**

Suppose we are given $l$ observations, i.e., $l$ customers. Each observation consists of a pair: a vector $x_i \in R^d, i = 1..l$ and the associated “truth” $y_i$, given to us by a trusted source. In our case, $x_i$ might be a vector of customer behavior, and $y_i$ would be 1 if the customer is a best customer and -1 otherwise. Now it is assumed that there exists some unknown probability distribution $P(x; y)$ from which these data are drawn, i.e., the data is assumed “iid” (independently drawn and identically distributed). ($P$ is used for cumulative probability distributions and $p$ for their densities). This assumption is more general than associating a fixed $y$ with every $x$: it allows for a distribution of $y$ for a given $x$. In that case, the trusted source would assign labels $y_i$ according to a fixed distribution, conditional on $x_i$. 

\[
\begin{align*}
\{w^T x + b \geq +1\} \\
\{w^T x + b = 0\} \\
\{w^T x + b \leq -1\}
\end{align*}
\]
Now suppose we have a machine whose task it is to learn the mapping $x_i \rightarrow y_i$. The machine is actually defined by a set of possible mappings $x \rightarrow f(x; a)$, where the function’s $f(x; a)$ themselves are labeled by the adjustable parameters $a$. The machine is assumed to be deterministic: For a given input $x$ and choice of $a$, it will always give the same output $f(x; a)$. A particular choice of $a$ generates what is called a “trained machine.” The expectation of the test error for a trained machine is therefore:

$$R(a) = \int |y - f(x, a)| \, dP(x, y)$$

Note that, when a density $p(x; y)$ exists, $dP(x, y)$ may be written $p(x; y)dxdy$. This is a nice way of writing the true mean error, but unless we have an estimate of what $P(x; y)$ is, it is not very useful.

The quantity $R(a)$ is called the actual risk, to emphasize that it is the quantity that we are ultimately interested in. The “empirical risk” $R_{emp}(a)$ is defined to be just the measured mean error rate on the training set (for a fixed, finite number of observations):

$$R_{emp}(a) = \frac{1}{21} \sum_{i=1}^{21} |y_i - f(x_i, a)|$$

Note that no probability distribution appears here. This is an especially interesting property since many datasets in Marketing do not satisfy distributional requirements of standard econometric methodologies. $R_{emp}(a)$ is a fixed number for a particular choice of $a$ and for a particular training set $[x_i; y_i]$.

Now choose some $\eta$ such that $0 < \eta < 1$. Then the following bound holds (Vapnik 1995):

$$R(a) \leq R_{emp}(a) + \sqrt{h \log (2l/h + 1) - \log (\eta 4)}$$

where $h$ is a non-negative integer called the Vapnik Chervonenkis (VC) dimension, and is a measure of the notion of capacity. The right-hand side of the bound is called the “risk bound.” The second term on the right-hand side is called the “VC confidence.”

We note three key points about this bound. First, remarkably, it is independent of $P(x; y)$. It assumes only that both the training data and the test data are drawn independently according to some $P(x; y)$. Second, it is usually not possible to compute the left-hand side. Third, if we know $h$, we can easily compute the right-hand side. Thus given several different learning machines (recall that “learning machine” is just another name for a family of functions $f(x; a)$), and choosing a fixed, sufficiently small $\eta$, by then taking that machine which minimizes the right-hand side, we are choosing that machine which gives the lowest upper bound on the actual risk. This gives a principled method for choosing a learning machine for a given task, and is the essential idea of structural risk minimization.
Vapnik (1995) shows that the VC dimension for a support vector machine is bound by a term that is reciprocally proportional to the margin of the data. Therefore, maximizing the margin between the two classes reduces the VC-dimension. By maximizing the margin between the two classes, SVM implements the principle of structural risk minimization. Therefore, SVM are very resistant to over fitting (Veropoulos 1999).

**RESEARCH METHODOLOGY**

The objective of this paper is to identify a company’s future best customers using SVM on past purchase information using three data-sets from three different industries with non-contractual settings (Schmittlein, Morrison, and Columbo 1987). We evaluate the SVM performance against a logit model, the Pareto/NBD (Schmittlein, Morrison, and Columbo 1987) and BG/NBD model (Fader, Hardie, and Lee 2005a) and a simple management heuristic. The NBD models are limited to a very small amount of input data (number of purchases and purchase timing) and yield forecasts for the number of purchases. Therefore, in order to make the forecasts of the models as comparative as possible, we (a) use the same input information for all models, and (b) identify best customers in terms of number of purchases. However, because the NBD models do not require “future” information to estimate model parameters, we directly forecast purchase behavior on all customers. SVM and the logit model require n-fold cross-validation to estimate their predictive validity. The following sections covers this issue in more detail. We are aware that this might limit the comparability of the results to a small extent. However, this is the best we can achieve with the focal models and data available and should suffice to compare the models’ forecast performance.

**Data**

We conducted our study on three different data sets from three different industries. The first data set comes from an apparel retailer and covers a cohort of 2,330 customers that started their buyer-seller relationship with the apparel retailer in the last week of January 2003. Therefore, for this cohort, the available data covers the initial and repeat purchases for each customer over a period of 80-weeks. To calibrate the models, we used repeat purchase data for the 2,330 customers over the first 40-weeks of the 80-week period leaving a 40-week holdout period to validate the models.

The second data set comes from a major global airline and covers 146,961 customers and their purchases from January 1999 through December 2002. The data available only provided aggregated quarterly transactions for each customer and did not include the exact purchase dates. Our analysis of this data set focused on a cohort of 2,891 customers who conducted their initial purchase from the airline in the first quarter of 1999. For this cohort, we chose a calibration period of eight quarters (January 1999 through December 2000) leaving eight quarters for the holdout period (January 2001 through December 2002).
The third data set covers customers of the online CD retailer CDNOW. The data tracks 23,570 customers and their purchases from January 1997 through June 1998 (78-weeks) who all initiated their first purchase at CDNOW in the first quarter of 1997. Fader and Hardie have already used this data in multiple studies (see Fader and Hardie 2001) for more information of this data set. More precisely, we used the 2,357 customer cohort available on Bruce Hardie’s website (Fader, Hardie, and Lee 2005b). This cohort is a 1/10th sample of the 23,570 customers in the data set. The calibration and holdout periods are 39-weeks each.

The information we use solely consists of customers’ past purchase behavior. More precisely, for each customer the models operate on three values \( (X = x, t, T) \), where

- \( X = x \) is the number of purchases;
- \( t \) is made in time-frame \((0, T]\);

with the last purchase occurring at time \( t \), with \( 0 < t < T \). We do so because we want to gain comparable results of SVM, logit model and the focal NBD models. The NBD models are not able to incorporate more than the information above.

Determining Future Best Customers Using Support Vector Machines

SVM need to be trained on a set of customers, where each customer is represented by a vector \((x_1, ..., x_n, y)\). The SVM yield a model that is subsequently used to classify a test set of customers. The predictions yield class-memberships (best/less valuable customers), which can then be validated using actual class memberships. In this analysis, the \( x_i \) represent the number of purchases and the timing of the last purchase given certain time-frame. \( y \) is either -1 or 1 depending on whether the customer currently belongs to the set of best customers \( (y = 1) \) or not \( (y = -1) \). In order to achieve “honest” prediction accuracy, we use 5-fold cross-validation (Efron and Tibshirani 1993). In n-fold cross-validation, the original sample is randomly partitioned into \( n \) subsamples. Of the \( n \) subsamples, a single subsample is retained as the validation data for testing the model, and the remaining \( n-1 \) subsamples are used as training data. The cross validation process is then repeated \( n \) times (the folds), with each of the \( n \) subsamples used exactly once as the validation data. The \( n \) results from the folds are then averaged to produce a single estimation.

Determining Future Best Customers Using Pareto/NBD and BG/NBD Model

Both, the Pareto/NBD and BG/NBD model were developed to model repeat-buying behavior in a setting where customers buy at a steady (albeit stochastic) rate and eventually become inactive at some unobserved point of time. In addition, the models require to be calibrated on the customer base they are applied to. This calibration process yields several model parameters that describe the purchase and dropout process of the analyzed customer base. We estimated the models using Matlab. The parameter estimates can be found in Table 1a and Table 1b.

Among others, the Pareto/NBD and BG/NBD model yield \( E(X^*|X=x, t, T, T^*) \), the expected number of transactions \( X^* \) of a random customer with purchase patterns \((X=x, t, T)\) (and unknown individual purchase-rate and dropout-rate) in a time-frame \((T, T+T^*)\). These individual customer predictions can then be used to determine the company’s future best customers. Validation of the NBD models does not require n-fold cross-validation. The reason is that the NBD models do not incorporate any “future” data, i.e., unlike other methodologies, the model parameters are estimated only on past purchase data but not on future data that tell the “true” outcomes of parameter constellation. The procedure is then as follows: First, estimate the model parameters, then generate individual purchase behavior forecasts and validate these using the holdout data.

Determining Future Best Customers Using the Logit Model

The Logit model’s parameters were estimated using R’s glm function (binomial family with logit link function) (R Development Core Team 2007) and a training set of customers. Then using the logistic function:

\[
P(Y = 1 \text{ given } X_i = x_j) = \frac{\exp(\beta_{x_1} + \beta_{x_2} + X_1 + \beta_{x_3} + X_2)}{1 + \exp(\beta_{x_1} + \beta_{x_2} + X_1 + \beta_{x_3} + X_2)}
\]

the probability of belonging to the group of best customers can be computed for each customer in the test set. In order to dichotomize the probability of belonging to the group of best customers, a cutoff point needs to be determined, above which customers are classified as belong to the group of best customers. Since .5 may not be an optimal cutoff threshold, a sensitivity analysis is run according to the following scheme:

Determine the cutoff threshold \( p_c \) which maximizes the average of the percentages of correctly classified best and correctly classified low customers.

This balanced approach ensures that errors for false positives and false negatives are equally weighted and also respects the different class sizes. If a metric was chosen that averages the overall, i.e., sum of the number of correctly classified high and low customers, the different class sizes may lead to solutions that are optimal only because the number of low customers intrinsically out-
weighs the number of high customers. If such a metric were used, a simple approach that would classify all customers as low customers easily reaches 80 percent (90%) correctly classified customers. Ultimately, we are interested in a methodology that performs well in both classifying low and high customers correctly but superior in classifying high customers correctly.

In order to compute the optimal cutoff level $p_c$ a 5-fold cross validation is run for each $p$ in $0..1$ (discretized in steps of 0.01). In each fold we estimated the model on four partitions and predicted on the remaining partitions. The results of all folds are then averaged to in order to gain a point estimate of the performance for a single $p$ in $0..1$. The $p$ that has the highest balanced overall correctly classified hitrate, is chosen as $p_c$.

Determining Future Best Customers Using a Simple Management Heuristic

If the complex models under consideration should be used to identify future best customers, they need to perform better than a simple management heuristic. The simple management heuristic we are using assumes that:

*The past’s best 10 percent (20% resp.) of the customers in a customer base will also be future’s best 10 percent of the customers.*

The validity of the predictions is then checked using the holdout data.

Analysis Results

The analysis shows consistent superior performance of SVM compared to the NBD and Logit models as well as the simple management heuristic in predicting a company’s future best 10 percent and 20 percent customers. Tables 2a–4b show detailed analysis results for all three data sets.

It is interesting to note, that SVM not only performs much better in classifying best customers correctly, but also on the balanced overall correctly classified percentages, i.e., the average percentage of correctly classified best and less valuable customers. Remarkably, in classifying the best 20 percent of the customers correctly, the SVM nearly perfectly identifies these high value customers and also nearly perfectly forecasts the low value customer for all three data sets.

However, the performance of the SVM in classifying the best 20 percent of customers might give reason to doubt the results. The analysis might have been run in favor of the SVM. Standard n-fold cross-validation uses n-1 partitions for training and the remaining partition for prediction. Since the sample sizes ranged only from 2,330–2,891 customers, the SVM might have been able to "memorize" the patterns that lead to future best customer existence and then applies this knowledge to the rather small test set (the remaining partition). Therefore, it appears mandatory to increase the difficulty for the SVM. Due to data constraints, this was possible only on the
### TABLE 2a
Best 10% Future Customers – Airline

<table>
<thead>
<tr>
<th>Statistic</th>
<th>BG/NBD</th>
<th>Pareto/NBD</th>
<th>Heuristic</th>
<th>Logit</th>
<th>SVM</th>
</tr>
</thead>
<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>61.09</td>
<td>61.09</td>
<td>57.84</td>
<td>35.9375</td>
<td>88.7757</td>
</tr>
<tr>
<td>Low, Correctly classified (%)</td>
<td>95.22</td>
<td>95.22</td>
<td>94.85</td>
<td>69.70874</td>
<td>82.89552</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>91.76</td>
<td>91.76</td>
<td>90.93</td>
<td>75.85952</td>
<td>83.53605</td>
</tr>
<tr>
<td>Overall avg. correctly classified (%)</td>
<td>78.16</td>
<td>78.16</td>
<td>76.345</td>
<td>53.80704</td>
<td>85.9171</td>
</tr>
</tbody>
</table>

### TABLE 2b
Best 20% Future Customers – Airline

<table>
<thead>
<tr>
<th>Statistic</th>
<th>BG/NBD</th>
<th>Pareto/NBD</th>
<th>Heuristic</th>
<th>Logit1</th>
<th>SVM</th>
</tr>
</thead>
<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>64.26</td>
<td>63.40</td>
<td>63.60</td>
<td>N/A</td>
<td>98.17828</td>
</tr>
<tr>
<td>Low, Correctly classified (%)</td>
<td>89.99</td>
<td>90.60</td>
<td>89.27</td>
<td>N/A</td>
<td>100.00</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>84.81</td>
<td>85.12</td>
<td>84.05</td>
<td>N/A</td>
<td>99.6195</td>
</tr>
<tr>
<td>Overall avg. correctly classified (%)</td>
<td>77.125</td>
<td>77.00</td>
<td>76.435</td>
<td>N/A</td>
<td>99.08914</td>
</tr>
</tbody>
</table>

### TABLE 3a
Best 10% Future Customers – Apparel

<table>
<thead>
<tr>
<th>Statistic</th>
<th>BG/NBD</th>
<th>Pareto/NBD</th>
<th>Heuristic</th>
<th>Logit</th>
<th>SVM</th>
</tr>
</thead>
<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>63.15</td>
<td>63.15</td>
<td>70.15</td>
<td>0.3560176</td>
<td>86.3641</td>
</tr>
<tr>
<td>Low, Correctly classified (%)</td>
<td>95.63</td>
<td>95.63</td>
<td>94.49</td>
<td>0.701841</td>
<td>87.76735</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>92.18</td>
<td>92.18</td>
<td>91.80</td>
<td>66.43777</td>
<td>87.59657</td>
</tr>
<tr>
<td>Overall avg. correctly classified (%)</td>
<td>79.39</td>
<td>79.39</td>
<td>82.32</td>
<td>0.5289293</td>
<td>87.06572</td>
</tr>
</tbody>
</table>

1R’s glm.fit procedure did not converge on the data.
### TABLE 3b
**Best 20% Future Customers – Apparel**

<table>
<thead>
<tr>
<th>Statistic</th>
<th>BG/NBD</th>
<th>Pareto/NBD</th>
<th>Heuristic</th>
<th>Logit2</th>
<th>SVM</th>
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<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>67.13</td>
<td>67.13</td>
<td>73.72</td>
<td>N/A</td>
<td>1</td>
</tr>
<tr>
<td>Low, Correctly classified (%)</td>
<td>91.18</td>
<td>91.18</td>
<td>89.11</td>
<td>N/A</td>
<td>0.9983302</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>86.09</td>
<td>86.09</td>
<td>85.49</td>
<td>N/A</td>
<td>0.9987124</td>
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<tr>
<td>Overall avg. correctly classified (%)</td>
<td>79.15</td>
<td>79.15</td>
<td>81.415</td>
<td>N/A</td>
<td>0.9991651</td>
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### TABLE 4a
**Best 10% Future Customers – CDNOW**

<table>
<thead>
<tr>
<th>Statistic</th>
<th>BG/NBD</th>
<th>Pareto/NBD</th>
<th>Heuristic</th>
<th>Logit</th>
<th>SVM</th>
</tr>
</thead>
<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>53.92</td>
<td>54.180</td>
<td>61.510</td>
<td>59.27046</td>
<td>73.70484</td>
</tr>
<tr>
<td>Low, Correctly classified (%)</td>
<td>91.08</td>
<td>91.130</td>
<td>86.220</td>
<td>44.10947</td>
<td>79.54877</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>85.06</td>
<td>85.150</td>
<td>82.220</td>
<td>47.08277</td>
<td>78.52924</td>
</tr>
<tr>
<td>Overall avg. correctly classified (%)</td>
<td>72.50</td>
<td>72.655</td>
<td>73.865</td>
<td>51.68997</td>
<td>76.66200</td>
</tr>
</tbody>
</table>

### TABLE 4b
**Best 20% Future Customers – CDNOW**

<table>
<thead>
<tr>
<th>Statistic</th>
<th>BG/NBD</th>
<th>Pareto/NBD</th>
<th>Heuristic</th>
<th>Logit3</th>
<th>SVM</th>
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</thead>
<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>61.250</td>
<td>61.69</td>
<td>71.78</td>
<td>N/A</td>
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</tr>
<tr>
<td>Low, Correctly classified (%)</td>
<td>84.160</td>
<td>84.33</td>
<td>72.80</td>
<td>N/A</td>
<td>0.954054</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>77.510</td>
<td>77.76</td>
<td>72.50</td>
<td>N/A</td>
<td>0.9639066</td>
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<tr>
<td>Overall avg. correctly classified (%)</td>
<td>72.705</td>
<td>73.01</td>
<td>72.29</td>
<td>N/A</td>
<td>0.9770270</td>
</tr>
</tbody>
</table>

2R’s glm.fit procedure did not converge on the data.
3R’s glm.fit procedure did not converge on the data.
airline data-set. First, we increased the sample size used to all customers available \((n = 54365)\) that purchased at least once in the focal time frame, then we inverted the logic in the cross-validation procedure: One partition was used for training the SVM while the remaining \(n-1\) partitions were used as test data. This procedure ensures that the number of customers in the test data is much higher than the train data, which was designed to prevent the SVM from memorizing too many purchase patterns, i.e., to prevent overfitting. The result of the analysis can be found in Table 5. Again, even on the much larger dataset and using the inverted cross-validation procedure, the SVM shows superior performance in classifying future best customers. Once again in classifying the best 20 percent of customers the SVM nearly perfectly predicts the high and low value customers. Due to computational infeasibility of the parameter estimation process, we cannot run the NBD models on this large data set. However, the great performance of the SVM is confirmed even on this much larger data set and the tightened analysis conditions.

### DISCUSSION AND CONCLUSION

Being able to identify the best future customers is an import step for a company in efficiently applying discrete disproportionate marketing activities. Very often only 20 percent of the customer base accounts for 80 percent of the revenues of a company. Determining which customer will be one of these vital few enables companies to identify which customers should receive incentives and perks in order to make or keep these customers loyal. However, current methodologies suffer from severe prediction errors. In fact, Malthouse and Blattberg (2005) found that of the top 20 percent of the customers, about 55 percent will be misclassified while of the bottom 80 percent, 15 percent will be misclassified resulting in unnecessary spendings in less valuable customers and omitted spending in very valuable customers.

Using SVM these numbers can significantly be improved. In this study, we found that SVM clearly outperforms NBD and logit models as well as simple management heuristic. Even on a very large dataset on which NBD models are currently computationally unfeasible, SVM still performs extremely well.

### Conclusion

For companies it may very well be an option to apply machine learning techniques instead of standard econometric analysis in order to identify their future best customers. As companies collect more and more data and databases with millions of customers become more common, methodologies that are capable of dealing with these huge amounts of data are needed. SVM is one of these methodologies. SVM has proven the applicability in many other classification problems, such as cancer detection or face recognition but diffusion into the field of marketing has been slow. However, current software implementations make the application of SVM machines straightforward and uncomplicated. In fact, they are sufficiently easy to apply that they can be incorporated into automated forecasting tools without much effort. However, it should be noted that more studies need to be conducted on other classification problems than the one studied here, in order to determine whether the SVM provides superior performance for other customer base analyses as well.

One of the main points of the critique of SVM is that effect of the input variables is not directly interpretable. Especially the use of kernel functions (polynomial kernel in this study) is problematic as they transform the original input space into a higher dimensional space. However, as discussed by Cui and Curry (2005), much more work has to be put into understanding how standard econometric methodologies and SVM may work in tandem rather than being mutually exclusive concepts. For example, if an

<table>
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<th>Best 10%</th>
<th>Best 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>High, correctly classified (%)</td>
<td>74.65398</td>
<td>99.9891</td>
</tr>
<tr>
<td>Low, correctly classified (%)</td>
<td>90.27637</td>
<td>96.47366</td>
</tr>
<tr>
<td>Overall correctly classified (%)</td>
<td>88.70827</td>
<td>97.2142</td>
</tr>
<tr>
<td>Overall avg. correctly classified</td>
<td>82.46518</td>
<td>98.23138</td>
</tr>
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</table>
SVM has much better predictive power than a standard econometric technique such as the logit model, then SVM may shed light on higher dimensional relationships between the predictor variables. This may lead to refined logit model structure and therefore a better understanding of the problem, while the SVM delivers superior performance in the actual classification problem. This is subject to our current research.

REFERENCES


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