2011 AMA Educators’ Proceedings
Marketing 2011: Delivering Value in Turbulent Times

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Preface and Acknowledgments

It is our great pleasure to welcome you to San Francisco and the 2011 American Marketing Association Summer Educators’ Conference. The theme of the conference is “Marketing 2011: Delivering Value in Turbulent Times.” We chose this theme because of the pervasive uncertainty in the global economy over the last few years. We are sure each of you knows at least one person (if not several people) who has been laid off recently, cannot find a job, or has a house valued at less than the mortgage as a result of the housing crisis. Many have called this a recession, while others have just said the future is uncertain. Either position is a daunting environment for business and consumerism; however, a case can be made that uncertainty poses even greater challenges than a recession. Unpredictability and uncertainty over one’s employment future, the value of a home, or the wild swings of a tumultuous global economy cannot just reduce, but fundamentally change spending patterns and attitudes. With a U.S. stock market that lost more than half its value and regained half of that in just a matter of months, marketers are having to rethink and sharpen the value they provide consumers and squeeze every penny of inefficiency out of their own supply chains. The result of surviving this turbulence should be firms that are even more efficient on a global basis and consumers who may have more intensified brand loyalties than ever before.

The theme of this year’s conference, “Delivering Value in Turbulent Times,” is intended to spur thinking from a marketer’s perspective on these issues. We need richer theories to help understand how consumers react not just to a depressed economy but also to a turbulent and uncertain one. From a managerial perspective, we need to better understand whether fundamental rethinking is needed. Are things like “experience marketing” and “small indulgences” (recently active topics in the field) still viable in this turbulent world, or are they being replaced by a simple focus on core product and service value? We believe that many of the papers to be presented at this conference consider societal implications, consumer perspectives, services, relationships, international issues, and macro-level analyses of issues related to this turbulent world. We hope the papers and special sessions presented at this conference better prepare us as academics to inform both our undergraduate and MBA students for careers in this turbulent economy.

Putting together a conference of this size was not an easy task and involved more than a year of planning and hard work from many people. We would like them all to know that this conference would not be possible without their hard work. First, we thank Jessica Thurmond-Pohlonski, program manager, for her extensive behind-the-scenes support and boundless energy in making this conference successful. She guided us every step of the way over the last year to keep us on schedule and help us manage the All Academic system … which wasn’t always an easy task!

We also thank those who submitted papers to the conference and especially those who developed special sessions on this year’s theme. We acknowledge the hundreds of people who reviewed the papers and essentially helped shape the program into what it is today. Getting accepted to the conference was not an easy task, as the acceptance rate was approximately 40% because of the significant number of submissions and limited availability of space. Thus, the quality of the work presented should be wonderful!

We also thank the session chairs for accepting these roles as well as the special interest groups, which assumed an active role in developing quality sessions. Next, we thank the Blue Ribbon Panel, who selected the Overall Best Conference Paper. These panel members included Mike Brady, Dan Flint, Dwayne Gremler, Kevin Gwinner, Mark Houston, Gary Hunter, Easwar Iyer, Bob McDonald, Michael Mokwa, Cheryl Nakata, Andy Rohm, Dave Schumann, Gerry Smith, and Cynthia Webster.

The track chairs also deserve our extreme gratitude in their behind-the-scenes efforts to encourage submissions, select top quality reviewers, and manage the whole review process. Without their help, this conference would not be possible. We thank them for their tireless efforts. Our track chairs are as follows:
Advertising and Promotion

Brandin and Brand Management

Consumer Psychology and Behavior

Ethical, Legal, Social, and Public Policy Issues

Global and Cross-Cultural Marketing Issues

Innovative Marketing Technology

Inter-Organizational Issues in Marketing

Marketing Education and Teaching Innovation

Marketing Strategy and Marketing Management

New Product Design and Development, Product Management, and Entrepreneurship

Personal Selling and Sales Management

Research Methods and Analytics

Retailing and Pricing

Services Marketing

Sports Marketing

Special Sessions

Victoria D. Bush and Alan J. Bush

Douglas W. Vorhies and Melissa Clark

Kelly L. Haws and Cait Poynor Lamberton

Linda Ferrell and O.C. Ferrell

Constantine S. Katsikeas

Mary C. Gilly and Burçak Ertimur

Gregory T. Gundlach, Adel El-Ansary, and Reham A. Eltantawy

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Subin Im and Minu Kumar

Karen Flaherty and Son K. Lam

Cheryl Burke Jarvis and Suzanne Nasco

Christy Ashley and Deanne Brocato

Joe Cronin and Jeff Smith

Michael Mokwa and John Eaton

Vishal Kashyap

Finally, we thank Beth Walker, Kathleen Seiders, and the Academic Council for asking us to chair this conference and helping us every step of the way. It has been an honor to serve as co-chairs and bring this conference to life for all of us.

We hope that you enjoy the conference and the city of San Francisco. We welcome any feedback you may have to make the event even better next year!

Stephanie M. Noble
The University of Tennessee

Charles H. Noble
The University of Tennessee
Best of Conference Award

“Understanding Consumer Active Participation in Healthcare Virtual Communities”
Devon Johnson and Ben Lowe

Best Paper Awards by Track

Advertising and Promotion
“Must Be the Music: The Impact of Brand-Artist Association and Product Prestige on Consumer Responses to Music Video Brand Placement”
Corliss Thornton and Janée Burkhalter

Branding and Brand Management
“Global Brand Equity, Multistakeholder Relations, and Firm Performance”
Hui-Ming Deanna Wang and Ram Bezawada

Consumer Psychology and Behavior
“Integrating Identity and Consumption: An Identity Investment Theory”
Scott A. Thompson and James M. Loveland

Ethical, Legal, Social, and Public Policy Issues
“What Shapes Ethical Judgments of Supervisor Behavior? Action, Intention, or Outcomes”
Barry J. Babin, Kevin W. James, G. David Shows, and Yasemin Ocal

Global and Cross-Cultural Marketing Issues
“The Globalness Route Toward Brand Equity: How Consumer and Brand Level Factors Change the Route to Success”
Bernhard Swoboda, Karin Pennemann, and Markus Taube

Innovative Marketing Technology
“Understanding Consumer Active Participation in Healthcare Virtual Communities”
Devon Johnson and Ben Lowe

Inter-Organizational Issues in Marketing
“Performance Implications of Customer Relationships: A Compositional Approach”
Tianjiao Qiu

Marketing Education and Teaching Innovation
“Experiential Learning in Second Life: An Application in Retail Management”
Christy Ashley, Sharon Collins, and Susan Thornton

Marketing Strategy and Marketing Management
“What Will Last: Long-Run Differences Between Customer Satisfaction and Customer-Company Identification”
Jan Wieseke, Mario Rese, Benjamin Quaiser, and Till Haumann

New Product Development, Product Management, and Entrepreneurship
“Testing the Differential Learning Hypothesis: Developing Marketing Program Creativity in Chinese High Technology Ventures”
Fu-Mei Chuang, Robert E. Morgan, and Matthew J. Robson

Personal Selling and Sales Management
“Placing Boundary Conditions on Frontline Employee Withdrawal: Turning Job Dissatisfaction into Extra-Roe Customer Service”
Jeffrey P. Boichuk and Bulent Menguc

Research Methods and Analytics
“Questioning Some Claims Associated with PLS Path Modeling”
Edward E. Rigdon and David Gefen

Retailing and Pricing
“Are Loyalty Programs Effective? The Role of Customer-Company Identification”
Thomas Brashear-Alejandro, Lin Jiang, Jun Kang, Mark Groza, and Bo Zhang

Services Marketing
Conceptualizing the Impact of Trust on Value Co-creation in Buyer-Service Provider Relationships”
Jasmin Baumann and Kenneth Le Meunier-FitzHugh

Sports Marketing
“The Relationship Between Integration in a Fitness-Based Service Community and ‘Wearing’ Community”
Mark S. Rosenbaum and Drew Martin
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MODEL OF SPECTATOR SPORT CONSUMPTION

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SUMMARY

There is a disconcerting lack of holistic understanding about the components and processes of spectator sport consumption. We propose that there are four main aspects that comprise the sport consumption process: motivation, activation, external constraints, and post-consumption reaction/evaluation. Motivation (internal motivators) consists of the individual’s personality, personal needs, values, and goals. Activation is the perception of the product (awareness, interest, and evaluation). External constraints are factors (or reasons) that prevent an individual from participating and enjoying some activity. Post-consumption factors consist of the confirmation or disconfirmation of expectancies, affect/satisfaction, self-esteem maintenance or building behaviors, and repatronage intentions.

We propose that culture influences both the motivation for spectator sport consumption and the activation of spectator sport consumption. Culture includes “shared beliefs, attitudes, norms, roles, and values found among speakers of a particular language who live during the same historical period of a specific geographic region” (de Mooij 2004, p. 26). We propose that culture influences motivational factors such as personality, values and goals, and also influences how individuals learn and perceive the spectator sport product directly, in addition to indirectly through motivators.

Motivation for behavior is guided by the aforementioned personality, needs, values, and goals. As James and Trail (2010) noted, personality can be viewed as the “unique pattern of enduring thoughts, feelings, and actions that characterize a person” (Bernstein, Penner, Clarke-Stewart, and Roy 2006, p. 540) or “those inner psychological characteristics that both determine and reflect how a person responds to his or her environment” (Schiffman and Kanuk 2004, p. 120). Personality and needs interact to influence personal values and goals. Gordon (1975) defined needs as a “deficit state of the organism that recurs periodically and that has a specific requirement for its satisfaction” (p. 8). Deci and Ryan (2008) suggested that needs and individual differences (personality) influence personal (life) goals. Furthermore, as Rokeach (1979) noted, psychological needs and culture are the primary influencers of values.

Rokeach (1973) defined a value as “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence” (p. 5). Values shape attitudes toward events, objects, and persons (Rokeach 1973). Values also influence personal goals. Jolibert and Baumgartner (1997) noted that personal goals are cognitions that correspond to the objectives of the individual. Bandura (1989) suggested that personal goals can be motivators for behaviors and Roberts and Pirog (2004) noted that goals influence consumer behavior through processing information about the product (the activation process) and creating an attitude about the product. Thus, we hypothesize that motivators, consisting of personality, needs, values, and goals will influence attitude formation both directly and indirectly through activation.

As James and Trail (2010) noted, the activation (decision-making) process starts with perception. Perception is the process of acquiring, selecting, interpreting, and organizing sensory information (cf., Bernstein, Penner, Clarke-Stewart, and Roy 2006; Schiffman and Kanuk 2004). Perception is comprised of the awareness of a product, interest in the product, and evaluation of the product. People perceive a message from the media or through social interactions. These perceptions interact with how people learn, which determines how people become aware of the product. Once people are aware of the product, they start to evaluate the product’s characteristics to determine the relevance of the product. This evaluation interacts with the internal motivators and also influences the individual’s attitude toward the product.

Attitude toward the product is the primary determinant of whether or not people intend to consume the
Eagly and Chaiken (1993) defined attitude as a “psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor” (p.1). Azjen (1991) proposed that attitudes predict intentions, which in turn predict behavior. However, Azjen also suggests that attitudes are only one component, the other being behavioral control, and noted that perceived behavioral control reflects “anticipated impediments and obstacles” (p. 188). We suggest that perceived behavioral control represents potential constraints to spectator sport consumption behavior. Thus, we hypothesize that attitudes toward the sport product do lead to intentions to consume the sport product; however, we propose that there are external factors that constrain people from both intending to consume and actually consuming the product.

After an individual consumes a product (e.g., attends a game), expectancies about the experience are either confirmed or disconfirmed in either a positive or negative way. Oliver (1977) noted that (dis)confirmation leads to satisfaction or dissatisfaction with the product and creates an emotional response in the individual. This may then lead to self-esteem building or maintenance behaviors.

Rosenberg (1990) noted that self-esteem typically refers to an individual’s overall positive evaluation of the self. People seem to have a need for achievement (Maslow 1943), but may not be able to achieve as much as they would like to on their own, so they try to achieve vicariously (Sloan 1989). Within sport, these behaviors have been termed BIRGing (Cialdini et al. 1976) and CORFing (Snyder, Lassegard, and Ford 1986). Trail et al. (2005) found that self-esteem behaviors explained about 49 percent of sport spectator behavioral intentions, and Harrolle et al. (2010) found similar results in repatronage intentions. In total, the proposed model provides a holistic understanding about the components and processes of spectator sport consumption.

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College football in the U.S. has given way to a new era of “color mania.” Aside from myriad transformations of uniforms and stadia, a few universities have installed colored playing fields. Boise State University (BSU) installed the first colored (blue) playing surface in the United States. Interestingly, since 1986 the BSU Bronco’s are the nation’s winningest collegiate football team with a record of 108–20. Most recently, Eastern Washington University installed a red artificial playing surface referred to as “The Inferno.” The Eagles have yet to lose a game on this surface. Of course, a multitude of questions arise when assessing the new colored playing surfaces. For instance, what role does color theory play in the evaluation of these new surfaces compared to the traditional green playing surfaces? How far might these colorizing effects go in influencing fans’ experiences? The newest, high-technology surfaces are less expensive to install, more cost effective to maintain, and provide for fewer sport-related injuries (fieldturf.com). As a consequence, there is a distinct possibility that a trend will emerge wherein more football programs install a variety of colored playing surfaces. What implications might this have for sports marketers? This study serves as the foundational investigation of fan (and non-fan) opinions of colored artificial turf.

The current work adds a new context to the study of color theory in the sports world. While previous sport research has studied the color red in athletes’ uniforms (Attrill, Gresty, Hill, and Barton 2008; Frank and Gilovich 1988; Hill and Barton 2005) and its association with success in competition (Attrill et al. 2008; Ilie, Ioan, Moldovan, and Zagrean 2008; Rowe, Harris, and Roberts 2005), researchers have yet to investigate the influence of red as a foremost part of the sportscape. Moreover, this research extends our knowledge of the influence of framing effects by investigating them within a new context. To our knowledge, issues of positive framing in collegiate sports have yet to be investigated. Finally, this study further broadens our understanding of fan identification by relating levels of identification to a series of atmosphere-, team-, and university-related variables.

In order to study the effects of exposure to the color red, three of six versions of a paper-and-pencil questionnaire presented a prominent picture of a red field on the cover page. Further, in order to measure framing effects, questionnaires presented one of three possible headlines with explanatory sentences (an environmental benefit frame, a financial benefit frame, and a condition with no frame but the headline/introduction). Thus, the experiment utilized a 2x3 between-subjects after-only design. The survey itself measured team identification, attitudes toward the new field, as well as attitudes toward the football team and various aspects of the university. Researchers employed convenience and judgment sampling wherein data were collected in classrooms all across the university. To ensure large cross-sections of fans, students, and majors, efforts were made to collect 150 questionnaires from each of the four colleges within the university. Thus, 600 questionnaires were administered to students ranging from first-year to graduate-level and across a wide variety of study disciplines.

Overall, results show that exposure to a picture of a red field positively influences perceptions of the competitive atmosphere, the football team, and the university. Further, utilizing an environmental appeal appears to have a stronger influence on perceptions when compared to a financial appeal. The results found strong support for the contention that those individuals who are more highly identified with the team will have more favorable perceptions of the competitive space (the field), the team itself, and the university. Another interesting finding is that the benefits derived by college teams with highly identified fans appear to spill over to other aspects of the university. It appears that highly identified fans tend to view the university as an extension of their team.

The current work adds to the field of sports marketing in five important ways. First, the study supports previous research in that, even in the collegiate sports context, pictures appear to make semantic associations more salient for consumers/fans. Second, the current work provides preliminary evidence that color effects can be derived from the hue of a playing field. Third, this research attests to the deeply influential nature of collegiate sports amongst students. It is perhaps not surprising to find that installing new red turf positively influences perceptions of the competitive atmosphere and of the team. It is interesting, however, to find that a new football field can positively influence ratings of university quality, of academic

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standing, and even of its professors. Of course, one might argue that these findings are simply a halo effect wherein subjects like the field more, so therefore they must, in turn, like the team and university more. Still, it is remarkable to uncover the depth of the relationship between these variables. It seems that allegiance to “your” university is quite pervasive and profound. Fourth, the current work uncovers the perceived importance of the environment amongst this cohort. Finally, our findings suggest that colored turf has a very positive impact on the competitive atmosphere, on the team, and on perceptions of the university overall. If the NCAA allows more universities to install colored turf, then there likely will be a rainbow of field colors “surfacing” across the country in the near future. References are available upon request.

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THE RELATIONSHIP BETWEEN INTEGRATION IN A FITNESS-BASED SERVICE COMMUNITY AND “WEARING” COMMUNITY

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SUMMARY

This research investigates the customer purchasing of an organization’s logo merchandise as a customer voluntary performance behavior. One study is conducted with customers of Curves, the world’s largest fitness franchise, and the other is conducted at a weight-lifting gym. The results show that a customer’s integration into a service-based community encourages him or her to purchase the firm’s logo merchandise. A customer’s ability to identify with the firm mediates this relationship. The immersion of customers’ self- and social identities in a firm emerges as a factor to enhancing their appreciation of the firm by purchasing logo consumables. Managers should understand that a key to selling logo merchandise is to encourage customers to form in-house social relationships.

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EXPLORING THE DYNAMIC RELATIONSHIP BETWEEN BRAND EQUITY AND SPORT-RELATED SUCCESS IN SPORTS CLUBS

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SUMMARY

Over the last few decades, the sports industry has evolved to one of the most important industries in terms of its contribution to both the economy and the culture. Sports clubs generate sales revenues comparable with leading international companies (Lewis 2008). This development has brought a dramatic shift in the role and scope of marketing for such companies. In particular, the growing relevance of brands for customers and other stakeholders requires a professional brand management (Bristow and Sebastian 2001). Brand equity represents the key indicator of sport-related and managerial capabilities of a sports company (Madden, Fehle, and Fournier 2006). The crucial importance of branding is reflected by the regularly published brand equity rankings for professional sports clubs that appear in Forbes Magazine. In spite of the high practical relevance there is a lack of scientific studies on the role of marketing and brand building activities in sports clubs – especially in terms of understanding the interrelationships among brand equity and sport-related success. In contrast to many other industries, the financial success of a sports club is virtually exclusively determined by its sport-related success (Dobson and Goddard 2001).

While past research has mainly examined the effects of sport-related success on brand equity (Bauer, Sauer, and Schmitt 2005; Gladden and Funk 2001), in this study we posit that a reverse causality is likely to be operating. Front-office capabilities like acquiring and valuing talents and paying players according to their worth is a pivotal driver of sport-related success. As brand equity reflects exactly these managerial and marketing skills and hence investment efficiency, we propose that brand equity is not only the outcome but also an important driver of sport-related success (Rao, Agarwal, and Dahlhoff 2004).

The analysis of the relationship between brand equity and sport-related success is conducted in two studies. The first study addresses the stationary perspective that previous studies have used in identifying an effect of sport-related success on brand equity. Using match-data for more than 150 professional soccer clubs and 34,000 matches, this first study develops and tests an ordered logit regression model of reversed causality where sport-related success is formulated as a function of brand equity, fan commitment, and sport-specific predictors. In addition to brand equity, the factor fan commitment is important because it reflects the specific emotional attachment of fans to their club and, therefore, indicates fan support (Coulter, Price, and Feick 2003). The second study introduces a dynamic model that allows to simultaneously exploring the interrelationships among customer-based brand equity, sport-related success, and fan commitment over time. Drawing on a longitudinal club-level database covering 13 sports clubs across more than 40 years, we develop a vector autoregressive model (VAR) that tests for the dynamic links between the focal constructs.

The results of the first study show that reverse causality is present in a stationary perspective and thus marketing specific constructs including customer-based brand equity have significant direct effects on sport-related success. Therefore, the results of the second study are decisive in exploring the true causality between the constructs. Here, we find that brand equity is an important driver of sport-related success. The significant and positive long-term impact of brand equity on sport-related success strengthens the results of study 1 (stationary model) that brand equity appropriately reflects managerial and marketing skills (Rao, Agarwal, and Dahlhoff 2004). Hence, the finding of a direct impact of sport-related success on brand equity as proposed in prior research has to be treated with caution. Our results show that the direct effect that might be observed in a stationary analysis results from an indirect effect in a dynamic perspective. Further, we only find a significant direct effect of sport-related success on fan commitment in next period which again has a significant direct time-lagged effect on brand equity.

The results of our study are of particular relevance for clubs’ managers and marketing executives. First, the findings of both studies provide evidence that marketing efforts of sports clubs really pay off in terms of boosted sport success. As brand equity has direct impact on sport-related success, branding becomes a strategic asset for a club to differentiate from competitors. Sports clubs cannot longer be managed as simple non-profit organizations (Chadwick 2009). Instead, sports clubs should implement a professional brand management to nurture brand equity. Second, the findings demonstrate that managers should be
aware of the total impact of branding over the entire life cycle, not only the near-term reaction in performance. Long-term orientation in brand management is necessary to drive sport-related success. Third, our research highlights the cycle structure within the marketing-related perspective in a sports club over time. As mentioned, brand equity has a positive time-lagged direct effect on sport-related success. Moreover, sport-related success has time-lagged direct effect on fan commitment, which in turn affects brand equity directly. Managers need to keep in mind that today’s actions not just have immediate impact on direct response variables. There is also an indirect impact on other variables in the future. References are available upon request.

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INVESTOR REACTION TO OFFICIAL SPORTS SPONSORSHIPS: THE CASE OF FIRM MARKET LIQUIDITY

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SUMMARY

Sponsorship has quickly grown to be a preferred marketing medium for firms seeking to sharpen their marketing message (Deitz, Evans, and Hansen 2010). This is reflected in the fact that despite being in an age of diminishing marketing budgets, the growth of sponsorship-related expenditures has outpaced that of advertising and sales promotion in recent years and reached $44 billion in 2009 with projections of growth to $46 billion for 2010 (IEG 2009). This growth may be attributed to the stream of research examining the influence of sponsorship agreements on various consumer-based measures which demonstrate that sponsoring firms are rewarded with improved consumer attitudes and increased purchase intentions toward their products and services (McDaniel and Kinney 1998; Pullig, Netemeyer, and Biswas 2006).

Despite the advancement of the examination of consumer-based measures to sponsorships, the examination of market-based reactions to sponsorships has lagged behind. Recent calls by senior marketing researchers (Hanssens, Rust, and Srivastava 2009; Reibstein, Day, and Wind 2009), in conjunction with the Marketing Science Institute’s (MSI’s) research priority to treat “the investor community as a customer” further emphasizes the necessity to understand investor-based decision making and their reaction to this popular and growing marketing initiative.

Prior research examining investor reaction to sponsorship-related marketing investments has been limited to the application of event-study methodology by examining changes in stock price at and around the time of the sponsorship announcement (e.g., Cornwell, Pruitt, and Clark 2005; Farrell and Frame 1997; Miyazaki and Morgan 2001). Findings generally indicate that investors reward sponsoring firms with increases in stock price during various event windows around the date of announcement of the sponsorship agreement. However, the question remains as to whether or not investors reward sponsoring firms over the long-run. As such, this study sought to advance the marketing-finance literature by examining investor reaction to the announcement of official sports sponsorship agreements over a 13-month event window on an important firm financial metric: firm market liquidity.

Firm market liquidity is defined as “. . . the ease with which it (firm stock) can be traded” (Brunnermeier and Pedersen 2009, p. 2201) and has also been defined as the relative attractiveness of a stock and ease of trading that stock (Chordia, Roll, and Subrahmanyam 2002). Firms with relatively higher market liquidity are able to access funds more quickly through the issuance of shares of stock and are able to do so with relatively lower costs than for firms with lower market liquidity. Investors are also able to trade shares of the stock more quickly and with relatively lower costs when compared to shares of firms with lower market liquidity.

This study utilized two widely used measures from the finance literature to measure firm market liquidity, trading volume (Lipson and Mortal 2007) and relative effective spread (Chakravarty, Van Ness, and Van Ness 2005). Trading volume is defined as the number of shares of a security traded within a specified period of time (Pagano 1989) while relative effective spread is a function of the difference between the ask, the lowest price a market maker is willing to sell the security, and the bid, the highest price that a buyer is willing to pay for the security, relative to the price of the security. Higher trading volume and lower relative effective spreads indicate higher levels of firm market liquidity.

Using 118 official sports sponsorship announcements from the National Football League (NFL), Major League Baseball (MLB), National Basketball Association (NBA), National Association for Stock Car Auto Racing (NASCAR), National Hockey League (NHL) and Professional Golf Association (PGA), sponsoring firms were examined for changes in trading volume and relative effective spread for the time period of $t = -1$ to $t = +12$ where $t = 0$ is the month of the official sports sponsorship announcement. Results indicate that firms that participate in official sports sponsorship have significantly higher average monthly trading volume ($t$-score = 2.505; $p \leq 0.05$) and lower average monthly relative effective spreads ($t$-score = -3.754; $p \leq 0.01$) for the period examined. Further examination leads to the finding that firms with relatively lower levels of advertising intensity (total advertising expenditures (COMPUSTAT item XAD) / total firm assets (COMPUSTAT item AT)) seem to benefit more than for firms with relatively higher levels of adver-
tising intensity, showing that firms with relatively smaller marketing budgets may be able to reap benefits which outweigh those of firms with relatively larger marketing budgets through the strategic investment of their marketing dollars. Theoretical and managerial implications are also discussed. References are available upon request.

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SPORT SPONSORING – THE COMMUNICATION IMPACT OF DIFFERENT COMPONENTS OF THE SPONSOR-EVENT-FIT AND THE ROLE OF INVOLVEMENT

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SUMMARY

Sport events belong to the most popular events that are sponsored by companies. Despite the high investments in sponsoring of sport events little is known academically about sport sponsoring. In recent sponsoring literature the perceived sponsor-event-fit is identified as a central factor of sponsoring which influences consumers’ responses. The literature differentiates the sponsor-event-fit into functional fit (where the sponsor’s product is actually used in the sport event by participants and/or the event organizer) and image fit (where the sponsor’s image is congruent with that of the event). So far, if a distinction is made, research concentrates on one of the two components. This does not do justice to the two identified components of the sponsor-event-fit as they affect consumers simultaneously. One experimental study exists that examined this coexistence in the context of services. No significant interaction effects were found. Thus, there is a need for an investigation of the coexistence of the two fits for the product setting. This study investigates how the two components of the sponsor-event-fit impact the perceived quality and the attitude toward the sponsor brand separately and in coexistence. In addition, little is known about information processing of sponsorships. Thus, product and event involvement are investigated in triple interaction effects.

Based on the hierarchy of effects model, two dependent variables are chosen, namely perceived quality of the sponsor brand and the attitude toward the brand, which separately measure the cognitive and affective components of the brand impact. Studies found that consumers who perceive a match-up or fit between sponsor brand and event show more positive responses to the sponsorship. Looking at sport sponsoring and based on the match-up hypothesis we assume that the advertising impact increases with increasing congruence between sponsor brand and sport event. If a fit exists between the sponsor brand and the sport event, an image transfer is promoted and enhanced. Accordingly, the positive associations of a sport event are more easily transferable to the sponsor brand the more similar the sponsor brand and sport event are in the perception of the consumers due to functional and/or image-based characteristics. Even though findings from sponsoring research show that perceived fit between sponsor and event is important to generate desirable consumer responses, little is known about information processing of sponsorships. The ELM posits that there are two routes of information processing. A person’s elaboration likelihood is also influenced by situational variables such as product category or sport event. Therefore, we assume that product and event involvement influences the relation between the interaction of image and functional fit and brand impact.

For the experiment, we identified appropriate brands for the manipulation of the functional fit and the image fit with the 2009 WCA as well as of the product involvement in two pre-tests. Based on the results, the four product categories: sports goods, cars, alcoholic, and non-alcoholic beverages were selected. In order to control for confounders we selected brands that were not sponsors of the 2009 WCA. The conceptual model was tested in an experiment with a 2 (functional fit: high vs. low) X 2 (image fit: high vs. low) X 2 (product involvement: high vs. low) mixed between- and within-subject-design. We had four different groups, each group running two experimental conditions. Eight hundred ninety-nine people participated in the online experiment. These participants were randomly and equally distributed among the four experimental groups. Overall, we collected 1798 evaluations of the eight stimuli. After the presentation of the stimuli, all latent constructs were assessed by using multi-item seven-point Likert scales or seven-point semantic differentials. The experiment closed with manipulation checks and socio-demographics.

The main contribution of this paper is the finding on the interaction effect of functional fit and image fit on brand impact, especially under the investigation of the role of involvement. We find empirical support that for sport sponsoring there must be a differentiation of the sponsor-event-fit into the functional and image fit in one brand. Both sponsor-event-fit dimensions show different influences on the brand impact. A high image fit shows a direct positive impact on the perceived quality of a sponsor brand and the attitude toward the sponsor brand. For
the first time, it is demonstrated that a cognitive evaluation of a sponsor brand can be increased with the help of an image fit. The image fit has a high effect on the brand impact of sponsorship and, thus, must be accounted for when selecting a sport event. The own brand image as well as the event image should show a high fit. Companies should measure their target market’s event image perception before entering a sponsorship to ensure that the brand’s image and the sport event’s image match. In this way, companies will be able to achieve their brand positioning objectives.

In addition, we demonstrate that the two fits also have to be examined in coexistence in one brand. We show that the impact of high image fit on perceived quality cannot be increased with high functional fit. However, the opposite is true for the low image fit condition. Here, an increase in perceived quality can be reached with high functional fit. Looking at the attitude toward the sponsor brand, the influence of functional fit becomes significant through the interaction with image fit. The interaction between the two fits and its influence on perceived quality and attitude toward the sponsor brand needs to be accounted for by companies. It is shown, that fit is multidimensional and needs to be treated accordingly.

In low product involvement conditions companies with a low image fit need to show a high image fit and companies with a high image fit need to have a low functional fit. In high involvement product categories, the highest perceived quality for high product involvement categories is achieved with a high image and a low functional fit strategy. For the low event involvement condition, we observe that the effect of functional fit on attitude toward the sponsor brand can be increased by high image fit. Thus, in moments like demonstrating the sponsorship for example in a TV commercial during a sitcom or movie, companies should highlight the image fit of the sponsor brand and the sport event. For the high event involvement condition, we observe that the effect of functional fit on attitude toward the sponsor brand is also increased by high image fit. Therefore, in high event involvement conditions, e.g., during televised events, companies should heavily advertise their product by demonstrating a high image fit no matter whether high or low functional fit exists. Overall, companies should select sport events for sponsorships with the degree of functional and image fit in mind. Companies should then focus on communicating these two fits of sponsor brand and sport event according to the event and product involvement. References are available upon request.

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WHICH VALUE DO DIFFERENT SPORT SPONSORSHIP TACTICS DELIVER?

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SUMMARY

Sport sponsorship is widely used. However, we still know little about the reception and processing of sponsoring stimuli in the consumer’s black box. As a consequence, a reliable value assessment of sponsorship activities is still to be developed. Whereas the direct effect of exposure on sponsor awareness was identified in several studies, attention as the “gatekeeper” of sponsoring stimuli has not been investigated thoroughly. Based on a consumer behavior approach the present paper takes this research gap into account and investigates the consumer’s visual attention to sponsoring stimuli by applying eye tracking methodology.

The first aim of this paper is to analyze the impact (1) of sponsorship TV exposure on sponsorship attention and (2) of sponsorship attention on sponsorship awareness. The second aim is to identify the role of different broadcasting types and different sponsor brands in these relations. Therefore, we try to answer the following research questions:

RQ1: In how far does sponsor brand exposure influence the consumer’s attention?

RQ2: In how far does the consumer’s attention influence sponsorship awareness?

RQ3: What is the role of different broadcasting types and sponsoring brands?

Wakefield et al. (2007) found evidence that a higher level of exposure to the sponsor brand produces positive effects on recall accuracy. These results were supported by Vale et al. (2009) who also found exposure to have a positive impact on sponsor awareness. In both studies an on-site sample was used whereas exposure was measured by means of sponsorship level, e.g., main sponsor vs. co-sponsor. But since corporate sponsors invest high amounts of money primarily into televised sport events in order to reach an audience of millions (Smolianov and Shilbury 2005) research on the effect of sponsorship among TV viewers is highly relevant.

A lab design was chosen to ensure internal validity. Twenty-six different stimulus films taken from football, handball, motor sport and winter sport broadcasts on German TV were shown to the sample of N = 85 with a mean age of 32 years. Every participant watched all 26 films with a duration of between 2:57 and 5:55 minutes per film. The sequence of films was randomized to control for order and fatigue effects. Since sponsoring stimuli access the consumer’s attention predominantly through the visual path, the participant’s eye movement was tracked. In order to assess the sponsorship awareness, subsequent to every film a face-to-face recall test was used without giving any prompt. Participants were asked the following: “Could you tell me, which sponsors appeared in the last film?” The level of sponsor logo exposure and the personal involvement with the sport event was measured beforehand, while brand familiarity and purchase behavior were assessed post-exposure.

Two regression models have been considered to analyze the sponsoring stimuli reception and processing in the consumer’s black box. In a first step, multiple linear regression analysis was used to explain the level of visual “attention” by entering the “on screen time,” “on screen share,” and “on screen clutter” (all metric scales) as exposure measures, the moderating variables “interview” and “highlight show” as well as the control variable “event involvement.” The results show an adjusted R² of 32 percent, which indicates an acceptable explanation of the variance in the DV. The analysis produced a significant effect for the exposure variables. The “on screen time” (Beta = .648, p < .000) shows the highest contribution to the prediction of “attention,” while “on screen share” (Beta = .162, p < .000) has a moderately positive effect. “On screen clutter,” meaning the number of other sponsor logos on screen, affects the attention for sponsors in a negative way (Beta = -.130, p < .000). Regarding the moderating variables the model outputs negative coefficients for the broadcasting types “interview” (Beta = -.384, p < .000) and “highlight show” (Beta = -.015, p < .048) the model shows a slightly negative outcome. This allows us to conclude that the different types of broadcasting play a moderating role within the process of sponsorship effectiveness. To predict awareness from attention scores, a logit regression with a likelihood ratio estimation method was used. All entered measures were significant predictors of the DV “sponsor recall.” For every second increase in “attention,” the odds of “sponsor recall” (versus no sponsor recall) increased by 308.0 per cent. On the sponsor brand level, the model shows that if the brand was known to the consumer the odds of “sponsor recall” increased by 548.8
per cent. If the respondent was a “brand customer,” the odds of “sponsor recall” increased by 47.4 per cent.

Results from this study reveal that a valid and transparent valuation of sponsorship tactics needs to go beyond one-dimensional exposure ratings and recall scores. There is a considerable gap between what is exposed on television screen and what is viewed by consumers. Since consumers are confronted with numerous stimuli while watching televised sport events, their attention must be seen as a scarce good. Not very surprisingly, their highest share of attention is paid to sporting action whereas sponsor brands are only perceived as a sideline. However, televised sport events are capable of passing on attention to sponsor. Consequently, for a reliable valuation it is most relevant to identify the underlying causes of attention. By doing so, a weighting scheme can be derived accounting for different quantities and qualities of TV exposure, broadcasting types as well as different kinds of televised sporting events. Such an approach could lead to a more valid and transparent valuation of sponsorship tactics than simple exposure ratings or recall scores. Therefore, further research should investigate the drivers of attention which are assumed to lie in the location and design of sponsoring tools (e.g., jersey, perimeter board, billboard) as well as the consumer’s arousal and product involvement. References are available upon request.

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ADVANCING MEANS-END CHAINS BY INCORPORATING KANO METHOD TO EXPLORE CONSUMER PERCEPTIONS

Chin-Feng Lin, National Pingtung Institute of Commerce, Taiwan

SUMMARY

The development of Bed & Breakfasts (B&B) has been rapid in Taiwan, and so competition in the lodging industry has become more intense than ever. B&B should thus adopt effective strategies to enhance their facilities and service quality. This study adopted the means-end chain (MEC) approach and incorporated the Kano method to explore the different preferences for facilities/services preferred by different consumption groups to design effective product strategies for B&B. The purposes of this study were as follows: (1) to integrate the Kano method and MEC to analyze consumer preferences and identify the important facilities and services of B&B, and (2) to provide marketers and owners of B&B with new insights for developing effective marketing strategies.

In this study, a total of 306 non-student and 182 student valid samples were gathered and used to reveal the intrinsic preferences and perceptions of consumers. The analytical results show that: (1) different segments have various preferences for B&B facilities and services, (2) the non-student respondents especially prefer the “attractive-quality” attribute from the perspective of the Kano method; and (3) consumers pursue the achievement of a “sense of belonging” and “security.”

In the marketing field, MEC analysis is widely used to reveal the relationships between consumer perceptions and product characteristics in order to develop effective marketing strategies. In the Kano model, must-be attributes are the facilities and services that B&B must provide to their customers, while one-dimensional attributes are that should be provided to increase the level of consumer satisfaction. Attractive attributes are what B&B owners can provide to differentiate their B&B from others. As the analytical results of this study reveal, “free guided tour” and “free shuttle bus” can be used as a differentiating strategy to attract target customers to B&B. Obviously, integrating MEC and Kano analyses enables marketers to not only better understand consumer perceptions of B&B, but also reveal important facilities and services that consumers perceive as must-be, attractive, indifferent or one-dimensional qualities. B&B marketers can thus use the analytical results of MEC and Kano models to formulate effective marketing strategies.

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QUESTIONING SOME CLAIMS ASSOCIATED WITH PLS PATH MODELING

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SUMMARY

Partial least squares path modeling (PLS) has become a popular research tool, particularly within certain business disciplines, including marketing. We are concerned, however, that the popular understanding of PLS includes some substantial misunderstandings. This paper questions two often-repeated statements about PLS: that PLS supports both reflective and formative measurement and that PLS maximizes the explained variance of the dependent observed variables. In contrast, this paper argues that PLS does not accommodate reflective measurement and that under specific conditions PLS path modeling will not achieve the maximum variance explained for their data.

It is often claimed that PLS accommodates both formative measurement and reflective measurement, while covariance-based structural equation modeling (SEM) accommodates reflective measurement easily but has difficulty with formative measurement. A formative measurement model implies nothing about the covariances among the indicators of the construct (Jarvis, MacKenzie, and Podsakoff 2000). Any pattern of covariances among the indicators would be equally consistent with formative measurement, just as OLS regression imposes no constraints on the covariances among the set of predictor variables in an equation. The claim that PLS accommodates both formative and reflective measurement is likely based on the seeming identity of PLS Mode A estimation with reflective measurement and PLS Mode B with formative measurement (see, e.g., Chin 1998, pp. 305–306, Dijkstra personal communication).

But, is Mode A estimation equivalent to reflective measurement? In the end the construct is estimated as a weighted sum of its indicators, so that the end result is a formative composite. Moreover, PLS does not impose any constraints on the covariances of the errors among the indicators – behavior we would expect from formative indicators. The only difference between Mode A and Mode B is that Mode B estimation takes account of collinearity among the predictor indicators, while Mode A ignores collinearity among the indicators. With uncorrelated indicators, Mode A and Mode B are identical. A synthetic example, featuring multiple uncorrelated indicators for each of two constructs, illustrates the point. PLS analysis, using SmartPLS (Ringle, Wende, and Will 2005), produces strong estimated loadings, while analysis of the same data with a SEM package produces only nonconvergence.

The PLS literature also routinely asserts that PLS path modeling is the technique to choose if the primary aim is to maximize “variance explained.” That is, if the goal is to “explain” the variance of the observed variables associated with the dependent constructs in a path model, then PLS is the best technique. The root of this argument appears to lie in the connections between PLS path modeling, principal component analysis and canonical correlation analysis, and in the distinction between principal component analysis and factor analysis. It is well established that, for a given set of observed variables, when assumptions hold, a principal components analysis will produce higher R2 for the observed variables than will a factor analysis (Jöreskog 1979).

It has long been noted that PLS path modeling with two sets of observed variables and Mode B estimation is equivalent to extraction of the first canonical correlation (Areskoug 1982; McDonald 1996). The problem with recommending PLS path modeling as the tool for maximizing variance explained is that a single canonical correlation may not be sufficient to fully account for relations between two sets of observed variables. Assuming no perfect collinearity within either set, then with P and Q observed variables, there are min (P, Q) canonical factors and canonical correlations linking the two sets. PLS path modeling relies on the property of consistency at large (Wold 1982), a property which applies only when both sample size and the number of observed variables are large. With many observed variables in each set, it might require many canonical factors and canonical correlations to completely represent relations between the sets. By contrast, relying on a single weighted composite to represent each group of variables, and relying on a single structural path to link those composites, as is typical of PLS path modeling, essentially implies the (usually untested) assumption that the all canonical correlations beyond the first linking these sets have no explanatory power. PLS path modeling has not always made this assumption (Apel and Wold 1982). However, in practice PLS users only rarely tap this potential, and some popular PLS packages, such as SmartPLS (Ringle, Wende, and Will 2005), do not even offer the potential to address this issue.
By contrast, Cohen’s set correlation approach (Cohen 1982) directly captures the full explanatory potential of two sets of observed variables. Set correlation estimates a generalized $R^2_{Y,X}$ which is a collective function of all canonical correlations linking the two sets of variables $Y$ and $X$. This statistic is easily calculated from determinants of the correlation matrices of the observed variables. Two examples with synthetic data illustrate this point. In the first example, only the first canonical correlation is nonzero, and PLS Mode B $R^2$ matches Cohen’s $R^2_{Y,X}$ exactly. But in the second example, there are multiple nonzero canonical correlations, and PLS Mode B comes up short in terms of total variance explained.

Fortunately, it is easy for PLS users to check their data for this phenomenon, using formulas presented in this paper. For models involving more sets of predictors, Cohen (1982) offered a complete set of formulas to allow any researcher to compute $R^2_{Y,X}$ while partialing out the influence of other sets of predictors.

Researchers who adopt any methodology need to understand how the method works, so that they don’t fall under the spell of a black box, or find themselves engaged in thoughtless, ritualistic research behavior. PLS users should recognize that they are indeed using formative measurement, regardless of PLS “mode,” and should be alert to the possibility that simple applications of PLS path modeling may fail to account for additional dimensions of the relationships between their predictor and dependent observed variables. References are available upon request.

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MODELING MARKETING RESPONSE WITH FUZZY-SET QUALITATIVE COMPARATIVE ANALYSIS (FS/QCA): TOWARD CONFIGURATIONAL EXPLANATION OF MARKETING OUTCOMES

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ABSTRACT

We demonstrate how contextual causal patterns behind marketing performance outcomes can be deduced with Fuzzy-Set Qualitative Comparative Analysis (FS/QCA). The methodology is new to marketing, and supplements the present range of response modeling approaches in taking into account causal complexity, heterogeneity, and asymmetry; incorporating qualitative analysis; and suiting small-N contexts.

INTRODUCTION

Performance measurement is a Holy Grail of marketing, as is evidenced by its consistent and continued prominence in calls to action and among key research priorities, for and by both academics and business managers. The MSI (2008) has “Accountability and ROI of Marketing Expenditures” as their number one research priority; the AMA (2008) and CIM (2007), along with other professional organizations have similar concerns (Clark 1999; Morgan, Clark, and Gooner 2002; O’Sullivan and Abela 2007). The question of what actions and decisions by marketers will bring about what responses in the marketplace is shared by business managers and marketing researchers alike. Practitioners in the field are faced with increasing demands for accountability (Rao and Bharadwaj 2008; Stewart 2006). The basic question remains, perhaps even more pertinently in the recent economic downturn than before: *What in marketing works, when, where and how?*

A marketing action can result in substantially different outcomes, depending on the exact mix of tangible and intangible assets employed, and the context/contingency of prevailing environmental conditions. Conversely, explanations for a similar outcome can be very different from each other when multiple causal mechanisms operate concurrently. Furthermore, different degrees of performance are often caused by mechanisms that are different in fundamental composition, as opposed to degree of intensity or effort. In most cases, there are multiple paths to an outcome.

Despite work on linking marketing activities with intermediate marketing outcomes (Blattberg and Deighton 1996; Rust, Zeithaml, and Lemon 2000) and perceptual measures with financial results (see Gupta and Zeithaml 2006 for a summary), the complete “Chain of Marketing Productivity” (Rust et al. 2004) that links marketing expenditures, the creation of market assets, and eventual financial results together is complex (Grewal et al. 2009). The links between marketing actions, assets, and financial outcomes have rarely been explicated on a practical level in the marketing performance discourse (Stewart 2009).

The quantitative modeling of marketing phenomena is subject to several particular conceptual and practical challenges:

1. Causality is usually assumed to be uniform and linear-additive among populations, even though the complex interactions of the real world do not warrant this (Berg-Schlosser and De Meur 2009). Nevertheless, linearity is assumed for variables and their functions without consideration of their qualitative real-world effects (Bagozzi 1980, p. 70). Models are unable to account for situations where variables combine asymmetrically to produce different results in different combinations or deliver interpretable results where modeled interactions go beyond three-way effects (Fiss 2007).

2. The numerical analysis process is often divorced from qualitative understanding of the significance, relevance and practical reality of the data as well as assumptions, conclusions and predictions or prescriptions made (Laurent 2000).

3. Distinguishing incremental (short-term) and persistent (long-term, equity) effects as well as organizational and other option-creating effects which are extremely difficult to quantify (Stewart 2009).

4. Identifying contextually correct and meaningful variables and metrics, and arriving at model frameworks that are sufficiently low in dimension for analysis.

6. Practical problems in data collection and availability for research economic model development; flexibility and depth of available information in control systems (Morgan, Clark, and Gooner 2002).

We approach the problem of determining the causes of marketing performance in a specific context by applying a novel method, Qualitative Comparative Analysis using Fuzzy Sets (FS/QCA; Ragin 1987; 2000, 2008a). It offers one potential answer to some of the concerns voiced over opening the “black box” of marketing: a new, systematic way to carry out formal logical comparison using set theoretic principles and without losing qualitative depth. The promise of FS/QCA lies in deducing a description of complex causal mechanisms with high explanatory power within the empirical context.

It can readily be seen how a deeper, empirically deduced knowledge of active causal mechanisms could add to the discourse on marketing performance. Such understanding is prerequisite for better control systems to assist managers in more effective, efficient and adaptive handling of affairs (Morgan, Clark, and Gooner 2002), as well as offering a new platform to develop theory.

The focus of this study is on methodological development. To demonstrate the method, we present a business case comprising a series of online promotions over one year, carried out by an airline to boost revenue on specific routes. The objective is to discover what types of offers are the most or least successful in terms of revenue impact. The aim of this paper is to introduce the FS/QCA method for studying causal configurations in marketing performance, demonstrate its practical application on actual data, and consider the merits of our analytical process as a tool for furthering the understanding of causality in marketing performance, specifically in light of the challenges faced in quantitative modeling discussed previously.

APPROACHING CONFIGURATIONAL CAUSALITY

The key question for marketing performance is determining the manner in which knowable inputs bring about measurable outcomes. Together, they define the challenge that interests us: a methodology that aims at drawing these linkages out in a managerially relevant and actionable way. The fuzzy thinking (Zadeh 1965; Zadeh 1987; Kosko 1993) based approaches to epistemology, configurational causation, and case research, allow inputs and outputs to be considered as theory-building elements for unraveling causal complexity in marketing as it is manifests empirically in specific business contexts.

FS/QCA aims at producing context-specific understandings of complex interactions through mostly deductive, theory-building research. No specific theory exists to predict or explain ex ante what we might find to be the causal mechanisms at work in a specific case context. Theory is encouraged to emerge from empirical material, with the researchers’ key input into the process being in brainstorming possible, measurable, and actionable conditions for inclusion in data collection, and subsequently seeking qualitatively significant characteristics in the attribute data to highlight differences among the cases. Investigating causality is approached with parsimony: Given some theoretical understanding of potentially relevant causal factors, adequate data of sufficient quality, and a requisite assumption that some regularities exist in the first place, the simplest explanations that can account for the variance in outcomes we observe is a strong candidate for a causal theory in the particular context.

QCA has its origins in the late 1980s and early 1990s, developed as a “macro-comparative” approach for studying questions in political science and historical sociology (Berg-Schlosser et al. 2009, p. 3; Berg-Schlosser and Quenter 1996). Empirical research taking entire societies, economies, states, and other complex social and cultural formations is naturally associated with a limited number of relevant cases – for example, the countries of Europe. For this reason, QCA has often been viewed as a “small-N” approach, specifically tackling many of the analytical challenges inherent to small populations. Cooper (2004) notes that the advantages of the case-based approach are beginning to be applied to larger datasets. In addition to the empirically driven research process and the lack of unstated assumptions discussed earlier, the small-N aspect is one of the most significant benefits of FS/QCA.

Ragin’s 1987 original introduction to qualitative comparative methods sought to present a “synthetic strategy to provide a way to test alternative arguments and at the same time encourage the use of theory as a basis for interpretation,” ideally integrating “the best features of the case-oriented approach with the best features of the variable-oriented approach” (p. 84). To this specific end, QCA techniques combine features from both approaches to “allow the systematic comparison of cases, with the help of formal tools and with a specific conception of cases” (Berg-Schlosser et al. 2009, p. 6).

There is both a deductive and an inductive dimension to QCA. The analytical approach is one of theory building, founded on constructing and evaluating theorized relationships among cases and factors, in other words deducing patterns of interaction between conditions and outcomes. For this to happen, the choice of conditions and outcomes must be theoretically informed (Berg-Schlosser et al. 2009, p. 6). The inductive aspect is apparent in how QCA can be used to approximate the relevance of conditions on a more general level, and in the case of this study, how QCA can be used as a vehicle for methodology-
building: inducing generalizable approaches for dealing with complexity and causality in a specific subdiscipline of inquiry and inducing operating mechanisms for specific marketing contexts.

In FS/QCA, data on marketing actions and their properties are collected and analyzed in an iterative process to formulate set-theoretic structures approachable with formal multi-valued logic (fuzzy logic). This allows logically true (as opposed to statistically likely) inferences to be made on the necessity and sufficiency of marketing actions in bringing about different degrees of customer and market outcomes. Greater insight into how, and in what combinations, marketing actions produce results will ultimately improve decision-making and business performance.

The use of formal set theory gives a distinct advantage to the method. The language of set memberships translates well into theoretical discourse to allow findings to be presented concisely and accurately. Theoretical discourse translates as easily to the language of sets and memberships, enabling a rich dialogue with data with effective control over information loss (Berg-Schlosser et al. 2009, p. 3; Befani, Ledermann, and Sager 2006). By taking advantage of the partial degrees of membership that attributes may have in belonging to a type or kind of case, fuzzy sets further augment the configurational approach.

Our analytical framework for applying FS/QCA is illustrated in Figure 1. It consists of two interlinked, iterative paths. One is concerned with building a context specific theory of causality to explain the focal outcome; the other is the empirical field research process where new data is collected and analyzed to be fed into further theoretical development. As theoretical understanding develops, the empirical effort can be focused increasingly sharply to draw out qualitatively justified distinctions from among the cases to form a basis for conclusions on causality within the focal context.

The analysis process comprises five distinct stages. The process begins with defining – or more likely, evaluating – the analytical conduciveness of – an empirical research context and a theoretical conundrum on causality within that context. In the second stage, theoretical preunderstanding and specifics on research economically available data are joined into an initial property space. This property space is used as the template for empirical data collection. The third stage reflects on the qualitative and quantitative nature of the collected data. The required and justified classification, transformation, and calibration procedures are carried out on the data and documented, resulting in a first fuzzy system that now includes all input data encoded as calibrated fuzzy membership scores. The actual technical analysis of the fuzzy system is carried out in the fourth stage. A truth table is formed using threshold criteria, which this is then reduced to minimal form to deduce a formal set-theoretic expression of causal relationships among the data. The ultimate component part in the empirical analysis column considers the necessity and sufficiency of the discovered causal conditions and configurations. The focus then returns again to theoretical development, where the causal links must be framed with respect to previous theoretical knowledge and substantive understanding on the business context. Then, they can prompt managerial implications in themselves (especially if linked with economic significance assessment in the form of, e.g., ROMI and cash flow calculations), serve as input to another complete iteration of the process, or find use in testing theory using other analytical approaches, including multivariate methods.

**ANALYSIS**

To meet our objectives of demonstrating the application of FS/QCA on marketing problem settings and identifying causal configurations in the airline revenue management and promotion case context, we put forth the following research question to be answered:

**RQ:** How do differences in comparable promotion actions explain high and low revenue outcomes?

1. What properties of email promotions are relevant as causal conditions?
2. What causal configurations can be distinguished among the properties of the promotions and their outcomes?

The analytical framework presented in Figure 1 forms the structure for presenting our research experience and findings with the airline revenue management case.

The case company and setting were selected based on practically guided characteristics that made it suitable for analysis. In addition to research access and commitment, a specific problem context was readily identifiable, with a sufficient amount of directly comparable promotion actions, for which data was immediately available and accessible. This was the basis for beginning our analysis in determining the initial potentially interesting properties of the promotion actions (the “Theoretical Development” column in Figure 1) and intersecting them with the range of data on the conditions available from the case company (“Empirical Development”). This intersection formed the initial property space we consider in our analysis – a k-dimensional vector space where k represents the number of conditions against which each promotion action can be evaluated.
The initial property space gives rise to the next steps both in theoretical development and empirical work. The property space forms the blueprint for data collection. For advancing the empirical process, each case must be assessed for each condition of the property space. Depending on the condition, the data may be quantitative, qualitative, or some combination of these, gathered from management information systems, reports, interviews, external or secondary sources, or any combination of these. In theory building, the next step involves developing an initial understanding of what roles the conditions might play in bringing about the focal outcome.

Each promotion action has a distinct position in the property space determined by fuzzy set membership. The degree of membership signifies the extent to which the case is a part of a given group. For example, a promotion action might be a full member of the group of actions characterized with “expensive price” and more a non-member than a member of the group of actions characterized with “travel date coming up soon.” A case with a fuzzy membership score of 1.0 with respect to a causal condition is a full member of a corresponding fuzzy set, and situated in a corner of the property space. A case with a membership score of 0.0 is a complete nonmember of the set, and rests in the origin of the property space. A membership score of 0.5 would be ascribed to a case that is exactly on the border, as much a member of the fuzzy set as a nonmember. In the vector space, such cases would occupy a position exactly as far from the origin as from the corner with respect to the given condition.

**Calibration**

Data on conditions must be translated to membership scores in a careful, well-documented and qualitatively justified process of fuzzy system calibration. The calibration cannot entail, for example, a mechanistic linear transformation of Likert scores to a [0.0, 1.0] range by default. When quantitative values are re-encoded as fuzzy membership scores, the researcher must be acutely aware of what the numbers represent and what variation is or may be significant for explaining variation in outcome. For example, at one end of the observed range of variation a small difference might be critical for an outcome to come about. For some condition, any variation beyond a given point may be completely extraneous. Quantitative data are usually encoded using a qualitatively justified continuous or set on continuous transfer functions so that continuous quantitative values are represented by a continuous range of fuzzy membership scores.

Qualitative anchoring is used to link fuzzy membership degrees to qualitative data on conditions where quantitative information is not available or relevant. Qualitative anchors are verbal expressions that describe set degrees of set membership. For each condition that does not take on continuous values (typical of qualitative data),
the researcher must decide on the number of bins, with two being equal to using crisp sets (binary logic). Examples of qualitative anchoring are shown in Table 1.

Table 2 presents the property space used in this case study. Eight conditions were included in the final property space:

- Four discrete choices, analogous to dummy variables, and calibrated as a crisp (Boolean) set $\{0,1\} – \text{Seasondestn}$ indicating whether the travel destination was seasonal destination; \text{buynow} indicating whether the flight was available for purchase immediately on email sending, or if the offer began later; \text{nordic} indicating a Nordic destination; and \text{citydestn} indicating city destinations as opposed to or combined with seasonal sun or snow destinations.

- The condition \text{daysuntilend}, indicating how much time there was from the offer until the final possible departure date set for the email offer, was calibrated as a seven-value fuzzy set. The distribution of the values for the various amounts of days until ends of travel periods was clustering into seven groups, with some noise due to differences in weekdays per month and small managerial adjustments. The observed clusters were selected as the bins for assigning evenly spaced fuzzy membership scores. These correspond reasonably well to the level of specificity available for managers constructing the offers.

- The same calibration procedure was carried out for the two conditions, calibrated as eight-value fuzzy sets, \text{travelsoon} indicating the number of days until the first possible departure date on the offer’s terms (inverse), and \text{expensive} indicating the price of the flight in Euros.

- The final condition, \text{emailreactivity}, a reference statistic form the email delivery system indicating the

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**TABLE 1**

Fuzzy Set Calibration and Qualitative Anchors (Ragin 2008).

<table>
<thead>
<tr>
<th>Crisp Set</th>
<th>Three-Value Fuzzy Set</th>
<th>Four-Value Fuzzy Set</th>
<th>Six-Value Fuzzy Set</th>
<th>“Continuous” Fuzzy Set</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 = fully in</td>
<td>1 = fully in</td>
<td>1 = fully in</td>
<td>1 = fully in</td>
<td>1 = fully in</td>
</tr>
<tr>
<td>0 = fully out</td>
<td>0.5 = neither fully in nor fully out</td>
<td>0.67 = more in than out</td>
<td>0.9 = mostly but not fully in</td>
<td>Degree of membership more “in” than “out”: 0.5 &lt; $\Xi_i$</td>
</tr>
<tr>
<td>0 = fully out</td>
<td>0 = fully out</td>
<td>0.33 = more out than in</td>
<td>0.6 = more or less in</td>
<td>0.5 = cross-over: neither in nor out</td>
</tr>
<tr>
<td>0 = fully out</td>
<td>0 = fully out</td>
<td>0 = fully out</td>
<td>0.4 = more or less out</td>
<td>Degree of membership is more “out” than “in”: 0 &lt; $\Xi_i$ &lt; 0.5</td>
</tr>
<tr>
<td>0 = fully out</td>
<td>0 = fully out</td>
<td>0 = fully out</td>
<td>0.1 = mostly but not fully out</td>
<td>0 = fully out</td>
</tr>
</tbody>
</table>

**TABLE 2**

Property Space and Fuzzy Set Membership Value Calibration of Conditions

<table>
<thead>
<tr>
<th>Condition</th>
<th>Explanation</th>
<th>Calibration</th>
</tr>
</thead>
<tbody>
<tr>
<td>\text{daysuntilend}</td>
<td>Days until latest date to depart</td>
<td>Seven-value fuzzy set</td>
</tr>
<tr>
<td>\text{travelsoon}</td>
<td>Days until first possible departure</td>
<td>Eight-value fuzzy set</td>
</tr>
<tr>
<td>\text{seasondestn}</td>
<td>Seasonal destination (snow, sun)</td>
<td>Crisp set</td>
</tr>
<tr>
<td>\text{buynow}</td>
<td>Available for purchase immediately</td>
<td>Crisp set</td>
</tr>
<tr>
<td>\text{nordic}</td>
<td>Nordic destination</td>
<td>Crisp set</td>
</tr>
<tr>
<td>\text{citydestn}</td>
<td>City destination</td>
<td>Crisp set</td>
</tr>
<tr>
<td>\text{expensive}</td>
<td>Offered price of flight</td>
<td>Eight-value fuzzy set</td>
</tr>
<tr>
<td>\text{emailreactivity}</td>
<td>Degree of reaction provoked by email</td>
<td>Continuous fuzzy set</td>
</tr>
<tr>
<td>\text{revenue}</td>
<td>Outcome condition; ratio of revenue to reference value</td>
<td>Continuous fuzzy set</td>
</tr>
</tbody>
</table>
degree of user activity generated by the mailing, was calibrated using a linear transfer function with intercepts for 0 and 1 set at the minimum and maximum.

**Truth Table Analysis**

Once all data have been transformed to fuzzy membership scores, the analysis proceeds to collation of the data into truth tables for analysis with the FS/QCA software package by Ragin, Drass, and Davey (2006). Setting a consistency threshold follows: because we are dealing with fuzzy truth values, set-theoretic combinations of causal conditions vary in the degree to which they are consistent as combinations for producing the outcome. Ragin (2008) recommends that the consistency threshold be set to at least 0.8, and to a position where a natural gap can be identified. The threshold best fulfilling both criteria occurs at 0.78, cutting the number of cases included in configurations to 13. These are passed on to an implementation of the Quine-McCluskey algorithm included in the fsQCA software package to carry out logical minimization of the truth table.

From the perspective of demonstrating causality, the question of interest is to discover which conditions or combinations of conditions are necessary for a given outcome, and which on their own are sufficient to bring it about. The multiple conjectural view of causation (Ragin and Rihoux 2009, p. 10) adopted in this study specifies that any path to a given outcome comprises one or more sufficient conditions. If a condition is always present in any path to a given outcome, it is deemed necessary. Both sufficient and necessary conditions can (and in the real world usually do) manifest as combinations, or set-theoretic intersections of conditions. In the analysis process using truth tables, conditions present after applying the frequency threshold are necessary conditions as a part of some configuration. Sufficient configurations are configurations that in themselves are sufficient to bring about an outcome – single sufficient conditions are empirically rare.

**RESULTS**

Table 3 presents a logically minimal solution for the property space given earlier, using the lack of revenue as the outcome variable. The negative outcome was chosen for this demonstration, as its results were more concise. Four distinct causal conjectures are seen to lead to a low revenue outcome in the business case, representing different explanations for performance. The first configuration resulting in low revenue covers a range of city destinations in the south of Europe offered in late autumn or early winter for immediate purchase, with short windows for travel. A managerial conclusion might be that quick planning is not popular for this type of time-restricted winter getaway. The second configuration covers offers on flights to one European capital city, which generate low revenue despite wider windows for travel time. The destinations for cases in the third and fourth causal configurations are Nordic capital cities. Here, low revenue is associated with availability for immediate purchase for one, but a readily approached conclusion would be to attribute the effect to the Nordic destination type itself.

**DISCUSSION**

The coverage of the solution in the general case pool (0.61) is adequate, and the consistency of the entire solution is high, by the standards proposed by Ragin (2008). The FS/QCA method works on empirical data within the selected case context to produce sensible results. However, it is rapidly seen that new questions emerge with regard to the findings and their interpretation. Supplementary solutions, adding new observations, and developing the property space further with new conditions and information sources are immediate conclusions.

**Methodological Conclusions**

Applying FS/QCA on micro-level case data from the promotion effort process of an airline yields results that are consistent as reflected on criteria established in methodological literature, as well as logical expressions arrived at through an objective, systematic, documented and replicable process, that are a sensible and intuitively coherent basis for discussion of the causal mechanisms involved. Compared to conventional quantitative techniques, FS/QCA can yield valid and reliable results with small case populations. The results are strongly context-bound theoretical explanations of causal mechanisms, and offer a new, rigorous approach to managerial problem solving. Compared to exclusively qualitative techniques, FS/QCA allows crafting empirical generalizations, expanding the scope of managerial use considerably. It offers one potential answer to some of the concerns voiced over opening the “black box” of marketing: a new, systematic way to carry out formal logical cross-case comparison using set theoretic principles and without losing qualitative depth.

Following Fiss (2007), we conclude that the premise of different conditions combining rather than competing to create an outcome makes the approach well suited for studying causal heterogeneity and equifinality. In light of the broader range of challenges faced in quantitative modeling of marketing response, FS/QCA

1. Neither variables (conditions) nor their functions are assumed to be linear. Qualitative theoretical understanding is used to calibrate conditions, and the analysis process assumes multiple configurational causality to allow for any type or amount of interac-
2. Qualitative understanding is present throughout the analysis process, ensuring that results are tied to real-world phenomena instead of a divorced numerical abstraction. No result describes or predicts a hypothetical situation that has not been empirically observed.

3. Incremental, persistent, and real option effects of actions can be modeled with respect to multiple qualitative outcomes and contextually defined metrics (not demonstrated in this paper).

4. The FS/QCA analysis process draws out measures that are empirically relevant as causal conditions in a very specific business context, which can subsequently form a well-informed base for a marketing metric system.

5. The analysis process specification allows and encourages causal mechanisms in marketing to be deduced in a replicable and controlled process.

6. While FS/QCA cannot overcome difficulties in data collection and solicitation in itself, the practical relevance of the results allows a more effective, efficient and adaptive control system to be constructed, unburdening the organization unnecessary data collection tasks.

FS/QCA has substantive potential to supplement existing quantitative methods with a qualitatively deeper, case-oriented perspective to causation. Its best promise is in distinguishing multiple configurational causality, high contextual relevance, allowing for complex nonlinearity, and the possibility of valid and reliable small-N analytics.

**Limitations**

FS/QCA is critical of existing epistemology and methodology in that it attempts to reconcile strict positivist and strict interpretive/relativist perspectives into something that is more valuable in practice than either of those two alone. With FS/QCA, one does not take a stance toward the existence of an objective reality. Rather, it offers tools to work within a given ontological reality and systematically assess the mechanics of causality in that context and situation. The wider applicability of results is left open to further interpretation. This fits in well with the reality of business management; FS/QCA will never de-scry unavailable information. It does, however, offer the potential for new perspectives by with the data we can access.

**Further Research**

Further research into investigating causality in marketing with the FS/QCA methodology is needed both within the context of the individual business case considered here, as well as in developing the approach on a general level through application in diverse case contexts and levels of analysis.

**TABLE 3**

Resultant Causal Configurations (Complex Solution) for Low Revenue as the Outcome (~revenue). A Tilde Signifies Negation (Absence of a Condition), a Plus Sign Logical Union (OR), and an Asterisk Logical Intersection (AND)

<table>
<thead>
<tr>
<th>Consistency Cutoff: 0.782569</th>
<th>Raw Coverage</th>
<th>Unique Coverage</th>
<th>Consistency</th>
</tr>
</thead>
<tbody>
<tr>
<td>~days until end<em>travel soon</em>buy now*~nordic</td>
<td>0.200884</td>
<td>0.200884</td>
<td>1.000000</td>
</tr>
<tr>
<td>days until end<em>travel soon</em>~season destn<em>~buy now</em>~nordic</td>
<td>0.159776</td>
<td>0.159776</td>
<td>0.937393</td>
</tr>
<tr>
<td>days until end<em>~travel soon</em>season destn<em>~buy now</em>nordic</td>
<td>0.101492</td>
<td>0.101492</td>
<td>0.926251</td>
</tr>
<tr>
<td>days until end<em>~travel soon</em>~season destn<em>buy now</em>nordic</td>
<td>0.152442</td>
<td>0.152442</td>
<td>0.782569</td>
</tr>
</tbody>
</table>

solution coverage: 0.614595
solution consistency: 0.909565
With respect to the airline case presented in this paper, the natural expansion would be adding more cases to the analysis as they become available. A more active collaboration approach could involve experimentation within the promotional offers by varying the used arguments and marketing mix variables on a greater range that has been used, and dividing the pool of consumers to subgroups presented with different versions of the promotion. While the price itself is difficult to vary under the present scheme, subgroups of consumers could easily be promoted different destinations, different travel periods, conditions, sales arguments, and promotions, given that these experiments do not undermine consumer trust and perception of equal treatment of customers. Thirdly, to deepen the understanding of the consumer decision-making process involved in reacting to the promotions, qualitative interviews should be carried out on samples of buyers to deepen our understanding of the drivers and motivations behind purchase in the different causal groups of consumer response. This additional qualitative information on buying behavior would allow us to include additional relevant conditions in the causal analysis that we do not access to presently, and develop a model with substantially greater descriptive power.

For marketing performance research in general, further development and applications of FS/QCA and its variants could offer a considerable degree of new perspective. Arguably, there is much in performance and causality that cannot be rigorously analyzed with the present tools and their inherent assumptions. Adopting a multiple conjectural view into causation and taking advantage of fuzzy sets as a logical and robust interface to reality has distinct benefits and considerable analytical potential for a wide range of applications. The most beneficial applications can only be discovered as qualitative comparative analysis is applied to new contexts and diverse new business cases. This process of practical experimentation to develop the method further for use in marketing performance contexts would not only allow us to discover the best uses for it, but perhaps even discover some regularities in marketing performance that we are presently unaware of.

**MANAGERIAL IMPLICATIONS**

On a managerial level, this application of FS/QCA into marketing performance of an airline’s biweekly promotional offers has direct implications for revenue management by imparting a relatively objective description of the managerially controllable conditions influencing buying behavior. This knowledge can then be used as a basis for creating an accurate and relevant marketing metrics system, and used to develop the “marketing mix” of conditions in the weekly offers to a maximal revenue generating form.

Further research as discussed above will likely see the managerial relevance of results from this form of analysis develop into a key source of information of the operation of a context-specific marketing system. Potentially, developed frameworks will allow managers to focus marketing efforts on specific, empirically verified paths of influence, substantially reducing resource waste in promotion and other marketing activities, and dramatically improving the efficiency and effectiveness of their marketing system.

**ENDNOTES**

1 Properties of the observed cases are referred to as *conditions* in QCA parlance.
2 The *raw coverage* column refers to the proportion of the outcomes explained by each causal configuration and *unique coverage* (equal to raw coverage in this instance) to the proportion explained exclusively by the configuration. The consistency scores for each configuration of causes reveals to what extent the cases included in the configuration are consistent in bringing about the focal outcome.

**REFERENCES**


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LONG-TERM EFFECTS AND SYNERGIES OF E-ADVERTISING

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SUMMARY

Marketing accountability and advertising effectiveness are topics of continuous interest to marketing researchers and practitioners (e.g., Clark 1999; Rust et al. 2004; McDonald 2010). Many studies analyze the parameters of advertising effectiveness by showing which ads work when, for which consumer, and under what circumstances (e.g., Shamdasani et al. 2001; Tellis et al. 2005). Researchers have shown that traditional advertising media, such as television, radio and print, have both short-term and long-term effects (Naik and Raman 2003; Vakratsas and Ma 2005) and that their long-term effects vary and can continue, as in the case of newspapers, for more than a week (cf., Berkowitz et al. 2001a). Moreover, synergy has a considerable impact on the effectiveness of traditional advertising media (Naik and Raman 2003; Chang and Thorson 2004).

With the advent of the Internet, e-advertising (also called online advertising) has become a topic of increasing interest to academic research (e.g., Ha 2008; Kim and McMillan 2008). In the past decade, online advertising has grown beyond simple banner advertising to include new advertising models and online channels (e.g., on-demand advertising like advertisements on search engines and advertising on price-comparison websites) that make better use of the Internet’s unique potential for interaction between consumer and advertiser (Rappaport 2007). However, research on the effectiveness of these online advertising channels is still rare; even though online shops are available 24/7 with no more than a click between online advertisement and online shop, it remains unclear whether online advertising leads to immediate purchases or has an effect only in the long run. In addition, the synergies between the various online advertising channels are important since those channels are much closer together than are traditional ad channels (e.g., one click separates a banner ad on a web page and a search ad on a search page); ads can even appear simultaneously on a screen. By incorporating the time lags and synergies of online advertising into marketing-effectiveness models, researchers and practitioners can improve the timing of the elements of an advertising campaign to ensure that the maximum ad impact occurs during and/or shortly before the advertised event.

Therefore the present study addresses the following questions:

- What are the long-term and short-term effects of online advertising channels on sales? In what way do synergies between these channels influence the effectiveness of online advertising?
- We look at the sales effect of search engine marketing (SEM), banner, and price-comparison advertising (PCA) using a sample of 2.8 million purchases and over 1.1 million individual costumers. The data spans a period of 365 days and was obtained from the .com-website of a leading online-platform for used and antiquarian books.
- Based on the established elaboration likelihood model and a framework from Vakratsas and Ma (2005) we develop our hypotheses.

H1a: SEM has the longest carryover effect of the three channels.
H1b: PCA has the shortest carryover effect of the three channels.
H1c: Banners have a carryover effect between the two extremes of SEM and PCA.
H2a: Banner impressions have a positive impact on SEM.
H2b: Clicks on banners have a positive impact on SEM.
H2c: Banner impressions have a positive impact on PCA.
H2d: Clicks on banners have a positive impact on PCA.
H3a: SEM impressions have a positive impact on PCA.
H3b: SEM clicks have a positive impact on PCA.
H4: The total effect of each advertising channel on sales is positive.

The model used to estimate carryover effects of advertising is based on the direct aggregation approach derived from Srinivasan and Weir (1988) and works as described in Herrington and Dempsey (2005). It delivers a separate values for the carryover effect of each advertising channel and is complemented by a structural equation model using path analysis.
Our findings indicate that hypotheses 1a–c are supported since SEM has the longest carryover effect ($\lambda = 0.70$) and PCA the shortest ($\lambda = 0.05$). The $\lambda$-value of SEM corresponds to a 90 percent duration interval of 6.5 days; in other words, 90 percent of the cumulative effect of a unit impulse of SEM (banner, PCA) advertising takes place within 6.5 (1.7, 0.8) days. Only by using the direct aggregation approach with separate $\lambda$-values for each advertising channel that we employed here, instead of a one-size-fits-all $\lambda$ for all channels together, is it possible to identify the appropriate carryover effect for each channel.

Moreover, our analysis hints at the existence of synergies between online ad channels that are based on the interactivity of the Internet (hypotheses 2a, 2c, 2d, 3b, 4 are supported). These interrelation effect synergies can be measured using path analysis, so future researchers should make use of our results by including interrelation effect synergies to identify causal relationships between online ad channels. Although estimation results may vary by, for example, product category or ad content, our contribution is the approach to considering synergies and long-term advertising effects when analyzing the effectiveness of online advertising channels.

One implication particularly interesting for practitioners is that SEM is the most effective of the online advertising channels analyzed here when synergies and long-term effects are included: holding all else constant, SEM is 1.4 times more effective than PCA and 4.1 times more effective than banner impressions. Besides researchers also practitioners can profit from the results because they can use the described approach to optimize the composition of their advertising channels. References are available upon request.

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AN EXPLORATORY INVESTIGATION AND TYPOLOGY OF MOBILE INFORMATION SEARCH, PERCEIVED CREDIBILITY AND WOM BEHAVIOR AMONGST GENERATION Y

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SUMMARY

The escalation of mobile application usage among consumers is transforming the marketing communications landscape, and mobile marketing is increasingly becoming a critical component of marketing communications strategy. In 2010, experts forecasted sales of over 4.5 billion apps, generating $6.8 billion in revenue (Foresman 2010). Through their ability to connect consumers with similar interests and geographic location, mobile apps are altering how consumers communicate with each other, and since the mobile app context represents such a promising opportunity, mobile marketing is increasingly becoming a critical component of marketing communications strategy (Galante 2010).

Marketers recognize the increasingly important role of consumer networks (Cova and Cova 2002; Hoffman and Novak 1996; Muniz and O’Guinn 2001) due to the marketing power of word-of-mouth communication (Brown, Kozinets, and Sherry 2003). Within mobile marketing, academics have explored determinants of consumer acceptance (Bauer et al. 2005), word-of-mouth via social networks (Okazaki 2009b), and the impact of trust and privacy concerns on attitudes and purchase intentions (Basheer and Ibrahim 2010). However, little is known about how consumers are actually using commercial mobile apps. Thus, the purpose of this study is to explore how consumers are utilizing mobile apps in the marketing communications context.

This study focuses specifically on the Gen Y cohort because it is differentiated from other generations by technological fluency (Kotler and Armstrong 2008). Research predicts that Gen Y consumers are relatively early adapters of mobile technology and are more likely to be open to mobile marketing contact (Zid 2004), and the buying habits of Gen Y are more heavily influenced by Internet sources than any other media (Wolburg and Pokrywczyński 2001). Thus, it is important for marketers to capture the impact of technologically driven sources of information on the establishment of loyalty orientations among this unique cohort of technologically savvy consumers.

The authors conduct four focus groups to specifically explore how members of the Generation Y cohort use mobile apps to search for, evaluate, and communicate about product/service information and experiences. The exploratory results aid in the development of a typology of Generation Y mobile app users, based on their levels of intent to purchase and engagement in the mWOM conversation. The types of Generation Y mobile app users are described in terms of their information search, credibility perceptions, and WOM behaviors.

The Planner

Planners are generally less engaged in the mWOM conversation and have high degrees of purchase intentions. These users are highly concerned with maximizing their utility from their purchase decisions and often search for detailed product/service information. However, they limit their mWOM participation to situations in which they seek specific informational responses from other users in regards to products/services he/she intends to purchase, because although they are often skeptical of the trustworthiness of general user-generated content, they hold direct responses to their inquiries to a higher degree of credibility.

The Collaborator

Collaborators display a high level of engagement in the mWOM conversation and have high degrees of purchase intentions. Although these users actively search for product/service information to make the best possible purchase decisions, they are equally willing to share their own experiences and opinions, because they enjoy mutually beneficial discussions with other consumers. These users are confident in their ability to evaluate the credibility of user-generated content, and often improve their deciphering capacities through trial-and-error purchase techniques.

The Freeloader

Freeloaders are rarely engaged in the mWOM conversation and browse product/service information for primarily entertainment purposes, especially when they are bored. These mobile loafers often read the contributions of other users, but, despite their boredom, do not actively share their own experiences and opinions. This is likely due to their general laziness, alleged shortage of free time, or lack of confidence in the worthiness of their opinions from the perspective of other users. Due to their low purchase intentions and thus lack of need to differentiate
between credible and counterfeit information, freeloaders are relatively trusting of user-generated mWOM content.

**The Gossiper**

Gossips are highly engaged in the mWOM conversation and often browse product/service reviews for interesting information. However, their interest in acquiring this information is driven by their social nature instead of purchase intent. These consumers often seek humorous or shocking product/service experiences posted by other users to serve as interesting conversation starters, and they actively share these vicarious experiences in forums that they feel will attract a responsive audience. Due to their lack of purchase intent, these mWOM activists may or may not have first-hand experience with the products or services they discuss, but frequently present second-hand information as personal experience and expect other users to trust the credibility of their claims.

Marketing managers must understand how behavior differs among the four types of Gen Y mobile app users so that they can effectively segment their target market and develop the most user-friendly and credible mobile source for their product or service information. Due to varying levels of engagement among the four types of app users, it will be important to allow users to choose how much information they share, and due to varying levels of purchase intentions, it will be important to create apps that allow users to search for specific product/service information, as well as browse products for primarily entertainment purposes. For all types of app users, it will be especially important for companies to take measures to ensure the credibility of user-generated content (i.e., product and service reviews) available via mobile apps, in order to gain the trust of this skeptical and technologically savvy consumer cohort. References are available upon request.

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FORMULATION OF THE ONLINE MARKETING COMMUNICATIONS MIX: A PRESCRIPTIVE CONCEPTUAL MODEL BASED ON MEDIA NATURALNESS THEORY

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SUMMARY

The primary focus of this conceptual research paper is summarized in the following phenomenon statement: “Firms’ formulation of their online marketing communications (OMC) mix and their subsequent levels of performance due to the specific composition of the OMC mix that they implement due to its aggregate degree of media naturalness as defined and described in media naturalness theory.” A prescriptive conceptual model is developed that advances OMC theory, provides tactical and strategic guidance for industry practitioners, offers future research paths, and utilizes media naturalness theory exclusively in the context of OMC for the first time.

Theoretical Foundations and Literature Review

Media Naturalness Theory. Media naturalness theory was developed from ideas in human evolution and has been provided as an alternative to or substitute for Daft and Lengel’s (1984, 1986) media richness theory (Kock 2001c, 2004, 2005b). According to media naturalness theory, the “naturalness” of a communication medium is characterized as the degree of similarity of the medium with the face-to-face communication medium. The five main elements of communication naturalness include: (1) a high degree of co-location, allowing the individuals engaged in the communication interaction to see and hear one another; (2) a high degree of synchronicity, allowing the individuals to immediately exchange communicative stimuli; (3) the ability to convey and observe facial expressions; (4) the ability to convey and observe body language; and (5) the ability to convey and listen to speech (Kock 2004, 2005b, 2007). The face-to-face medium has been positioned at the center of a one-dimensional scale of naturalness, with deviations to the left (e.g., e-mail, Internet chat, video conferencing, etc.) or right (e.g., super-rich virtual reality media) leading to decreased levels of naturalness and increased cognitive effort (Kock 2004).

Online Marketing Communications. OMC has become a key component of firms’ promotional mixes (Adogoke 2004). The proliferation of available OMC tools has prompted researchers in recent years to develop various typologies and categorization schemes for these tools, including ones offered by Jensen and Jepsen (2006) and Chaffey et al. (2006). The different OMC tools within these disciplines have differing levels of media naturalness, though most have low to no level of media naturalness and thus are at the opposite end of the media naturalness scale from the face-to-face medium, which is the most natural according to media naturalness theory. Audio conferencing and video conferencing are expected to have a higher level of media naturalness because they are the closest replication of offline (face-to-face) communication among the OMC tools.

Proposed Conceptual Model and Research Hypotheses

Using media naturalness theory and the predicted relationships between various components of the theory in the context of OMC, a proposed conceptual model was generated with relevant research hypotheses. Selected hypotheses include the following:

H1: The degree of media naturalness of the online marketing communications mix will have a direct, negative effect on consumers’ level of cognitive effort.

H2: The degree of media naturalness of the online marketing communications mix will have a direct, negative effect on the level of communication ambiguity.

H3: The degree of media naturalness of the online marketing communications mix will have a direct, positive effect on consumers’ level of physiological arousal.

H10: Consumers’ level of cognitive effort will have a direct, negative effect on firms’ online marketing communications performance.

H11: Consumers’ level of communication ambiguity will have a direct, negative effect on firms’ online marketing communications performance.

H12: Consumers’ level of physiological arousal will have a direct, positive effect on firms’ online marketing communications performance.

Discussion

Research and Managerial Implications. The hope is that this paper can be one of many needed contributions that addresses the call for research made by Shankar and
Batra (2009) in which they expressed their anticipation for new frameworks and models, along with fresh insights, to assist with the advancement of OMC theory and improved OMC managerial practices. The proposed prescriptive conceptual model can also help firm managers with their formulation and implementation of their OMC strategies by helping them with the composition of their OMC mix. This is especially valuable for small and medium-sized enterprises, which may have to rely extensively on OMC due to their lack of resources for utilizing more-expensive offline marketing communications tools.

**Future Research.** Future research could include the operationalization and empirical testing of various components from the model, including validation (or revalidation) of the theoretical constructs and the various relationships among the constructs. With or without minor modifications to certain elements, the model could also be tested using different types of respondents or units of analysis (e.g., firm managers and consumers, whether existing customers or prospects), research methods (e.g., experimental and non-experimental), types of data (e.g., primary and secondary), sectors (e.g., business-to-consumer and business-to-business), and industry types (e.g., product vs. services), as well as the aforementioned levels of involvement for product/service (i.e., low involvement vs. high involvement), among others. References are available upon request.

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ON THE ROLE OF EVENT MARKETING IN SCIENCE COMMUNICATION: AN EMPIRICAL EXAMINATION

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SUMMARY

Science communication is a growing area of practice and research. Effective science communication is perhaps the only mechanism for most people to learn about fast-breaking research and developments that affect everyone. Today, universities and institutions realize the importance not only to establish but also to communicate scientific excellence. The challenge, however, lies in creating and implementing communication strategies and activities that allow a meaningful connection with the audience. While prior research provides detailed insights into the effects of traditional communication activities, little is known about the role of experiential marketing in science communication and, in particular, the role of event marketing.

This study aims to explore the role of events in science communication by developing a conceptual model that links participants’ perception, processing, and evaluation of an event. Furthermore, this study aims to gain a deeper understanding of the interplay between event perception and participants’ satisfaction with an event by exploring direct and indirect effects.

We postulate a causal chain leading from event perception through event persuasiveness and effectiveness to satisfaction with an event. Based on Gwinner (1997), we define event perception as the cumulative interpretation of associations attributed to events by participants. In line with Kirmani and Campbell (2004), we define event persuasiveness as an event’s ability to affect participants’ beliefs, attitudes and intentions. Event persuasiveness describes the level of an individual’s comprehension of or agreement with an advocated message (Kirmani and Campbell 2004; Kaplan and Baron 1974). We define event effectiveness as the degree to which an event successfully disseminates an organization’s marketing message. Finally, we define event satisfaction as participants’ overall assessment of an event. In order to substantiate the suggested relationships between event perception, persuasiveness, effectiveness, and satisfaction, the present research framework controls for sponsor-related, message-related, and participant-related variables. More specifically, we intend to investigate whether the hypothesized relationships remain stable across differences in sponsor reputation, message credibility, and consumer involvement.

To test our hypotheses, we conducted a quantitative study. Data for the study were obtained from a sample of 172 respondents, who recently experienced an event. The event in this study involved a one-day university event that consisted of a series of attractions, such as science shows, interactive workshops, exhibitions, and celebrity appearances etc. The main purpose of this event was to raise attention and interest for science and research and inform people about the university. Data were collected using face-to-face interviews. Interviewers were stationed at various on-site locations at which attendees were selected at random.

We tested the hypotheses by applying covariance-based structural equation modeling and using the maximum likelihood (ML) procedure. After establishing convergent and discriminant validity of the measurement model, we analyzed the structural equation model by calculating the overall model fit and the path coefficients for the hypothesized relationships. Overall, the model displays an excellent level of goodness-of-fit ($\chi^2$/df: 1.09; CFI: .99; NFI: .93; TLI: .98; IFI: .99; RMSEA: .02). Furthermore, the results find support for five of the six hypothesized relationships. More specifically, the results of this study reveal that positive event perceptions increase both persuasiveness and effectiveness of an event. Furthermore, we demonstrate that persuasiveness plays a key role in achieving event effectiveness and satisfaction with an event. However, we did not find support for the relationship between event effectiveness and satisfaction with the event. In addition to assessing the path coefficients for the hypothesized relationships, we examined the influence of sponsor-related, message-related, and consumer-related controls. Multiple-group analyses based on differences in sponsor reputation, message credibility, and consumer involvement revealed that the relationships between the framework variables remained stable.

The present study contributes to advertising research by developing and testing a framework that integrates recipients’ perception, processing, and evaluation of a communication tool – event marketing. We examine the interplay between event perception, persuasiveness, effectiveness, and satisfaction and thus investigate variables that have been shown to be of crucial importance in advertising research (e.g., Petty et al. 1983; Nan 2008). By integrating events in the existing repertoire of communication instruments, universities and research centers may
not only create memorable experiences for event participants but also achieve marketing objectives, such as creating a proper image and building reputation.

Several lessons emerge from the findings of this research that might be usefully applied not only to science communication, but any firm or organization that intends to use event marketing to communicate to target audiences. Evidently, events are important communication tools to create experiences for consumers that have the potential to effectively disseminate a marketing message. Managers and marketers should consider event perception as an important predictor of persuasiveness and effectiveness as well as event satisfaction. Thus, managers are asked to arrange events that participants perceive as entertaining but also informative. Here, this research provides a basis for the development of further measurements that help managers to (1) a priori plan effective events and (2) respectively monitor events pertaining to their impact on consumer-related outcomes. References are available upon request.

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SUMMARY

Consumers often face negative media coverage regarding firms’ failures related to products as well as to ethical workplace violations. These negative publicities may have a devastating impact on firms’ reputations, revenues, and market shares. Despite the detrimental nature of negative publicity on corporate reputational assets, there is little systematic investigation of the effects of executional factors, such as the persuasive power of color, in firms’ marketing communication efforts that address negative publicity. It is noteworthy that marketing experts seem to realize the importance of color in designing crisis communication messages. However, it is surprising that scholars have largely neglected the potentially beneficial theoretical and practical effects of color in a firm’s communication addressing negative news. Drawing from schematic models of dispositional inference, we examine how color (i.e., blue versus red) affects consumers’ reactions to three types of marketing communication strategies available to firms (i.e., denial, apology, remedy) that address negative publicity across two domains of a firm’s failure (i.e., competence, ethics).

With this goal in mind, we theoretically conceptualize and empirically demonstrate that color (i.e., red versus blue) influences consumers’ reactions to a firm’s marketing communication response to negative news coverage. Theoretical evidence supporting this claim is derived from research on the psychological functioning of color, which has shown that color serves important signaling and motivation evoking functions. Furthermore, we contribute to color theory, which suggests that color meanings are contextual. In particular, we investigate the effect of color changes dependent on specific context, that is, the strategic form of a firm’s response (i.e., denial, apology, remedy) across two types of firm transgressions (i.e., competence, ethics). Building on the theory of hierarchically restrictive schemas of dispositional inference, a theoretical argument is posited that color affects consumers’ reactions to a failure through its impact on diagnostic signals. That is, when a matter concerns competence failure, the signal of future redemption is more diagnostic than the signal of a firm’s guilt. The reverse effect holds true for ethical violations. Given the varying types of diagnostic signals, color connotes different meanings and is likely to have differential impacts on consumers’ beliefs across different types of a firm’s response.

In summary, the primary purpose of this paper is to investigate the differential effects of color (i.e., red vs. blue) within the use of crisis management to minimize damages that may arise out of firm transgressions. More specifically, this study attempts to assess the varying effects of color used in three types of firm responses to negative publicities (i.e., denial, apology, remedy) in the face of two forms of firm transgressions (i.e., competence failure vs. ethical failure). References are available upon request.

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CONSUMER PERCEPTIONS OF CORPORATE SOCIETAL MARKETING INITIATIVES: A MULTIPLE CAUSE APPROACH

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SUMMARY

The role of corporate philanthropy in today’s business environment continues to be refined. Prior research in the area of corporate societal marketing and perceived motives has focused on consumer perceptions of individual societal marketing initiatives (SMI’s). These studies offer a great deal of insight, however, there remains an absence of literature that takes into account the fact that firms often engage simultaneously in multiple forms of corporate societal marketing. Macy’s corporation for example was the recent recipient of the Cause Marketing Golden Halo Award. Throughout their 800 store chain, Macy’s offers a variety of SMI’s ranging from cause-related marketing initiatives (e.g., A $10 donation is split between the American Heart Association’s Go Red for Women campaign and the Make-A-Wish Foundation when customers enroll in the “Thanks for SharingMacy’s card program), to the 100,000 hours of volunteer work their employees performed (Cause Marketing Forum.com). Each of these initiatives may be perceived as either an altruistic, public-serving act intended to benefit the cause or a firm-serving promotion designed to increase profit.

Of significance to firms engaging in multiple societal marketing initiatives is the potential for an initiative viewed as firm-serving to offset the goodwill created by othermore public-serving initiative and conceivably lessen overall perceptions of the firm. This research examines how consumers perceive firms who support multiple causes when different motives are ascribed to each of the initiatives. Guided by attribution theory, the authors examine the conditions in which the union of two initiatives with competing motives (firm-serving vs. public-serving) will lead to more or less favorable perceptions of a firm.

According to research in the area of attribution theory, conditions wherein consumers become aware of multiple motives perceived as conflicting (e.g., firm-serving and public-serving), make the formation of a causal schema about the firm’s overall motive increasingly difficult to determine. If additional information is not available to resolve the incongruence, consumers’ incomplete causal schema will complicate their ability to make inferences about the firm. Taking into account a consumer’s need for additional information to resolve incongruence, our study also considers the effect of a firm’s reputation on consumer perceptions.

Four hundred and nineteen undergraduate students agreed to take part in the online scenario-based experiment. A pretest was conducted to identify a neutral cause and societal marketing initiatives with perceived varying motives (e.g., employee volunteerism, sponsorship, donations, cause-related marketing). Next a separate group of subjects were assigned to one of eight conditions in a 4 perceived SMI motive (no initiative, firm-serving, public-serving, firm and public serving initiatives) x 2 reputation (good, poor) between-subjects design.

It is found that companies who wish to maintain or enhance consumer perceptions of their firm may be able to offset the negative effects associated with firm-serving initiatives by simultaneously engaging in public-serving initiatives. For firms with a poor reputation, multiple initiatives with competing motives significantly improved consumer perceptions compared to firm-serving or public-serving initiatives alone. Alternatively, consumer perceptions of a firm with a good reputation did not change as a result of a firm-serving initiative when coupled with a public-serving initiative.

By extending attribution theory to examine how causal schemas are formed in the presence of competing motives, the current study offers additional insight into the question of how a firm is perceived by consumers when the motive for one initiative is viewed as public-serving and the other firm-serving. The implications of our current findings suggest that firms with a poor reputation are able to significantly improve consumer perceptions by engaging in competing initiatives. Our findings also suggest that companies with a good reputation possess the potential to maintain positive consumer perceptions even when they engage in firm-serving initiatives. A company like Ben & Jerry’s, known for their longstanding philanthropic efforts, may continue to be viewed as an altruistic company even if their portfolio of societal marketing initiatives contains an initiative that by itself would be considered firm-serving, if it were to coincide with a public-serving initiative. Given the growing trend of more firms getting involved in societal marketing initiatives, the findings of this study will provide useful guidelines on ways for firms to optimally leverage resources devoted to SMIs. References are available upon request.
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MUST BE THE MUSIC: THE IMPACT OF BRAND-ARTIST ASSOCIATION AND PRODUCT PRESTIGE ON CONSUMER RESPONSES TO MUSIC VIDEO BRAND PLACEMENT

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SUMMARY

Increasingly, brand managers and record executives are working together to promote their products (Klein 2008; Lehu 2007). Not only are popular songs licensed for use in advertising campaigns, (Kellaris 2008; Klein 2008) but also, recording artists are being offered payment to include lyrical references to branded goods in their songs (Lehu 2007).

Though typically associated with television and film (Balasubramanian, Karrh, and Patwardhan 2006), brand placement is increasingly present in video games (Schneider and Cornwell 2005) and music television (Coveney 2004). Also, scholars have found that “people have stronger memories for brands and claims that are placed versus those that are advertised” (Bhatnagar, Aksoy, and Malok 2004, p. 105). Through a quasi-experimental design, we investigate the impact of music video brand placement executional elements – specifically brand prestige and artist-brand association – on the consumer outcome of brand knowledge. We study how these relationships are influenced by consumers’ exposure to and liking of the selected musical genre.

One touted benefit of brand placement is in fact the opportunity to link a brand with a celebrity or artist as a type of implied celebrity endorsement. While such an association is the crux of the celebrity endorsement literature, it is rarely a focal concept in the brand placement literature. The second executional element concerns features of the placed brands. Literature supports the notion that products help individuals communicate with one another and are often purchased for their symbolic attributes and not only their physical, tangible or functional characteristics (e.g., Levy 1959). Thus, the relationship between brand prestige and consumer brand knowledge is examined. Marketing scholars suggest that desirable consumer responses can be generated through the use of liked music and appropriate musical genres (see Oakes, 2007). We believe both exposure to and liking of hip-hop music will affect consumers’ responses and thus attempt to reduce “noise” associated with these individual-difference factors by measuring them for each subject and using them as covariates in the analyses.

Method

A 2 x 2 x 2 between-subjects factorial design was structured with two levels of celebrity status (like vs. dislike), two levels of brand/artist association (main artist versus subsidiary figure) and two levels of prestige (luxury versus necessity). Based on pretest results, the most liked (Jay-Z) and least liked (Soulja Boy Tell ‘em) artists were chosen as the main focal artists of the study.

Stimulus Material and Sample

The stimuli for this study were music video concepts. Participants were shown a web page which included a story about the filming of a new music video for either Jay-Z or Soulja Boy Tell ‘em depending on the experimental condition. Our manipulations are embedded in the description of the opening scene which, according to the director, will be of the artist “hanging out” on the neighborhood block that he grew up on. Either the hip-hop artist (main artist) or his friends (subsidiary figures) sat on the hood of a car which was either a Mercedes (public-luxury) or Honda (public-necessity). Participants were 324 university students with a mean age of 24.

Analysis and Results

The data analysis involved conducting a series of independent sample t-tests where artist-brand association (main versus subsidiary figure), celebrity liking (Jay-Z versus Soulja Boy Tell ‘em) and brand prestige (luxury versus necessity) were the independent variables. The dependent variable was brand interest. While consumers showed a higher brand knowledge when the brand was associated with the main artist in the video as well as when the brand was a luxury brand as opposed to a necessity, exposure to hip-hop and liking of the artist did not significantly impact brand knowledge.

Discussion and Implications

Our results indicate that music video brand placement may at least generate consumer interest in brand ownership. Thus, since brand placement costs less than the typical 30-second commercial (Hackley and Tiwsakul
brand managers may do well to consider the use of music video brand placement – especially in instances where budgets are limited.

Results also suggest that the association of a brand with the main artist in music videos has a positive impact on the respondent’s interest in the brand. This relationship is illustrative of the powerful symbolism of the celebrity and his influence on the young audiences who listen to and purchase their music. This provides a tremendous opportunity for marketers. If they are able to influence brand interest early among young fans when they are in the market for the brand, the positive associations made early on will undoubtedly have some influence on their purchase decisions.

In addition to celebrity influence, the prestige of the brand had a significant bearing on interest in the brand. The level of prestige associated with a brand and its tendency to be publicly consumed led to higher brand interest among respondents. Managerially, it makes sense for marketers to feature publicly-consumed brands in music videos. Videos, which are significantly longer than the average commercial, allow ample time for the consumption of a brand to take place (e.g., driving the car or drinking the champagne) as opposed to just being featured. This coupled with association of the brand with the artist in the video provides a potentially powerful social influence over impressionable music video audiences. References are available upon request.

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ME AND MY COZY SECURITY BLANKET: THE ROLE OF THE “FEELING OF CARE AND SECURITY” IN EMOTIONAL ADVERTISING

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SUMMARY

Both practitioners and academics are convinced that affect plays an important part in the processing of brand messages. A prolific stream of academic research stresses the importance of emotional reactions to advertising and focuses on the study of the effect of ad-evoked feelings on advertising responses (Micu and Plummer 2010). Steering away from classic “hierarchy-of-effects” models, more recent studies have applied current knowledge from neuroscience and psychology to explain why emotions play an important role (Escalas 2004; Passyn and Sujan 2006). As one of the first studies, we therefore apply the Zurich Model of Social Motivation Systems, a theory from psychology specifically examining the motivational development which postulates the existence of a holistic approach of interpreting motivations by a combination of affective emotional impulses as before examined in advertising research and more cognitively inspired motivations (Schneider 2001). We specifically delve into one described motivation: the feeling of care and security, defined as “the feeling of intimacy, warmth, protection, and so forth that one obtains when one is close to a familiar person (…)” (Schneider 2001). The combination of those more affective and/or relationship-based aspects with a more cognitive safety/security motivation as found in the feeling of care and security seems especially interesting in turbulent times of crisis just experienced, since unpredictability and uncertainty regarding ones future or a tumultuous global economy doesn’t just lead to the deterioration of attitudes but fundamentally change them and people specifically seek stability and care (Heatha, Lee, and Nia 2009).

We thus develop a theoretical framework in which we identify antecedents of the “feeling of care and security” based on findings of emotional advertising research, neuroscience and psychology and show by which antecedents practitioners can successfully activate the “feeling of care and security” in emotional advertising. The influences of the autobiographical fit, self-identification with and sympathy for the protagonist, emotionality and realism of the story are investigated. We then examine the influence of the perceived feeling of care and security on the attitude toward the ad. To account for differences emerging from a subject’s mood, we analyze its moderating effect.

We conduct an empirical study to evaluate the suitability of the proposed theoretical model. With our research focusing on prediction and theory development of a non examined construct (Reinartz, Haenlein, and Henseler 2009). Partial Least Squares (PLS-Graph 3.0) served to estimate the causal model.

Our findings provide a deeper insight into how to successfully activate the “feeling of care and security” in emotional advertising and identify antecedents able to explain 72 percent of the construct in the chosen context. The knowledge regarding which factors influence the “feeling of care and security” and activate this emotional stimulus is of great importance for marketing practice and research.

The autobiographical fit proved to be particularly important for addressing the security motive in emotional advertising. The realism of the story and the identification with the protagonist are also of importance. This is consistent with results from the Zurich Model of Social Motivation by Bischof and the fact that the construct of care and security increases with familiarity, relevancy, and proximity (Schneider 2001). Surprisingly, the emotionality of the story and, even more, the sympathy for the protagonist only play a secondary role when regarding direct effects. These findings specifically determine the choice of actors/testimonials and ask for a story line close to reality for the target group, implemented in a realistic way.

In addition, we show that a subject’s “feeling of care and security” strongly influences the attitude toward the ad as suggested by Holbrook and Batra. The mood of the subjects, though hard to control, has to be taken into consideration since it does influence the perception of the ad. The autobiographical fit is extremely important when the mood is bad, since the influences of self-identification with and sympathy for the protagonist and the realism and emotionality of the story cannot be affirmed. When the mood is good all antecedents determine the feeling of care and security in equal measure, but sympathy with the protagonist.

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The application of the Zurich Model to emotional advertising provides interesting findings for marketing research and practice. The examination of the other two motives of the Zurich Model – namely autonomy and arousal motive – should be addressed in future research. References are available upon request.

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ENDORSEMENT: IT’S ABOUT HOW YOU IDENTIFY WITH KATE AND THEN HOW KATE FITS WITH THE BRAND

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SUMMARY

Research in the areas of brand extensions (Aaker and Keller 1990), brand alliances (Votolato and Unnava), and celebrity endorsement (Kamins 1990; Lee and Thorson 2008) has demonstrated that entities paired in a partnership are viewed more or less positively because of spillover effects in the partnership (Simonin and Ruth 1998). Sponsorship research has also shown that high-fit leads to favorable attitudes, greater perceptions of clarity and higher equity for sponsors (Simmons and Becker-Olsen 2006).

Increasingly non-profits aim to differentiate themselves and develop distinct brand identities in the face of immense competition in the market place (Becker-Olsen and Hill 2006). Celebrity endorsement is a widely used promotion tool, which is growing in popularity among non-profit organizations. Some non-profits are even in a fortunate position to choose from a pool of available celebrities. However, celebrities come as a package and bring along their unique characteristics (e.g., attractiveness, trustworthiness, expertise) and potentially negative or simply mismatching characteristics, all of which have the potential to influence target market perceptions of the non-profit endorsed. Hence, it is important for nonprofits to understand not only the effectiveness of celebrity endorsement in promoting their social causes, but also how their partnership will influence their target market perceptions and brand evaluations.

The idea that identification with a celebrity influences consumer evaluations of celebrity endorsements is not new (Kamins and Gupta 1996; Kelman 1961). Endorser characteristics such as likability and role model identification are considered important determinants of the effectiveness of a presenter in persuading target audience in advertising (Rossiter and Smidts Forthcoming). People identify with organizations, brands and sporting teams, to fulfill their self-definitional needs (Scott and Lane 2000). Identification can broadly be defined as the sense of one’s connection to an entity (Ahearne, Bhattacharya and Gruen 2005). Identification causes people to become psychologically attached and care about entities (Bhattacharya and Sen 2003). Basil (1996) observed that identification mediates the impact of celebrity endorsement on perceived risk and behavioral intentions.

However, while numerous studies have examined the role of fit in celebrity endorsement the issue of how customer’s come to identify with celebrities and the influence of identification on endorsement evaluations remains unclear.

Contribution

The current research seeks to make three theory contributions. First, we seek to extend social identity theory (Brewer 1991; Tajfel and Turner 1985) by demonstrating that customer-endorser identification plays an important role in influencing customer evaluations of social partnerships. Second, we extend source credibility theory (Hovland and Weiss 1951; Kelman and Hovland 1953) by identifying several boundary conditions for the impact of source credibility on social endorsement evaluations. Finally, we explore empirical evidence for the positive impact of endorser-non-profit fit on customer attitudes toward social endorsements and clarity of non-profit positioning and for the indirect effect of fit on non-profit equity.

Conceptual Framework

We explain the mediating role of customer-endorser identification in the relationship between source credibility characteristics (e.g., attractiveness, trustworthiness, expertise) and endorsement evaluations using social identity theory and source credibility theory. In keeping with research in the area of sponsorship (Simmons and Becker-Olsen 2006), we predict that high-fit social endorsements will be viewed more favorably and generate greater clarity of brand positioning for the endorsed property and that both consumer attitudes toward the endorsement and clarity of positioning influence nonprofit equity.

Method

The model was tested for two charity product categories (blood donations and cancer prevention). Participants were 206 mall shopping consumers. We used a 2(fit: high versus low) x 2(type of endorsement: celebrity versus non-celebrity) x 2(brand: Red Cross versus Leukemia Foundation) between-subjects fractional factorial design. Participants were randomly assigned to one of the treatment conditions. Treatment conditions were manipulated in a fictitious newsletter. Stimuli included in the newslet-
Results were consistent with the study’s predictions. Specifically, we have shown that endorser characteristics such as attractiveness and trustworthiness influence consumer perceptions of expertise and fit via identification. Identification had a positive direct effect on fit, endorser expertise, and attitude toward endorsement. Furthermore, results suggest identification mediates the impact of trustworthiness on fit, endorser expertise, and attitude toward endorsement. Identification also mediates the impact of attractiveness on fit and endorser expertise. Endorser expertise showed a strong positive effect on fit and attitude toward the endorsement.

High-fit social endorsements led to more favorable evaluations of the endorsement and greater clarity of positioning for the non-profit. More importantly, fit indirectly affects non-profit equity. Mediation analyses confirms that both attitude toward endorsement and clarity of positioning play a role in translating the effect of fit on non-profit equity. References are available upon request.

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CREATIVITY AND REPETITION: CONSUMER RECALL AND WEAROUT

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SUMMARY:

Creative ads are more essential today than ever before (Reid et al. 1998; Sasser and Koslow 2008). While it is increasingly clear that creativity is an important component of advertising effectiveness, the mechanisms through which creativity influences consumer responses are not perfectly understood. This work begins to address some of the issues regarding creativity’s effects upon recall.

Creative ads have been found to enhance recognition and recall. For instance, Pick et al. (1991) found highly creative slogans to be easily recalled and recognized. Similarly, Ang et al. (2007) demonstrated that novel ads produce higher recall than non-novel ads. Recall was further enhanced when creative ads were more relevant to the consumer. Additional factors, such as context and time, have been found to interact with creativity as well (Baack et al. 2008).

Creative ads promote the motivation to attend to the ad by attracting attention and increasing processing (Pieters et al. 2002). This may be due to their ability to pop out and draw the viewer’s attention (Johnston et al. 1990) indicating increased complexity in the processing of the ad. Imagery created by a novel situation may enhance image encoding and create a distinctive memory trace for easier recall (MacInnis and Price 1987).

In general, repetition increases recall of both the ad and brand by increasing the opportunity to process the ad (Krugman 1972) and encoding in memory (Cacioppo and Petty 1980). Creative ads increase ad awareness focusing attention and recall (Till and Baack 2005). Therefore:

H1: There will be a positive relationship between creativity and recall.
H2: There will be a positive relationship between number of ad exposures and recall.
H3: As number of ad exposures increases, the effect of creativity on recall will diminish.
H4: Creativity will reduce advertising wearout.

However, as we process ads, repeated exposure reduce the novel and distinct component of the ad, thus diluting the creative effects of the ad (MacInnis et al. 1991). As ad repetition increases and individuals become habituated to the message (Pechmann and Stewart 1988) the effort required to process and recall the ad diminishes, since once an ad is embedded in memory, further repetition may do little to enhance recall (Batra and Ray, 1986).

Finally, repetition can result in two distinct phenomena: wearin and wearout. Pechman and Stewart (1988, p. 286) define this as: “An ad is said to have worn in at a particular level of repetition if, when consumers are exposed to it, it has a significant positive effect on them . . . . An ad that has worn in is said to have worn out at a particular level of repetition if, when consumers are exposed to it, it no longer has any significant effect on them or even has a significant negative effect.”

In summary, ad repetition can enhance recall by providing more opportunity for consumers to process the ad. As repetition increases, the ad becomes worn in and enhances recall and attitude. However, with continued repetition, irritation and increased knowledge of the ad can cause reduced attention and can lower brand attitudes. Creative ads, which tend to be more novel and provide surprise and interest (Goldenberg and Mazursky 2008), reduce wearout, help avoid habituation and tedium (Berlyne 1970) and postpone degradation of recall as an effect of time (Unnava and Burnkrant 1991). Therefore:

H4: Creativity will reduce advertising wearout.

The experiment consisted of mixing a variety of award-winning and control ads of varying levels of repetition into a TV show. Via three experimental groups we manipulated ad exposure (1, 2, or 4). Subjects then completed unaided and aided recall measures, followed by an ad evaluation task to assess wearin/wearout.

MANCOVA analysis were used to investigate significant differences between groups. As hypothesized, creativity served to increase overall recall across all of our measures, both in an immediate setting and a one week delay (Hypothesis 1). Also, as number of exposures increased, ad recall also increased (Hypothesis 2). Further, recall was significantly higher for creative ads than control, and while this effect diminished as number of exposures increased, even at four exposures, creativity
has a pronounced effect upon consumer recall as predicted in Hypothesis 3.

Our findings also reveal that control ads exhibit wearout within four exposures. Conversely, creative ads, while experiencing a slight decline in attitude toward the ad, do not experience a significant drop with repeated repetition. These results support Hypothesis 4 and also suggest that creativity may accelerate the wearin effect. Creative ads were more positively evaluated following a single exposure than control ads, with control ads requiring at least two exposures to achieve equivalent evaluations. As a result, creative ads are able to hold the attention of the consumer and enhance their evaluations reducing both wearin and wearout. References are available upon request.

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ROLE OF SURROGATE ADVERTISEMENTS: IMPACT ON RECALL OF PARENT PRODUCT AND ATTITUDE FORMATION

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SUMMARY

Today countries all over the world are grappling with an important issue of how to safeguard their population from the detrimental effects of alcohol and tobacco consumption. The promotion undertaken by the alcohol or tobacco producers contribute to an increase in the consumption of these products. Hence, alcohol and tobacco advertising are one of the highly regulated forms of marketing. Many governments have banned some or all types of alcohol and tobacco advertisements. The ban on these advertisements has made producers think of alternative ways of promoting their products. One of the most popular ways is to resort to surrogate advertising. Surrogate ads are ads that introduce another product like cassettes, soda, mineral water, fashion clothing, sports equipment under the brand name of the parent products (liquor, cigarettes and tobacco) which are banned from being advertised directly. At times surrogate ads also pertain to sponsoring events like award functions and social causes under the parent product brand name. In some countries, it is also called as indirect advertising. These advertisements by the producers sustain the government regulations by positioning these ads as brand extensions ads in product categories of water, soda, juice etc. (“Brand Extension not Surrogate Advertising: I and B” 2005).

The real objective of these ads is to make up for the losses occurring to the companies because of ban on direct ads of parent products (Sharma 2006). These ads are peculiar and the author has identified the following features of these ads: (i) Use of the same brand name, tag line and logo as of the parent product (this being the most distinctive feature), (ii) Use of themes like sex, adventure, party, fun, passion, bravery, masculinity, etc. which go more with the parent product of the company like liquor, tobacco and cigarettes and; (iii) Use of a surrogate product which can be related (like soda) or unrelated (like cassettes, clothing, golf accessories) to the parent product.

The practice of surrogate ads is new and has not been studied much. Researchers (Sharma and Chander 2007) have carried out studies to know whether consumers find surrogate ads as ethical or non-ethical. This study seems to be the first attempt to find the effectiveness of surrogate ads with respect to direct ads by measuring (i) recall of the parent product and the ad elements (brand name, tagline and thematic elements) and (ii) attitude formed by the consumer at two levels: the ad and the brand. It is important for industry to understand the effectiveness of surrogate ads as it is spending huge amounts on making of these ads (Subramanian 2003).

The study carries out two experiments. First experiment uses a between subject design and measures the recall of the ad and brand. Second experiment measures the attitude formed toward the surrogate ad, direct ad and parent brand by the consumers. The study was conducted among students of local management institutions.

The surrogate ads have found to be more effective than their direct counter-parts when it comes to recall of the ad. Surrogate ad also leads to higher recall of parent product than surrogate product. But it is found that the attitude toward a surrogate ad is less favorable than direct ad. Also, those consumers who are recalling the parent product by seeing the surrogate ad are forming lower attitude toward the brand.

The governments should realize that the surrogate ads are a more powerful tool than direct ads through which firms can make consumers recall the parent product. Even if consumers form a negative attitude toward the brand and ad, the recall of surrogate ad and parent product is high which might entail them to undertake active search for the parent product. Hence the government should plug in the loopholes, in their existing policy, which are letting producers undertake surrogate ads.

The alcohol and tobacco companies should also learn that surrogate ads are no doubt helping them get higher recall but at the same time it is resulting in formation of negative attitudes for the ad and brand among their prospective buyers. Hence the alcohol and tobacco companies should themselves withdraw from this practice and avoid formation of negative attitude toward the brand. This give rises to a win-win situation for companies and government.
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INTEGRATING MEANS-END AND PRODUCT SIMILARITY APPROACHES TO EVALUATE ADVERTISING EFFECTIVENESS

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SUMMARY

This study utilized the means-end chain (MEC) theory and the “means-end conceptualization of components for advertising strategy” (MECCAS) model to develop ad copy. Through examining actual retail store sales records, customer purchase preferences and behaviors toward different products after advertising can be examined to clarify advertising effectiveness. Using product similarity and multidimensional scaling analyses reveals the product similarities of shampoo, conditioner and body soap within various brands. Such product similarities can be further used to assess retail store advertising effectiveness.

This study proposed an “advertising design and effect evaluation” (ADEE) model for identifying effective ad copy design for different product groups and product mixes. Marketers can adopt the MECCAS procedure used in this study to design effective ad appeals for different product groups for use in retail store promotional areas. Moreover, combining advertising copy with other advertising tips can help consumers identify the advertised products. Consequently, marketers can sell other products offering similar benefits and values to their target customers. Simultaneously, marketers can also use the product similarity analysis proposed in this study to confirm the advertising effectiveness.

Sorensen (2009) indicates that in-store advertising directly influences consumer consumption. In-store ads can be considered one type of in-store service which more or less influences service quality and thus enhances retail department store brand image (Corstjens and Lal 2000). Therefore, marketers can adopt the process proposed in this study to understand consumer preferences for different product categories and design effective ad copy to attract customers. Furthermore, analyzing real consumption information namely sales records to reveal consumption similarity across different product categories, marketers can establish effective marketing strategies to enhance retail store brand image. This study used product similarity to examine consumer purchasing behavior in the pre- and post-advertising periods and confirmed the advertising effectiveness. Future research thus can consider using the product similarity to analyze other promotional activities.

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STAND AHEAD, NOT NECESSARY TO BE THE HEAD: WHO IS RESPONSIBLE FOR A COMPOSITE BRAND EXTENSION?

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SUMMARY

Composite branding extensions, wherein two existing brands ally themselves to create a composite brand name and enter a different product category, have become a common way to introduce a new product. Most brand alliance strategy researchers have emphasized that the selection of the best partner can enhance consumers’ evaluations of the co-branded product or the brands themselves. However, an important managerial issue once the alliance has been formed and the new product has been developed is how to communicate the composite brand to consumers with an expression in advertising and packaging. Consumers may interpret the expressions in their own way, and form perceptions about how the brands in the alliances have cooperated with each other, or which brand has more responsibility for developing and marketing the new product.

Previous researchers proposed a model to describe how consumers form the combined concept of composite brand extensions. According to this model, if consumers are exposed to the expression “Slim-Fast chocolate cakemix by Godiva,” it was suggested that they would first combine the product chocolate cakemix and the brand Slim-Fast to form a new concept in their minds. And then this new concept would be combined with Godiva to create the final composite brand product concept. Thus, consumers would perceive the product to be associated closer with and more likely belongs to Slim-Fast than Godiva. In this example, Slim-Fast is considered the “head brand,” and Godiva is called the “modifier brand.” However, in this expression Slim-Fast is also located in the initial position in the above expression. A reasonable question may be raised: does the effect come from the head brand or the fact that the brand is also in the initial position?

Speakers often put the words they want to emphasize at the beginning of a sentence. The meaning of the words or the phrase in the initial position also reveals the theme of the sentence or the scope of the latter words. According to this syntax rule about the initial position, consumers may raise some thoughts toward the initial brand – the brand in the initial position of a composite brand expression. In the expression “Slim-Fast chocolate cakemix by Godiva,” consumers may think that Slim-Fast is the initiator and Godiva was invited to take part in this alliance. Thus, the extension product may be perceived as a member of Slim-Fast’s product line. The association between the product and Slim-Fast will be perceived to be closer and consumers will also believe Slim-Fast is responsible for the product and its marketing. Differing from the conclusions of previous researchers, we propose that the brand which stands in the initial position of the composite brand expression will be perceived to have more responsibility for the co-branded product.

To clarify our research questions, we created three composite brand expressions in Chinese, which were different from the expressions in previous research. The head brand no longer stood at the beginning of the three expressions. Now the modifier brand was in the initial position in these expressions. By doing so, the strength of the head brand and the initial brand could be separated and examined.

Three composite brand alliances and extensions were selected through pretests. The results show a consistent pattern supporting the superiority of the initial brand in three expressions, and generalizability was enhanced by meta-analyses including three expressions and three alliances in the research. Instead of the head brand, the initial brand was perceived to be more responsible for the extension product. That means, if one of these brands would like to show its involvement with the co-branded product, standing in the initial position of the expression would be a sufficient way to create a deeper-involved image.

Moreover, this perceived responsibility was also influenced by the perceived relative brand strength of both brands. When a strong international brand was paired with a weaker national brand, consumers perceived the international brand to have more responsibility than its national partner no matter which brand was in the initial position. If it is not necessary to take an important role in the alliance, it was suggested in this research that the international brand should choose an expression that may cause less harm if the product fails. On the other hand, to stand in the initial position in two of the expressions in our experiments helps the national brand create a more involved image in the alliance.
ASSORTMENT DIVERSIFICATION AND THE TRADE-OFF BETWEEN
SALES GROWTH AND PROFIT MAXIMIZATION

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SUMMARY

Over the last decades, the majority of grocery retailers have increased their sales share accounted for by non-food products. Since retail stores are constrained in their physical selling space, retail managers have to make critical strategic decisions on the diversity of their stores’ assortments to attract existing and new customers (Mantrala et al. 2009). Besides assortment diversification into food and non-food merchandise within a retail store, corporate-level assortment diversification can also result from parent retailers’ configurations of retail store formats, which traditionally carry different shares of food and non-food assortments (Levy and Weitz 2008).

Hypotheses

Previous research suggests that consumers prefer assortment variety and rank it in importance right behind location and price as a major store choice criterion (e.g., Briesch, Chintagunta, and Fox 2009). Accordingly, the strategy to diversify a retail format’s assortment into food and non-food categories has been mainly related to the objective of generating higher sales in mature markets (Colgate and Alexander 2002) and differentiating, at least shortly, from within-format competition (Simonson 1999). Moreover, since consumers often can purchase the same products (e.g., snacks, soap etc.) from parent retailers’ different formats (Bhatnagar and Ratchford 2004; Mantrala et al. 2009), retail managers might diversify assortments within their retail format portfolio to decrease assortment competition and cannibalization effects between their own retail formats (Fox, Montgomery, and Lodish 2004). As a consequence, the reduction of cannibalization effects can increase a parent retailer’s overall sales. Based on these arguments, we hypothesize that:

Hypothesis 1: Assortment diversification into food and non-food retailing will have a positive effect on sales growth.

Despite those potential positive effects of assortment diversification into food and non-food retailing on sales growth, assortment diversification might also bear critical risks with regard to retailers’ current and future profits. The resource-based view of diversification states that firms can exploit synergies arising from resource relatedness (Chatterjee and Wernerfeld 1991), such as product relatedness (Rumelt 1982) as well as customer and managerial knowledge relatedness (Tanriverdi and Venkatraman 2005). However, food and non-food retail assortments largely differ with regard to supply chain/distribution, in-store logistic, and marketing operations (Mantrala et al. 2009). Drawing from the resource-based view of diversification, we propose that merchandise management skills are capabilities that may be used successfully across different product lines within food or non-food assortments, but may be difficult to leverage across food and non-food assortments (Keep, Hollander, Calantone 1996). In addition to such difficulties of leveraging economies of scope, assortment diversification into food and non-food retailing might also hinder retailers to exploit cost-based synergies from economies of scale, such as bargaining power vis-à-vis suppliers, more efficient inventory and marketing processes as well as cost control through centralized merchandising systems and information technology (Kumar 1997). With this regard, transaction cost theory predicts that assortment diversification can increase a retailer’s transaction and coordination costs (Williamson 1979). We hypothesize accordingly that:

Hypothesis 2: Assortment diversification into food and non-food retailing will have a negative effect on current and future profits.

Main Measure

We applied the entropy index to measure the degree of assortment diversification. Total entropy (DT) is measured by:

\[ DT = \sum_{i=1}^{N} P_i \ln(1 / P_i), \]

where \( P_i \) = Proportion of sales in assortment category \( i \), with \( i = \) food or non-food, for a retailer with up to two different assortment categories \( N = 2 \). Thus, the more diversified the assortment into food and non-food retailing, the higher the assortment entropy diversification index.

Method

The equation explaining performance implications of assortment diversification strategy is expressed as:

\[ Y_{it} = \alpha + \beta X_{it} + \gamma Z_{it} + \nu_{it} + \varepsilon_{it}, \]

where \( Y_{it} \) is the vector of performance observations for retailer \( i \) \((i = 1,...,70)\) and time \( t \)((t = 1,...,13)\); \( X_{it} \) represents the independent variable; and \( Z_{it} \) is the vector of control variables. Furthermore, \( \nu_{it} + \varepsilon_{it} \) is the residual
with $v_i$ as the unit specific residual that differs between retailers but is constant over time for each single retailer.

Results

Although assortment diversification into food and non-food retailing increases sales growth, it decreases profits over time. This suggests that a conflict exists between the maximization of sales growth and profits through assortment diversification. Thus, in addition to increasing sales volumes, retail managers must take into consideration the costs that result from assortment diversification into food and non-food retailing. References are available upon request.

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CURRENT CORPORATE PRODUCT PORTFOLIO MANAGEMENT PRACTICE: AN EXPLORATORY STUDY

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SUMMARY

Product portfolio management is an accumulation of strategic choices against the background of resource allocation and is strategically important for companies and their success. Although it is complex and dynamic in nature, in essence, product portfolio management comprises three decision areas: (1) new product development and introduction, (2) the maintenance of the existing product portfolio, and (3) product elimination decisions. While it is obvious that all three product portfolio decision areas are interrelated, most studies focus on one of the aforementioned areas. In this regard, the general understanding of product portfolio management is incomplete. Furthermore, we find a variety of studies concerned with the consequences and implications of product portfolio size or composition. However, product portfolio configuration has not been investigated as thoroughly. Therefore, the dynamic interplay of product development, portfolio maintenance, and product eliminations requires academic attention. Although there is some anecdotal evidence, a comprehensive overview of the actual and current practice of corporate product portfolio management is lacking. The objective of this study is to provide this insight and to identify current activities in the management of the size and the composition of corporate product portfolios based on a content analysis of consumer goods companies’ annual reports.

In corporate practice, responsibilities, hierarchies, and participation vary between companies depending on their organizational structure and operating methods. Accordingly, every company maintains its individual product portfolio management approach. To shed more light on overall product portfolio management approaches, qualitative analyses, such as content analysis, lend themselves for exploratory research. Following Yadav, Prabhu, and Chandy (2007) we use archival data instead of coping with the limitations of a survey approach in the context of corporate strategy. Annual reports were chosen as objects of investigation for our study for reasons of data availability, information content, and information veracity. In the process of our analysis, we followed Perreault and Leigh’s (1989) recommendation of a “diagnostic application” of interjudge reliability checks early and repeatedly in the process in order to improve it and in order to meet the requirements of content analysis to be valid, significant, and scientifically respected.

The analysis of the attention management devotes to changes in size or composition of the corporate product portfolio reveals that the importance academia attaches to the field is reflected in corporate conduct. Three-fourths (213/269) of the companies in our sample do provide information on actions enlarging the product portfolio (including innovations or line extensions), on the maintenance of the current portfolio (such as improvements or reorganizations), as well as actions resulting in a reduction of the product portfolio (e.g., streamlining efforts or the discontinuance of product lines) in their 2009 annual reports. Moreover, our inductive-deductive procedure reveals a pattern of activities demonstrating the predominance of innovation and new product introductions in product portfolio management, in contrast to product eliminations which are less frequently reported.

Even though we analyzed annual reports for the financial year 2009, it became apparent that companies do not restrict their reports to this period under review. Information beyond the year 2009 is provided by many companies, for example, in announcing planned innovations and introductions. We also find evidence that managers of consumer goods companies are reluctant to announce future deletions of products. This last finding stems from the conjoint analysis of current practices in the management of corporate product portfolios and the time reference in the annual reports. We found that differences in the proportions of the so called co-occurrences between “portfolio management actions” and “time reference” are highly significant ($\chi^2 (6, 1,469) = 34.85, p < .001$) and, thus, the association of the two categories is indicated.

The data shows additional patterns idiosyncratic to particular industries deviant from common product portfolio management practice. The automobile industry stands out regarding the high share of companies disclosing information concerning changes of their product portfolio in size or composition as well as with regard to the mean references per company. The relative number of companies demonstrating their future orientation is also unusually high in this industry, while product deletions play a rather inferior role. The practice of an annual model policy, which is common in the automobile sector, is thus well documented in our data.

Based on the exploratory insights, several avenues of future research can be identified. At first, it will be
worthwhile to conduct this analysis using longitudinal data. In doing so, trends can be examined over time. In addition, longitudinal analysis will also allow to test for inconsistencies in companies’ announcement versus actual implementation of decisions with regard to changes in portfolio size or composition. Furthermore, in the sense of triangulation, it would be worthwhile to follow up with a survey in order to complement our findings. Ultimately, studying the performance implications of product portfolio management practices is a relevant and promising avenue for future research. References are available upon request.

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DOES IT PAY TO OUTSOURCE MARKETING? AN EVENT STUDY

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SUMMARY

Companies increasingly outsource marketing functions such as analytics and customer support. However, the long-term effects of this practice for the outsourcing company are not yet fully understood; often, original expectations are not met, and the outsourcing arrangement is terminated prematurely.

From an academic perspective, there is surprisingly little research on the topic: findings are mostly limited to anecdotal evidence and company-specific success stories. Conclusions by analogy are also not easily available, as marketing is different from other commonly outsourced business functions in that it often involves direct customer contact, which makes outsourcing “visible” to customers and can directly affect their attitudes and behavior. What is more, research findings on outsourcing consequences are ambiguous in general. Therefore, no general rule applies for expected consequences, and outsourcing marketing can hardly be seen as per se positive or negative for a company. Rather, successful outsourcing depends on the specific function being outsourced as well as a company’s characteristics.

We hypothesize that the consequences of outsourcing a marketing function are dependent on whether a front office or a back office marketing function is outsourced, and we identify events of companies outsourcing their call center (i.e., a front office function) or analytical CRM (i.e., a back office function) based on public announcements made by outsourcing vendors or clients. We utilize an event study approach to calculate abnormal stock returns, which are defined as the difference between expected and observed stock returns at the day of the announcement.

Results indicate that outsourcing a front office function is associated with significant negative average abnormal returns (AAR) at the day of the announcement, whereas outsourcing a back office function does not have a significant effect.

When comparing the two outsourced marketing functions directly, we find abnormal returns at the event day to be 2.11 percent smaller for call center than for CRM outsourcing. This difference is significant at the event day, supporting our notion of a less favorable market reaction following an announcement to outsource a marketing function that involves customer contact.

In a second step of the analysis, we further explain event day abnormal returns by regressing them on a company’s efficient use of resources as expressed in its return on assets (ROA) and its indebtedness as measured by its Debt-to-Equity (D/E) ratio. We find that ROA significantly influences abnormal returns positively, whereas the D/E ratio’s impact is significantly negative, which means that the market reaction on an outsourcing announcement is moderated positively by a company’s operating efficiency and negatively by its indebtedness.

Our results extend previous findings and call into question overly optimistic views on outsourcing marketing functions because no positive overall effect can be detected; the announcement to outsource a front office marketing function triggers a negative average abnormal return, whereas outsourcing a back office function leads to an insignificant rather than the expected positive market reaction. The results therefore cast severe doubt on the generally assumed advantageousness of outsourcing marketing functions and suggest that companies should keep in-house functions that involve customer contact and closely assess their situation before outsourcing non-contact functions.

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CORPORATE REPUTATION AND CUSTOMER SATISFACTION: A STAKEHOLDER GROUP PERSPECTIVE

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SUMMARY

Firms have reputations for many things. Reputation research often investigates outcomes associated with the firm’s reputation for one activity (e.g., social responsibility), among one stakeholder group (e.g., customers), or across all stakeholder groups. Theory aimed at understanding the interrelationships of these multiple reputations is sparse. We explore how the firm’s reputation for customer satisfaction is used as a signal by the financial community, thereby affecting its reputation with this stakeholder group. We argue that the firm’s reputation for customer satisfaction is a signal used by the financial community because it is credible and salient, containing important forward-looking information. We further suggest that the relationship between these two reputations is curvilinear, with an inverted U-shape. We also suggest that the firm’s reputation for customer satisfaction is a durable signal, with its effects on the firm’s reputation with the financial community slowly diminishing over time. Finally, we hypothesize that the firm’s reputation for customer satisfaction moderates the relationship between the firm’s reputation with the financial community and its financial performance. Our theorizing enables us to understand the longitudinal interconnectedness of these reputations and their combinatory effect on firm performance. We test our hypotheses with a sample of 840 firm-year observations.

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CUSTOMER SATISFACTION AND THE COST OF EQUITY CAPITAL

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SUMMARY

In this article, we examine if customer satisfaction is associated with the cost of equity capital. Several previous studies in marketing have empirically shown that customer satisfaction is positively associated with firm value (e.g., Anderson, Fornell, and Mazvancheryl 2004; Mittal et al. 2005) and this relation has been explained by both cash and risk effects of customer satisfaction. Following a simple discounted cash flow model of firm valuation, Srivastava, Shervani, and Fahey (1998) argue that customer satisfaction positively influences the nominator (cash flows) by increasing cash flow levels and the denominator (cost of capital) by lowering the volatility of cash flows.

Empirical work, however, has mainly analyzed the nominator side of firm valuation models, showing a positive association of customer satisfaction with revenues (Ittner and Larcker 1998), cash flows (Gruca and Rego 2005), and earnings (Mittal et al. 2005; Nagar and Rajan 2005). However, the effect of customer satisfaction on the denominator of a discounted cash-flow model – a firm’s cost of equity capital – has not been examined in prior work directly. For debt capital, Anderson and Mansi (2009) find a negative association of customer satisfaction on yield spreads of corporate bonds. However, the authors themselves state that “corporate bondholders differ significantly from equity holders” (Anderson and Mansi 2009, p. 704).

Analyzing potential effects of customer satisfaction on the cost of equity capital comes with some methodological challenges. In this study, we use a novel and rigorous approach recently used in financial accounting literature to measure the cost of capital. In particular, we use analyst forecasting data in this paper to estimate a firm’s cost of equity capital. We do so by relying on established accounting-based firm valuation models and derive the cost of capital as the internal rate of return in these valuation models. Doing so, we are able to estimate cost of capital effects directly attributable to a firm’s customer satisfaction levels. Our findings indicate that firms with higher customer satisfaction exhibit lower cost of equity capital. The results hold for a large number of control variables and for different regression specifications. Thus, our study extends the literature in providing empirical evidence for a second mechanism – beyond cash level effects – how customer satisfaction relates to the equity market value of the firm. Literature references are available upon request.

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ARE CHINESE CONSUMERS CREATED EQUALLY RELATIONAL?

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SUMMARY

This study examines the regional differences in relationship proneness and relational benefits among Chinese consumers. Based on previous research and relationship theories, twelve hypotheses were developed comparing the northern and southern Chinese in relationship proneness and its effect on relationship outcomes (relationship satisfaction, commitment and relational benefits). The results confirm the differences between the two groups of consumers. The findings confirm that Chinese, far from being a group of homogenous people, have distinct levels of relationship proneness, relational benefits, relationship satisfaction and commitment. In addition, there are significant interaction effects of relationship proneness by region for relationship satisfaction and commitment. The managerial implications for marketing segmentation are discussed.

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THE IMPACT OF A CONSUMER’ S INNATE LEVEL OF SATISFACTION ON THE RELATIONSHIP BETWEEN PRODUCT/SERVICE SATISFACTION AND LOYALTY

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SUMMARY

Brand loyalty and customer satisfaction have been the subject of intense research in the last two decades. Customer satisfaction has been identified as a major driver of brand loyalty (Anderson and Mittal 2000; Mittal, Ross, and Baldasare 1998). However, the relationship between satisfaction and loyalty is not straightforward: not all satisfied customers are loyal and some satisfied customers defect to competitors (Jones and Sasser 1995). A clear understanding of the factors affecting brand loyalty can help practitioners shape their long and short term strategies, select appropriate target markets and achieve increased advertising efficiency. The current study explores the concept of innate satisfaction (consumer disposition of being more or less satisfied with products/services) and investigates its moderating role on the relationship between customer satisfaction and brand loyalty.

Innate satisfaction is defined as a consumer dispositional characteristic that describes a tendency to be more (or less) satisfied with purchases in general (Grace 2005). Innate satisfaction varies across individuals and exerts influence on consumer emotional, cognitive and behavioral responses. Since innate satisfaction is a customer characteristic, it is distinct from product or service specific satisfaction. In addition, the impact of satisfaction on customer loyalty is expected to vary according to the level of a customer’s innate satisfaction. Since innate satisfaction represents a baseline level of satisfaction, a positive disparity between innate satisfaction and product specific satisfaction can lead to an enhanced emphasis on product satisfaction in the context of loyalty. Specifically, compared to innately satisfied customers, we expect the relationship between satisfaction and loyalty for innately dissatisfied customers to be stronger.

In order to test our hypothesis, we use a data set collected by a national market research company from a nationwide online panel. Customer satisfaction scores for six different product/service categories were collected from each respondent. Banking services, pre-paid wireless, automobile insurance, financial services, cable, internet/phone bundles and video download services are the categories included in the survey. Respondents reported their level of satisfaction with the product/service that they currently use in each of the categories mentioned. Based on this data, the innate satisfaction score of individual respondents were extracted. A mixed effects model was run to test our hypothesis. The results of the analysis support our hypothesis and indicate that, at a given level of satisfaction, compared to innately dissatisfied customers, innately satisfied consumers may exhibit lower expressions of brand loyalty. Therefore, increasing satisfaction may provide different returns depending on the customer’s innate level of satisfaction. Our research suggests that innate satisfaction can be an important dimension for the purpose of segmentation and targeting and can lead to a more efficient allocation of marketing expenditures. References are available upon request.

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WHAT WILL LAST: LONG-RUN DIFFERENCES BETWEEN CUSTOMER SATISFACTION AND CUSTOMER – COMPANY IDENTIFICATION

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SUMMARY

Awareness of how to strengthen relationships with customers is crucial for firms’ financial success. In pursuit of this understanding, several researchers have investigated the link between customer metrics and market performance indicators like customer loyalty and the willingness to pay a price premium. We seek to strengthen this link by examining how customer satisfaction (CS) and customer – company identification (CCI) could lead to loyalty and a higher willingness to pay (WTP) and thereby be positive antecedents of a firm’s financial performance, even in the long run.

For some time, CS has been recognized as an important antecedent of customer behaviors and financial performance. A number of empirical studies have demonstrated that CS has a positive influence on WTP (Anderson 1996), word of mouth (Brown et al. 2005), loyalty (Fornell et al. 1996), share of wallet (Cooil et al. 2007), shareholder value (Grewal, Chandrashekaran, and Citrin 2010), and other important financial outcomes (Luo and Homburg 2007). However, if firms focus mainly on increasing or maintaining the satisfaction levels of new and existing customers, costs increase. Also, meeting or exceeding constantly increasing customer expectations becomes difficult (Rust and Oliver 2000), and keeping a growing, heterogeneous customer portfolio satisfied is tricky (Grewal, Chandrashekaran, and Citrin 2010).

In light of these challenges, CCI seems to offer a way to strengthen the financial performance of a firm by generating more loyal customers who pay higher prices. CCI has shown a strong impact on WTP (Homburg, Wieseke, and Hoyer 2009), loyalty (Ahearne, Bhattacharya, and Gruen 2005), and store performance (Lichtenstein, Netemeyer, and Maxham III 2010), which underscores the usefulness of CCI as a means of enhancing financial performance.

Researchers widely accept the changeable nature of both CS (Bolton and Lemon 1999; Homburg, Koschate, and Hoyer 2006; Oliver 1980) and CCI (Bhattacharya and Sen 2003; Einwiller et al. 2006; Mael and Ashforth 1992). Although investigators have tested CS for this facet several times (Cooil et al. 2007; Luo, Homburg, and Wieseke 2010), to our knowledge only one study has examined CCI with a longitudinal view (Lam et al. 2010).

We address this research gap through a longitudinal data collection of individually recorded satisfaction and identification levels of 517 airline customers, gathered at four measurement points. Using a latent growth modeling approach, we show that both CS and CCI exert a short-term effect on loyalty and WTP. Further, our investigation demonstrates that the effect of CS significantly decreases over time, whereas the effect of CCI remains stable.

Our findings make an important contribution to the ongoing research objective of finding additional explanatory power beyond the positive impact of CS on certain customer behaviors. In addition, from a practical standpoint, the study provides managers with arguments for initiating marketing actions that not only deliver satisfying products and services but also build differentiated brand or company identities.

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THE IMPACT OF OPPORTUNITY IDENTIFICATION AND RECONFIGURING ON CAPABILITIES

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SUMMARY

The contribution of market-based and technological resources and capabilities to a firm’s total market capitalization has increased over the last decades. Accordingly, the source of competitive advantage has shifted for many organizations from manufacturing resources to market-based and technological resources and capabilities (Ramaswami et al. 2009). Thus, aligning marketing and technological capabilities with market environments is a major concern for managers. Failure to do so could result in previously valuable (but unchanged) capabilities becoming a liability (Leonard-Barton 1992). Although previous research has investigated how marketing and technological capabilities affect performance (e.g., Chen et al. 2009; Ramaswami et al. 2009; Song et al. 2005), little research has focused on how to align substantive marketing and technological capabilities with market conditions. One way to address this issue is to integrate the dynamic capability view of the firm, originating from organizational strategy research, into advancing marketing thought (Zhou and Li 2009).

Researchers have adopted dynamic capability perspectives to explain performance differentials (e.g., Wu 2010; Zott 2003). Dynamic capabilities comprise diverse organizational capabilities such as opportunity identification and reconfiguring activities and enable the organization to address market changes (Teece 2007). Dynamic capabilities are used to adapt a firm’s resource base, and consequently have an indirect influence on performance (Zahra et al. 2006). To date, the majority of research on dynamic capabilities has been largely theoretical or has taken the form of case studies, and has been criticized for being difficult to measure (Kraatz and Zajac 2001). Furthermore, there remains disagreement about whether dynamic capabilities are only relevant in highly turbulent environments (Eisenhardt and Martin 2000; Helfat et al. 2007; Teece et al. 1997; Zollo and Winter 2002). As most previous research has focused on dynamic capabilities’ existence in turbulent environments in general, this research investigates whether their performance implications differ with the degree of environmental turbulence.

We collected survey data from Australian firms. We chose senior managers as key informants as they possess knowledge about tacit organizational processes that are difficult to observe. The data were analyzed using partial least squares (PLS) path modeling, employing SmartPLS (Ringle et al. 2005). In a first step, sub-sample analyses showed no significant differences in effects between firms experiencing high and low environmental uncertainty. However, we may not have arrived at the most effective segmentation result since heterogeneity may also be unobservable, as observations cannot necessarily be easily separated into subpopulations. Thus, observable characteristics are often inadequate in capturing the apparent heterogeneity in the data (e.g., Wedel and Kamakura 2000). However, ignoring heterogeneity can easily lead to biased parameter estimates and, consequently, potentially flawed conclusions as shown, for instance, by Sarstedt, Ringle, and Schwaiger (2009). Thus, we undertook further analysis using finite mixture partial least squares (FIMIX-PLS) which accounts for unobserved heterogeneity, which may provide even further differentiated results (Hahn et al. 2002).

This study offers several contributions. First, we have integrated current knowledge of the dynamic capability view with that on strategic marketing capabilities. We found that the dynamic capabilities opportunity identification and reconfiguring have a positive effect on substantive marketing and technological capabilities. More specifically, the results show that both opportunity identification and reconfiguring capability have a stronger impact on the substantive marketing capability than on the technological capability. This is an indication that the marketing capability might be more affected by the environment and thus needs continuous adjustment to stay aligned with changed conditions.

Second, our findings provide a more nuanced understanding of the effects of environmental turbulence on organizational capabilities. This research investigated whether the effects of opportunity identification and reconfiguring capabilities (i.e., dynamic capabilities) on the substantive technological and marketing capabilities differ between turbulent and rather stable environments. Using FIMIX-PLS, we found that reconfiguring capability has a significantly stronger impact on substantive marketing and technological capabilities in turbulent compared to stable environments. An explanation for this finding is that in turbulent environments, organizations
are required to more effectively adapt their capabilities to external conditions to remain responsive to turbulence. Thus, this research provides support for the emerging consensus that dynamic capabilities exist in all environments, irrespective of their degree of turbulence (e.g., Zahra et al. 2006). However, the strength of the impact of dynamic capabilities, such as opportunity identification and reconfiguring, differs between rather stable and turbulent environments. Consequently, managers should invest in understanding the degree of environmental turbulence surrounding their operations, as the effects of dynamic capabilities, and investment in developing them, on the firm’s substantive marketing and technological capabilities vary with different levels of environmental turbulence.

Methodologically, we illustrate finite-mixture modeling as an alternative to a priori segmentation of the data. Organizational, management, strategy and marketing research commonly compares different types of organizations or contexts by using a priori clustering approaches. We found the a priori approach to be less suitable to detect differences between firms in our sample. FIMIX-PLS, which develops segments based on the inner model relationships, was found to be more sensitive to firm differences and provided more meaningful and more accurate analysis. Further research with other datasets is required, however, to investigate the differences between the clustering approaches used in this research and to be able to make a definite decision on which approach is more suitable in which context. References are available upon request.

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ADVERTISING DURING ECONOMIC DOWNTURNS: MARKET ORIENTATION AND INDUSTRY ENVIRONMENT EFFECTS

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SUMMARY

Advertising spending positively impacts firm performance and this is particularly the case in downward business cycles. Specifically, countercyclical advertising expenditure leads to increase in sales, profitability, and market share while cutting advertising expenditures during economic downturns hurts sales and market share, without generating higher profits (see Tellis and Tellis 2009). Macro-level evidence indicates that advertising expenditure is sensitive to GDP swings with 1 percent deviation from GDP’s long-term growth translating into a corresponding deviation of 1.4 percent in the advertising expenditure (Deleersnyder et al. 2009). Despite the positive consequences of countercyclical advertising on firm performance, why are most firms engaging in this well-recognized “herding behavior” while only a minority prefers to act against it? Although knowledge about the effects of countercyclical advertising is widely available, more needs to be known about its determinants. Our research aims to contribute to closing this gap and provide insight to firm adaptation process during economic downturns.

Two schools of thought guide us in this pursuit. First is the Contingency Theory (Chandler 1962) which specifies that strategy determines direction and focus of managerial response. While examining the variation among firms with respect to their interactions with the environment, the marketing literature has depended on market orientation which indicates businesses’ understanding of and willingness to respond to the environment (Kohli and Jaworski 1990). Implementing market orientation in a firm takes years to achieve and when fully instituted, it brings a sense of control among stakeholders and empowers them to be proactive in responding to increasingly demanding environments. Since market-oriented firms scan the market broadly, have a longer term focus, and are more likely to be generative learners, it helps firms strategize without being impacted by the short-term changes in the environment. We, therefore, argue that firm’s intelligence generation, intelligence dissemination, and responsiveness are positively associated with changes in advertising spending during economic downturns.

While the Contingency Theory honors firm-level idiosyncratic competencies in generating sustainable competitive advantage, the Structure-Conduct-Performance (SCP) paradigm offers (Porter 1979) an alternative point of view. According to this framework, firm conduct is constrained by the environment and the conduct’s fit with the environment determines organizational performance; that is there are industry-level differences that make firms behave differently. The context of this study is a downturn preceded by an economic crisis, a detrimental source of turbulence. Against this background, turbulence at the industry level gets amplified, managerial assumptions get shattered, and decisions become more prone to environmental effects. Hence, the economic conditions create a situation where managerial discretion to strategize is compromised by environmental forces, parallel to the propositions of the SCP framework. Following previous literature on industry categorization, we assert that during downturns, firms acting in markets with turbulent demand or intense competition would want to catch up with customers’ changing needs and communicate that they are doing so by increasing their advertising spending (more than firms acting in markets with relatively stable demand or moderate levels of competition) to create differentiation advantage and prevent loss of market share to other firms (e.g., private-label producers). Hence, demand turbulence and competitive intensity are positively associated with change in advertising spending during economic downturns. Neither previous research nor our theory provides a clear prediction regarding technology turbulence thus we prefer controlling for this variable in our model without forming a hypothesis.

We empirically test our framework in the context of advertising decisions made during the 2001 recessionary period in Turkey which led to an annual decrease of 6 percent in GDP and 49 percent in total advertising spending. We investigated the largest 1,000 manufacturers of Turkey and contacted top executives by mail during 2002, which reflects a period of recovery. The sample consisted of 412 companies. The focal variable, change in advertising spending, was a self-reported measure that asked respondents to report % change in their companies’ advertising spending during the downturn period in real terms. Market orientation and industry characteristics were operationalized consistent with previous research. We also controlled for firm size, industry type (B2B vs. B2C) and industry growth rate. All constructs were validated using confirmatory factor analysis and the analyses are based on structural equation modeling using LISREL 8 (Jöreskog and Sörbom 1996).
Our findings suggest that while intelligence generation and dissemination have insignificant relationships, responsiveness is positively related to advertising spending. Furthermore, while demand turbulence and technological turbulence have insignificant relationships, competitive intensity is negatively associated with advertising spending during downturns. Industry growth has an impact on advertising spending and B2B firms tend to increase advertising spending more than B2C firms. In addition, we replicated previous findings regarding countercyclical advertising’s positive relation to firm performance.

This study contributes to the literature by demonstrating that firms that are responsive to changes in the market place increase their advertising spending during economic downturns. Economic downturns are not the time for extensive intelligence collection and dissemination but rather require fast and timely response. Often overwhelmed with abundance of market information, managers should allocate their efforts and time more effectively while formulating their responses during downturns. These findings also imply that separating the market orientation into its sub-components improves our understanding of its asymmetric relationships. With respect to the effect of industry environment during downturns, firms in highly competitive environments seem to be under pressure to control their expenditures more than those in moderate-competition environments. Firms could be decreasing their advertising spending as a way of insulating themselves from the harsh effects of the downturn and competition. This study suggests a roadmap for managers by showing that the majority of firms that decrease their advertising spending during downturns are experiencing higher competitive pressures while the minority that increase their advertising spending are acting responsive to customers’ changing needs. Finally, advertising during the downturn brings higher firm performance. In a general sense, this study is a first step indicating that as researchers, we need to endogenize advertising spending while examining countercyclical advertising.

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TOWARD A GREATER UNDERSTANDING OF PROACTIVE CUSTOMER ORIENTATION: CONSTRUCT AND SCALE DEVELOPMENT

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SUMMARY

This work is devoted to the question of how managers can successfully probe latent needs and uncover future needs of customers, labeled as proactive customer orientation. Based on an observation of specialized proactive customer-oriented departments, expert interviews, workshops with managers, and a meta-analysis of existing research, two dimensions of proactive customer orientation are defined, proactive customer-oriented climate and proactive customer-oriented processes. New scales are developed for the two constructs, and the reliability, validity, and generalizability of the second-order measurement models are supported by an empirical study of 218 business-to-business firms and 202 business-to-consumers firms.

Many marketing scholars differentiate between a responsive and a proactive market orientation (e.g., Atuahene-Gima, Slater, and Olson 2005; Blocker, Flint, Myers, and Slater 2010; Narver, Slater, and MacLachlan 2004). Following Narver et al. (2004, p. 336), proactive market orientation is the “attempt to understand and to satisfy customers’ latent needs.” In a quite similar way Blocker et al. (2010, p. 3) define proactive customer orientation as “a provider’s capability to continuously probe customers’ latent needs and uncover future needs.” However, neither these authors nor other scholars have detailed what exactly constitutes being proactive customer-oriented so far. Thus, it lacks insights regarding the underlying mechanism that allow a firm to probe customers’ latent needs and uncover customers’ future needs. The resulting question is: What does it mean to be proactive customer-oriented? More specifically, we contribute to the knowledge on proactive customer orientation by identifying its underlying dimensions and developing scales for their measurement.

Although existing approaches shed light on several constructs related to proactive customer orientation from different perspectives, they all emphasize that a deep understanding of customer needs is an prerequisite to be proactive customer-oriented and include internal prerequisites and boundary spanning activities in their considerations. The investigation of specialized departments revealed that they all differ in two main characteristics from other departments within the same firm: They have a specific work environment and they use specific methods. A corresponding distinction between climate and processes can be found in the market orientation literature, which emphasizes organizational culture (Narver and Slater 1990; Slater and Narver 1994) and information processing (Jaworski and Kohli 1993; Kohli and Jaworski 1990) as antecedents of responsiveness to customers. Thus we define proactive customer-oriented climate as the extent to which attention to customers’ latent and future needs is anchored within an organization, and proactive customer-oriented processes as the extent to which information processes within an organization aim to probe latent needs and uncover future needs of customers.

The scale development process of proactive customer-oriented climate and proactive customer-oriented processes is based on the conceptualizing of the two constructs. Using interviews and workshops with managers, a meta-analysis of in-depth studies related to proactive customer orientation, and expert judgments we generated an initial item pool. Based on a sample of 420 key informants from various industries, we examined reliability, validity, and generalizability of the new scales. The final measure of proactive customer orientation consists of two independent dimensions, proactive customer-oriented climate and proactive customer-oriented processes. The dimensions are measured with 16 items and 15 items, respectively, and are composed of eight categories. Proactive customer-oriented climate is defined as the extent to which attention to customers’ latent and future needs is lived within an organization, and can be grouped into the four subdimensions awareness for proactive customer orientation, guidance towards proactive customer-oriented behavior, proactive customer-oriented atmosphere, and proactive customer-oriented infrastructure. Proactive customer-oriented processes are defined as the extent of information processes that aim to probe latent needs and uncover future needs of customers, and can be grouped into the four subdimensions customer integration, in-depth qualitative methods, trend watching, and scenario approaches.

To date, both climate and processes have not been examined in detail. In detailing both dimensions, this work provides valuable insights into the nature of proactive customer orientation. The results also have important implications for managers that are intent on building and
maintaining a strong proactive customer orientation. First, managers should create a proactive customer-oriented climate. Thus they should consider its four sub dimensions, and create awareness for hidden and future needs, provide guidance toward proactive customer-oriented behaviors, and build an atmosphere as well as an infrastructure that integrates and supports proactive customer-oriented activities within the firm. Second, managers should implement proactive customer-oriented processes. Four different groups of methods may be used to gain the necessary insights, including customer integration, qualitative methods, trend watching, and scenario approaches. References are available upon request.

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THE SATISFACTION MIRROR PHENOMENON REVISITED: HOW CLIENT SATISFACTION AFFECTS EMPLOYEE SATISFACTION AND RETENTION

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SUMMARY

Heskett, Sasser, and Schlesinger (1997, p. 99) introduced the concept of the “satisfaction mirror” pertaining to a strong positive correlation between client satisfaction and staff satisfaction. Client satisfaction may influence staff satisfaction and vice versa. Since its first appearance in the literature, the “satisfaction mirror” has gained much attention by scholars and practitioners. After an initial phase of conceptual adaptation and extension the “mirror” has been empirically investigated in greater detail in recent years (e.g., Tornow and Wile 1991; Bernhardt, Donthu et al. 2000). Surprisingly, present studies have solely concentrated on the effect of employee satisfaction on customer satisfaction (e.g., Loveman 1998; Loveman 1998; Herrington and Lomax 1999; Ugboro and Obeng 2000; Homburg and Giering 2001; Henning-Thurau 2004; Hoffmann and Koop 2004; Homburg and Stock 2004, 2005) neglecting the reversed effect of customer satisfaction on employee satisfaction. This is surprising as many service firms are facing a severe employee turnover problem and are therefore eager to know all factors contributing toward a higher retention of their employees. Especially professional services firms delivering knowledge intensive services strongly depend on a solid base of human capital. Due to an outflow of knowledge and time spent on recruiting and adaptation training, turnover is detrimental to professional services firms. So far, neither practitioners nor academics have empirically investigated client satisfaction as an antecedent for employee satisfaction and retention (Luo and Homburg 2007).

This article provides deeper insights into the effect of client on employee satisfaction and the impact on employee retention. Therefore, not only a direct effect but also an indirect effect of client satisfaction on employee satisfaction is studied. From an academic perspective, this article aims at providing insights whether and why client satisfaction actually affects employee satisfaction in a professional services setting. From a managerial perspective, the article aims at answering the question why client satisfaction may affect employee satisfaction (and subsequently employee retention) as well as how these insights may be translated into recommendations for practitioners how to use client satisfaction for improving human resource management in service firms.

We therefore develop a conceptual theory-based research framework to explain the effect of client satisfaction on employee satisfaction and retention. We include a mediating variable to gain deeper insights into the possible transfer of attitudes between clients and employees and subsequently test this model employing a dyadic research design. We finally facilitate a confirmatory factor analysis of the dyadic data.

The structural equation model was estimated using Mplus 6 with a maximum likelihood estimator yielding satisfying results. The overall fit measures suggest that the data provide a good fit for the hypothesized causal model. The Chi-Square-Test, the comparative-fit index, and the incremental fit index ($\chi^2/df=1.98; CFI = 0.95; IFI = 0.95$) clearly meet or exceed the threshold values recommended in the literature (Bagozzi and Yi 1988; Baumgartner and Homburg 1996). The standardized root mean square residual (SRMR) as an absolute measure of fit is .09 and thus correctly below the threshold (.1) proposed in the literature (Hu and Bentler 1999). We therefore conclude that the model fits the data well.

H1, which proposes a positive effect of client satisfaction on employee satisfaction is supported by the data ($\gamma = .243; p < .01$). This finding is particularly important, because this strong effect is obtained based on data collected from different sides of the dyad since professional services employees evaluated their job satisfaction and clients reported their customer satisfaction. Additionally, support for H2a ($\gamma = .265; p < .01$) and H2b ($\gamma = .306; p < .01$) indicates the existence of a mediated effect so that client satisfaction leads to perceived appreciation which, in turn, positively affects employee satisfaction. Similarly, H3 is supported ($\gamma = .588; p < .01$) which shows a strong positive effect of employee satisfaction on employees’ intent to stay. In addition, we included several control variables. Surprisingly, satisfaction with work environment, relocation plans, headhunter contacts and family plans did not exhibit significant effects on employees’ intent to stay. Yet, satisfaction with colleagues and superiors exhibits a significant effect on employees’ intent to stay (retention). The results of this research demonstrate that client satisfaction does have an impact on services employees’ job satisfaction and retention. Additionally, aside from the direct effect of client satisfaction on
employee satisfaction, client satisfaction has also been shown to affect employee satisfaction indirectly through the mediating construct of “perceived appreciation.” This study makes a contribution toward an explanation as to why client satisfaction affects services employee satisfaction and retention and demonstrates how client satisfaction ultimately contributes to lowering turnover costs and enhancing social capital.

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INTRAfirm NETWORK CENTRALITY & INDIVIDUAL EMPLOYEE’S MARKET ORIENTATION

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SUMMARY

This paper studies individual Market Orientation (MO): still considered inadequately addressed in the literature. Based on earlier arguments in MO theory, we propose that networked interactions are critical drivers of individual MO development. Since currently there is no literature in MO available for this genre of studies, our research contribution can be two fold: First, we provide a new perspective on the still understudied issue of MO implementation at individual level. Second, this study can also generate direct normative implications for managers. We expected to evaluate a potential driver that is not yet revealed in the MO adapting process as compared with explicit management commitment and financial reward.

We use a data set of 60 firms with 1175 nested individuals of different functions from frontline employees to top managers to test our theoretical proposal. We find that social network effect plays a critical role in the implementation of MO at individual level, more effective than management commitment, financial reward and organizational structure in boosting market information generating and sharing. References are available upon request.

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HOW DO SMALL BUSINESSES LEARN AND PROCESS MARKET INFORMATION AND THEIR MARKETING IMPLICATIONS?

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SUMMARY

Although selling companies may have downprioritized small businesses due to their modest sales volumes, small businesses constitute a large aggregated customer base. Moreover, telecommunication and computing technologies have allowed many small businesses to form partnerships with other companies and such strategic alliances have made the small businesses increasingly competitive in turbulent global marketplace (Friedman 2007). The purpose of this paper is to examine how the unique characteristics of small businesses influence their organizational learning processes, specifically how small businesses learn about their market environment (e.g., industry trends, products offered by vendors and suppliers, service delivery methods, human resources and marketing practices). Such understanding will help marketers formulate appropriate marketing programs that bring value to the small businesses, particularly in the areas of cost control and revenue growth.

We conducted a preliminary study to examine the marketing information processing behaviors of the small business owners who belong to the information technology (IT) consulting industry. The IT consulting industry is considered to have low level of concentration, in which 73.5 percent of the establishments have one to four employees and 90 percent of them have fewer than 20 employees (Dai 2010). The informants were recruited from an industry peer network in which members are owner-managers who meet quarterly and communicate with each other extensively via electronic means in between meetings (Sgourev and Zuckerman 2006).

Since 2008 through 2010, our research on the context has included visits to thirteen peer meetings, six long interviews with members, and many communications with the founder, chairman, committee chairpersons, and several facilitators of peer meetings, as well as data from five quarterly surveys that track the social interactions and business performance of the members. The findings reported in this paper are based on the themes which emerged from our qualitative fieldwork.

The following themes emerged from the observations and interviews in which the business owners talked about how they learn for the sake of their firms. The learning issue is presented first and followed by the marketing information processing behaviors that are carried out by the small business owners to overcome the problems.

Lack of Business Education

Some of the small business owners in our study started their IT consulting businesses because of their technical background. When their business was small, they managed the business side themselves or with the help of an administrative staff. However, as their business grew, they have found increasingly difficult to keep up with the demands of the business side.

Having Business Professionals on Staff and Self-Learning. Once small business owners realize how their lack of business knowledge impedes the growth of their business, many make a point to learn about business fundamentals themselves by reading, attending professional development workshops, or hiring professional staff to handle the business side of the company.

Lack of Access to Peer Benchmarking Data

It is difficult for small business owners to learn how their business performance measures up against the best in the sector. Without knowing the industry standards, small business owners have little information to develop realistic goals to act on.

Joining Industry Peer Network Groups. Some business owners decide to join an industry peer network group because it will give them access to private, confidential information of comparable peers which is otherwise unavailable.

Inadequate Exposure to Industry Trends

Without conducting environmental scanning regularly, business owners are likely to be entrenched in the present and less likely to make proactive investments in areas that will impact the future growth of their business.

Attending Events that Connect with Professional Peers. While most small business owners follow the industry and technology trends with internet and vendor newsletters, they value face-to-face meetings with their professional peers much more since they claim they
achieve a much higher level of learning in peer network events.

**Lack of Accountability in Learning and Implementation**

Although small business owners have the freedom to carry out any organizational practices at any time without having a boss looking over their shoulders, many feel the lack of accountability also makes them less motivated to step aside from daily operations to think strategically and implement ambitious goals in a timely fashion.

**Sharing Business Operation Information with Peers.** In order to get the most relevant and constructive suggestions from their peers, progressive business owners in this study share their business operation information with the peers they trust. Business owners consider presenting this information under the watchful scrutiny of the peers as pertinent to the identification of problematic areas in their businesses.

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**Marketing Implications**

The important implication for marketing is the shift from segmenting the market based on company size and product line to identifying target customers using the social network dimension, especially in industries which are populated by small businesses. As small businesses owners do not have time and lax resources to conduct broad based environmental scanning, they rely on their social networks heavily to focus their efforts to adapt to specific industry trends they perceived to be most relevant to their businesses. Marketers who market to small businesses should study the population ecology of the industry so as to develop products that bring values to the small businesses and their ultimate customers. In order to communicate with small businesses effectively, marketers should also attend professional events that their target customers congregate and offer training workshops in the professional conferences.

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CAPABILITIES AND ENVIRONMENTAL SUSTAINABILITY: A CONCEPTUAL FRAMEWORK

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SUMMARY

Emerging literature on sustainability suggests that environmentally responsible strategies can contribute to competitive advantage and enhanced firm financial performance. However, little is known about specific marketing capabilities that lead to sustainable consumption behavior, and whether implementing such strategies lead to firm competitive advantage. This study explores the role of marketing capabilities and identifies some of them as key capabilities that tie to sustainable innovation strategies, sustainable consumption behavior and firm competitive advantage. We develop a conceptual framework linking marketing capabilities to innovation strategies, sustainable consumption behavior, and firm competitive advantage, and put forward propositions for future research.

We derive our motivation for our study from Nidumolu et al.’s (2009) assertion that firms’ quest for sustainability can help them develop distinct competencies that drive innovation. Extant research in management also suggests that basic competencies and internal capabilities should precede the development of sustainability-based managerial practices (Christmann 2000; Darnall and Edwards 2006; Hart 1995). Based on extant research in strategic marketing (Weerawardena 2003), we contend that firm marketing capability influences the development of innovation-based sustainable strategies, while also facilitating the success of such innovations in the marketplace, leading to firm competitive advantage.

Understanding the relationships between marketing capabilities and sustainability innovation strategies is both theoretically and managerially relevant. Theoretically, we integrate the literature on marketing capabilities, innovation and sustainability to develop a conceptual and testable framework on the relationship between marketing capabilities and innovation-based strategies for sustainable development. From a managerial perspective, a key question facing firms that engage or plan to engage in sustainability business practices relates to how they can leverage the firm’s capabilities to enhance sustainable consumption behavior. This study attempts to shed some light on specific capabilities that managers must seek to develop in order to attain specific sustainable behavioral outcomes. The fundamental premise of this study is that different types of marketing capabilities can be a catalyst to different types of sustainable innovation strategies.

Based on extant literature on marketing capabilities, we formulate propositions that relate marketing capabilities to technical and non-technical sustainability innovation strategies. Our review also shows that both technical (product and/or services, and production process technology) and non-technical (managerial, market, and marketing) sustainability innovation strategies are positively associated with sustainable consumption behavior and firm competitive advantage.

The major sources of competitive advantage of the future will be those resources contributing to the environment conservation and the economic and social development and capabilities that can significantly contribute to a sustainable economic activity. Juxtaposing this reality with the observation by marketing scholars on the dearth of studies examining the role of marketing capabilities on firm innovation and sustainability (Varadarajan 1992; Weerawardena 2003), our paper is a timely attempt to investigate the relationship between marketing capabilities and environmental sustainability in the innovation-based competitive strategy. We suggest that both technical and non-technical sustainable-innovation strategies lead to sustainable consumption behavior. Based on guidance from the capabilities theory, we posit 10 propositions that suggest relationships between various marketing capabilities and innovation-based sustainable strategies, as well as between innovation-based sustainable strategies, sustainable consumption behavior and competitive advantage. An important finding in our analysis is that innovation is an important strategy in the path to a firm’s sustainability.

We open up the stream of research related to the impact of marketing capabilities in the realm of sustainable development. We hope our propositions will move the field forward in terms of theoretical conceptualization of how marketing capabilities can impact innovation strategies of a firm that pursues sustainability. We introduce the sustainability discourse within the theoretical ambit of innovation-based competitive advantage. While our study is conceptual, we hope the propositions put forward in the research build up into a theoretical debate on the complex relationships between marketing capabilities, environmental sustainability, innovation and com-
petitive advantage. If firms’ sustainability is indeed keyed to innovation and superior performance (Nidumolu et al. 2009), top management must identify and build sustainability-driven capabilities. Marketing managers need to make it their high priority to develop capabilities specific to the marketing domain. Conversely, if managers feel that they have strong marketing capabilities, our research highlights the specific strategies that can be pursued given a specific set of strategies. References are available upon request.

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CONSOLIDATING THE PROPERTIES OF MARKET-BASED CAPABILITY FROM THE PERSPECTIVE OF VIEWING MARKETING ACTIVITIES AS ORGANIZATIONALLY EMBEDDED PROCESS: CONCEPTUALIZATION AND SCALE DEVELOPMENT

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SUMMARY

According to various strategic marketing literatures, capability in marketing is considered to be an essential driver of firm performance. However, as its name varies from marketing capability and marketing-related capability to market-based capability, it is certain that the precise meaning of capability in marketing has not been clear. Therefore, there is still much debate over exactly what constitutes marketing capability and how this construct has an effect on firm consequences. Moreover, most of the past studies on capability in marketing remain only in conceptual stories or others have been criticized for being overly simplistic. The authors have provided an extensive literature review of major studies undertaken regarding capability in marketing and developed the integrative conceptualization of market-based capability based on a more aggregated view such as organizationally embedded processes. Hypotheses on the components of market-based capability have been suggested and based on the analysis with 245 data from various business sectors, a complete set of measurements for market-based capability with four subsets has been proven. All four capabilities; market understanding (MU) capability, product management (PM) capability, customer management (CM) capability, and supply chain management (SCM) capability with ten facets were precisely tested for their convergent, discriminant, and nomological validity, thoroughly following the procedures from the measurement development literature. The proposed subcomponents are as follows: MU capability: (a) market information management and (b) market-sensing; PM capability: (a) new product development, (b) product management, and (c) cross-functional integration in new product development; CM capability: (a) customer relationship management process and utilization, (b) customer management and communication, and (c) cross-functional integration in customer management; SCM capability: (a) network management and collaboration and (b) organic level supply chain management. The implications of the research findings, limitations and future directions are also presented. References are available upon request.

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DEVELOPING THE MARKET TOGETHER: SCALE DEVELOPMENT AND PERFORMANCE IMPLICATIONS OF CO-MARKETING CAPABILITY

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SUMMARY

The ability to successfully manage interfirm alliances is acknowledged as a sustainable source of competitive advantage. However, alliances pose significant management challenges because the danger of serious conflict and opportunism is always present. Thus an integrated understanding of which capabilities allow firms to successfully manage co-marketing alliances is necessary. We address this gap and conceptualize co-marketing capability, develop a new scale for its measurement, and explore its relationship to alliance performance. Drawing on in-depth interviews with marketing alliance managers and a survey of 287 chief marketing officers, we empirically show that co-marketing capability substantially contributes to marketing alliance success.

Alliances have become a central part of most companies’ competitive and growth strategies. However, despite their potential contribution, alliances pose significant management challenges. Not surprisingly, a considerable amount of research has focused on how alliances can be managed to gain competitive advantage (for an overview see Kale and Singh 2009). However, most of this research focused on strategic alliances, which are typically contracted to transfer new technical skills or technological capabilities (Mowery, Oxley, and Silverman 1996). Considerable less attention has been devoted to the special field of co-marketing alliances. Co-marketing alliances are defined as lateral relationships between firms in the value added-chain (Bucklin and Sengupta 1993), represent a form of symbiotic marketing (Varadarajan and Rajaratnam 1986), and differ from strategic alliances at least in three important ways. First, this type of alliance is a nontraditional contractual partnership (Kale and Singh 2009) and intended to amplify or create consumer awareness of the benefits that the participating firms offer (Bucklin and Sengupta 1993). Second, co-marketing alliances are typically undertaken by firms whose respective products are complements in the marketplace (Mitsuhashi and Greve 2009) and involve coordination among the partners within the field of marketing and may extend into research, product development, distribution, communication or market access (Varadarajan and Cunningham 1995). Third, the motivation to form co-marketing alliances arises out of demand side considerations such as favorable consumer preferences for mutual products. Thus an integrated understanding of which capabilities allow firms to successfully manage co-marketing alliances is necessary. We address this gap and conceptualize co-marketing capability, develop a new scale for its measurement, and explore its relationship to alliance performance.

Drawing on our research, a lack of co-marketing capability may be a primary reason for unsuccessful co-marketing alliances. This study makes several important contributions by conceptualizing co-marketing capability and exploring its impact on marketing alliance performance. First, our results demonstrate that a sophisticated co-marketing capability lead to an effective work environment between the partner firms in which alliance objectives will be achieved. We conclude that in order to achieve co-marketing alliance success, organizations need to focus on (1) coordinating the interdependence between co-marketing partners, (2) sharing formal as well as informal meaningful and timely information, and (3) generating and enhancing knowledge-absorbing capacities and routines that facilitate sharing of knowledge. Second, co-marketing capability has a general high impact on co-marketing alliance success. Third, co-marketing capability is especially important during the early stage of co-marketing alliances. Fourth, firms need a high co-marketing capability to successfully handle co-marketing alliance with power imbalance. Fifth, flexibility within co-marketing alliances increases the importance of co-marketing capability. Contrary to what we expected, the importance of co-marketing capability is not affected by complexity and joint market presence.

A finding with managerial relevance is that firms should build a sophisticated co-marketing capability including alliance collaboration, interfirm communication, and knowledge management to benefit from co-marketing alliances. To do this, co-marketing capability needs to be anchored within the firm. One possibility to meet these requirements is the introduction of a specialized co-marketing alliance manager responsible for co-marketing capability (Dyer and Singh 1998). But firms following this strategy should be aware of the potential harm of centralization, which may decrease the favorability
of participants’ attitudes toward the alliance and may result in increased opportunism (Sivadas and Dwyer 2000). Therefore we suggest that firms should rather aim to establish co-marketing capability at all positions touched by the co-marketing alliance. However, building a sophisticated co-marketing capability requires an investment from firms. Thus managers should keep the characteristics of their co-marketing alliances in mind when they decide about resource allocation. Our study suggest that a moderate co-marketing capability may be sufficient to benefit from already long lasting alliances, alliances characterized by power balance, and alliances that are relatively rigid. On the contrary, co-marketing alliance that are in an early stage, involve power imbalance among partners, and involve flexibility within the alliance require a more sophisticated co-marketing capability. References are available upon request.

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EFFECT OF STRUCTURAL SOURCES OF CUSTOMER CENTRICITY ON FIRM PERFORMANCE: AN EMPIRICAL EXAMINATION

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SUMMARY

Customer-centric firms are argued to outperform their peers in nurturing customer-firm relationships, creating customer value, and enhancing customer satisfaction (Gulati 2009; Kumar, Venkatesan, and Reinartz 2008; Shah et al. 2006). A recent survey of mid to large U.S. firms indicates that over three years the percentage of firms with structures “organized around customer groups” should grow from 32 percent to 52% in a fierce arms race to build customer-centric organizations, yet data reveals “no significant correlation between organization by customer groups and relative performance” (Day 2006, p. 42).

In light of these conflicting patterns and an overall dearth of extant empirical studies on customer-centric structures, the Marketing Science Institute (2010) identifies understanding the influence of organizational structure on firm performance as a top research priority. Accordingly, this current research investigates the effect of structural sources of customer centricity on firm performance.

The investigation relies on a multifaceted, nuanced view of structure to evaluate how three structural components (structural alignment, organizational granularity, and business focus) that separately support customer centricity – an organizational wide focus on fulfilling customers’ needs – work as a system to effect firm performance. Structural alignment – the organization of structural units around customers, geographic regions, products, or functions – is the most commonly identified structural source of customer centricity (Gulati 2009; Shah et al. 2006). Aligning structural units around an external (i.e., customers or geographies) rather than an internal (i.e., functions or products) basis is argued to create accountability and foster clear lines of communication with specific customer segments, but also “add coordination costs” (Day 2006, p. 42) and introduce “greater complexity” (Homburg, Workman, and Jensen 2000, p. 471).

Organizational granularity – the extent to which a firm divides itself into small structural units – addresses market heterogeneity through encouraging local decision making and customization to facilitate responsiveness (Child and McGrath 2001; Olson, Slater, and Hult 2005). Business focus – the extent to which a firm competes within a limited set of end markets – narrows the diversity of customers served and the scope of potential problems the firm tries to solve, reducing distractions and redundancies while increasing organizational wide commitment to a singular type of customer issue (Hatfield, Liebeskind, and Opler 1996; Varadarajan, Jayachandran, and White 2001).

The multifaceted view of structure leads to the core premise behind this study’s analysis: a customer-centric structural alignment acts as an artificial substitute for the other structural sources of customer centricity, such that its value is contingent on the degree of customer centricity available from greater organizational granularity or a sharper business focus. If a firm already has one of these other structural sources of centricity, simultaneously pursuing a customer-centric structural alignment will add costs and complexity but add little additional benefits. Specifically, we hypothesize that:

H₁: The positive relationship between organizational granularity and firm performance diminishes with more organizational alignments.

H₂: The positive relationship between business focus and firm performance diminishes with greater organizational alignments.

The authors empirically examine this premise by analyzing secondary data from top U.S. public companies. The methodology addresses “a clear need for large-scale empirical research . . . [using] secondary data . . . [which] assess performance outcomes of various organizational structures” (Homburg, Workman, and Jensen 2000, p. 474). For the analysis, the authors integrate multiple sources of longitudinal data on Fortune 500 firms over an 11-year period, from 1998 to 2008. Thus, the data is in a hierarchical panel structure with repeated observations nested within firms nested within industries. A hierarchical linear model was used to account for unobserved firm and industry fixed effects to obtain efficient, consistent, and unbiased parameter estimates.

Measures of constructs were derived from the COMPUSTAT databases and the firms’ annual 10–K forms. Tobin’s q provided a forward-looking, risk-adjusted indicator of firm performance. An indicator of structural
alignment was created by independent coders that examined the basis for which firms organized their divisions as described in their annual 10-K form. The coding scheme indicated the degree of customer centricity in the structural alignment with function = 1, product divisions = 2, geographic divisions = 3, and customer divisions = 4. Organizational granularity was operationalized as the inverse of the average sales per structural unit, and business focus was a firm specific version of the Herfindahl index measure based on the percentage of a firm’s sales that came from each industry in which it operates.

In support of the key hypotheses, the results suggest that there are significant negative interaction effects between structural alignment and the other “more organic” structural sources of customer centricity. Greater customer centric structural alignment diminishes the positive effect of organizational granularity in support of Hypothesis 1, and business focus in support of Hypothesis 2. The structural components identified appear to work as a system, in which the benefits from a customer centric structural alignment only outweigh the costs when other structural components are not in place to support customer centricity. References are available upon request.

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FROM MARKET-BASED CAPABILITY TO FIRM PERFORMANCE: 
ALTERNATIVE APPROACH BASED ON RESOURCE-ADVANTAGE 
THEORY (R-A THEORY) 

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SUMMARY

Recently the importance of market-based capability has been emphasized since its concept has been argued for a role of marketing activities in the organizationally embedded view for better firm and shareholder values. However, some of the components of market-based capability have been failed to prove the direct linkage with business performance in the studies undertaken. To resolve the conflicting results, the Resource-Advantage theory of competition (R-A theory) has been introduced with a critical mediator, market positional advantage (MPA), stressing the importance of resource deployment system against mere resource possession based on the Resource-Based View of the firm (BRV). As a part of the study the complete component set of market-based capability: market understanding (MU), product management (PM), customer management (CM), and supply chain management (SCM) capability has been cataloged based on the extensive literature reviews. Through a carefully designed empirical test, the affirmative relationships between all the subcomponents of market-based capability and firm performance via MPA have been confirmed based on the survey data from 245 companies in various industries. Moreover, dynamic relationships among capabilities have been also proposed as MU capability plays a preceding role for all the other three capabilities. LISREL 8.50 was used to test the proposed research model. The overall fit of the research model was acceptable ($\chi^2 = 195.15$ with 80 degrees of freedom) and CFI was .96, GFI = .90; NFI = .93 with RMSEA = .076 and RMR = .063. Also positive relationships between MU capability and PM capability ( $\beta = .88$, $t = 14.66$), between MU capability and CM capability ( $\beta = .87$, $t = 12.77$), and between MU capability and SCM capability ( $\beta = .77$, $t = 11.95$) were identified, supporting H1, H2, and H3. As the author posited, the affirmative relationship between PM capability and MPA ( $\beta = .36$, $t = 3.82$), CM capability and MPA ( $\beta = .21$, $t = 2.29$), and SCM capability and MPA ( $\beta = .33$, $t = 3.78$) were found, supporting H4, H5, and H6. In H7, the positive impact of MPA on firm performance was hypothesized and this relationship was also supported ( $\beta = .85$, $t = 13.91$). Additional analysis on the rival model based on the RBV has been executed in comparison with the proposed model for the further understandings. In the rival model, CM capability reaches to firm performance directly without MPA ( $\beta = .34$, $t = 2.74$). However, PM capability and SCM capability have failed to link to firm performance directly ( $\beta = .28$, $t = 1.81$ and $\beta = .11$, $t = 1.09$ consecutively). This comparison indicates that there should be a role of a mediator like MPA and provides R-A theory may be a better theory to understand the relationship between market-based capability and firm performance. The implications of the research findings, limitations and future directions are also presented. References are available upon request.

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THE ROLE OF INTERACTIVENESS FOR ENHANCING MARKETING ASSETS AND FIRM PERFORMANCE

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SUMMARY

Recent conceptual and theoretical developments in the marketing and management literature suggest that opportunities for greater firm-consumer interaction and co-creation of value would lead to competitive advantage and thus improved performance (e.g., Prahalad and Ramaswamy 2004; Vargo and Lusch 2004, 2008). However, with some notable exceptions (e.g., Ramani and Kumar 2008), the empirical literature supporting this thesis is sparse and focused either on a specific industry where interactions with customers have long been recognized as crucial (such as services, or B2B), or on a specific topic (for example customer participation in new product development (NPD) within the broader firm-consumer interaction framework). Addressing this gap, the main purpose of this paper is to conceptualize interactiveness as a dynamic capability and to suggest theoretically and test empirically how interactiveness influences different firm-specific resources in order to enhance competitiveness and thus, firm performance. This paper extends current research by focusing on a company-wide understanding of the importance of firm-consumer interaction and dialogue culture before proceeding to implement tactical actions. Interactiveness is defined as a dialogue culture that permeates the whole organization and gears a strategic focus on continuous firm-customer interactions and joint creation of value with customers and other stakeholders for the benefit of all involved parties.

We propose interactiveness as a dynamic marketing capability that can help firms to constantly build and reconfigure its marketing resources according to changing market/customer needs and to contribute to reshaping the market environment through the development of new solutions and business models. Following the RBV and dynamic capabilities framework, we argue that the extent to which an organization develops superior dynamic capabilities will determine the level of intangible assets it will create, reconfigure and leverage, and therefore the level of performance (Teece 2007). The hypothesized sequence of effects is that interactiveness will influence customer assets, which in turn contribute to building strong brand assets, thus influencing performance. The measure development followed a two-stage approach: a qualitative first stage, and a second stage integrating the results with the extant literature. The constructs of customer assets, brand assets and firm performance were measured using existing literature and scales. For the interactiveness construct several new items were developed.

To examine the measurement properties of the hypothesized model linking interactiveness with marketing assets and performance we run CFA where the second-order interactiveness construct was included together with the constructs of customer assets, brand assets and firm performance. The model exhibited good fit with the data: chi-square = 164.839 (d.f. 109), CFI = .951, TLI = .938, IFI = .952, RMSEA = .06. All factor loadings were statistically significant and ranged between 0.56 and 0.95. We used structural equation modeling (SEM) to test the hypothesized direct effect of interactiveness on customer and brand assets and indirect effect on performance. The structural model exhibited good fit with the data: chi-square = 167.374 (d.f. 111), CFI = .949, TLI = .930, IFI = .951, RMSEA = .063.

The results suggest that interactiveness affects positively customer assets, as well as indirectly brand assets. Importantly, customer assets proved to be mediating the relationship between interactiveness and brand assets. This finding resonates with the literature on brand communities (e.g., Muniz and O’Guinn 2001; McAlexander et al. 2002) as well as the notion that brands are nowadays increasingly co-created with customers (Payne et al. 2009). It is important for firms to recognize that their brand performance depends upon customer satisfaction and loyalty, and the way customers interact with the firm and its products. Customer assets are the first marketing assets to be created by marketing efforts and thus, firms should focus on the build-up of customer assets through the creation of solutions that bring more satisfaction and loyalty. Customer assets in turn contribute to strong brand position, which influences positively overall firm performance.

We performed additional analysis to test whether a direct effect of interactiveness on firm performance would improve the SEM model. However, interactiveness turned out not to be significantly related to performance directly and the SEM model did not perform any better. These findings support the dynamic capabilities literature that claims an indirect relationship between dynamic capabili-
ties and firm performance (Eisenhardt and Martin 2000; Zott 2003). Dynamic capabilities build and leverage asset positions that in turn influence performance. Therefore, managers have to be aware that interactiveness culture is not likely to bring immediate short-term effect on performance. Interactiveness works through other resources, leveraging customer and brand assets, to build market position that influences firm performance.

Firms embracing interactiveness culture should work toward the development of an environment conductive to firm-consumer dialogue and toward building the necessary conditions for interactions and experience to be possible, i.e., providing the basis for value co-creation. Our research suggests that firms should provide not only tools and technology, but also information and knowledge to customers, as well as promote dialogue culture throughout the organization. Scholars advocate for a marketing approach based on a mutual dialogue in the hope of maximizing the interests of all involved parties (e.g., Urban 2004). This approach views customers as knowledgeable partners co-creating value with the firm and other stakeholders (Vargo and Lusch 2004; Prahalad and Ramaswami 2004). Our research results imply that such an approach has the potential to bring companies closer to their customers and to provide them with a competitive advantage. References are available upon request.

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USING SOCIAL MEDIA TO ADDRESS CURRICULUM OBJECTIVES IN INTEGRATED MARKETING COMMUNICATIONS COURSE

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SUMMARY

This paper presents a report on a newly developed MBA-level Integrated Marketing Communications (IMC) course that incorporated social media into both the teaching and learning processes in a way that students not only experienced the role of customers of interactive educational experiences, but also played the role of interactive marketers with their target audiences.

The goal of incorporating social media marketing (SMM) as a substantial part of the course was to make students aware of its opportunities and challenges, and to come up with creative uses of various SMM vehicles for better marketing communications results. The new course incorporated social media both as an instructional tool and as part of an integrated marketing communications team project deliverable. The curriculum objectives addressed by this innovation include:

- Developing skills in media analysis and comparison.
- Practicing methods to evaluate and select media vehicles.
- Developing a capability to devise and implement IMC measurement procedures.
- Understanding purpose, strengths and weaknesses of interactive and word-of-mouth marketing.
- Practicing creative strategies and developing a creative copy in interactive media.
- Fostering skills in technology-mediated professional communications and collaborative learning.
- Developing competencies in media strategy planning, budgeting, and scheduling.
- Implementing and analyzing the results of interactive marketing communications.

To achieve these objectives, the class consisted of two modules: informational and practical.

Informational module focused on acquiring and sharing information and knowledge about the IMC phenomena through methods of active investigation, interacting with professionals and customers, analyzing and synthesizing theoretical knowledge and practical examples, and presenting this knowledge and its practical implications to peers. As part of this module students were required to join IMC-related LinkedIn professional networks and explore relevant professional groups and organizations, become members of those organizations and communicate with other professionals in order to obtain relevant and current knowledge in the IMC area of their choice. Additionally, students were required to develop their individual content blogs (using the Wordpress platform) dedicated to a marketing communications issue of interest. These content blogs were offered to other students in the class, as well as to the respective LinkedIn communities for comments and suggestions. For example, the student blog dedicated to mobile marketing communications, included entries on:

- Mobile Web: definition of mobile web; buying advertising on mobile web; advertising guidelines relevant to mobile marketing; mobile advertising results metrics.
- Mobile Messaging: mobile messaging as an advertising medium; mobile messaging response capabilities; mobile messaging success drivers.
- Mobile Applications: games; travel; banking; social networking, etc.
- Mobile Video and TV: broadcast, streaming; downloads; interactive ads, etc.

Practical module consisted of implementing the acquired knowledge through planning and creation of an integrated marketing communications campaign and implementing at least one interactive media tool. The deliverable for this part was a written communications plan document, and a multiple-media campaign for the team-selected product or service, that contained at least one social media vehicle (Facebook, Twitter, or YouTube). Students were also required to obtain feedback from target audiences and/or professional colleagues, as well as some performance metrics (e.g., number of visitors, number of fans, qualitative feedback, etc.) from the implemented social media marketing. Each social media site used in the course served its particular goal, and helped promote distinct class activities, e.g.:
LinkedIn: All students were required to register and participate in the LinkedIn professional networking site, and to interact with virtual communities of marketing communications professionals. A separate LinkedIn discussion group was established by the instructor to post and share current articles, web site links, or videos that were pertinent to course discussions and to foster additional discussion outside of the classroom. The LinkedIn participation facilitated the class goals of developing professional communications skills via interactive media, and actively acquiring pertinent, relevant, and timely information. The discussions helped collaboratively analyze and critique this information, as well as arrive at potential real-world applications. Cross-platform integration occurred when students were able to establish traffic to their Wordpress blogs by signing their LinkedIn comments with their blogs’ URLs. The unplanned outcome of this class activity was improved employment as well as lead generation opportunities.

YouTube, Facebook, and Twitter: Students were required to develop at least one interactive media account as part of their team project dedicated to creating an IMC campaign for the selected client. Several teams developed a Facebook fan page for their chosen company of study because of its ease of set-up and ability to become a highly targeted IMC point. Other groups selected the popular micro-blogging platform Twitter to experiment with its marketing capabilities. Some groups utilized both platforms when it was justified by their marketing communications objectives. A few groups added YouTube video sharing social media pages that provided advantages of product/service demonstrability and a less structured environment allowing for more creative solutions. These activities facilitated the achievement of major class goals of conducting marketing communications planning and implementation, soliciting and obtaining evaluations of one’s work from target audiences, and analyzing the results of the implemented campaign. A major advantage of using these media was the opportunity to obtain tangible results in terms of the numbers of visits, “fans,” and followers. They were further used to analyze advantages of SNM real-world metrics, as well as their challenges. This really illustrated to students the concept of “permission marketing,” when customers are in a constant search for additional information from a company, and are open to receiving messages from retailers and service providers through this medium. An unplanned positive outcome was the synergistic marketing effect from linking these sites and redirecting visitors, multiplying brand exposure for the target market. References are available upon request.

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EXPERIENTIAL LEARNING IN SECOND LIFE: AN APPLICATION IN RETAIL MANAGEMENT

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SUMMARY

Experiential learning exercises, or exercises that offer students an engaging learning experience and the opportunity to reflect on the experience, are favored as opportunities to give students experience with the application of marketing concepts. Desirable experiential assignments are structured to provide practice solving problems and making decisions to prepare today’s marketing students for “a business world requiring flexibility in the face of challenges and opportunities” (Ackerman, Gross, and Perner 2003, p. 46) because the marketplace demands undergraduate students who are able to think critically and adjust to change. Virtual worlds, or three-dimensional communities that are accessed simultaneously over the internet by multiple users who interact in a synchronous way, can be used to facilitate experiential exercises that help students apply course content and think critically about the results.

In an effort to promote critical thinking in a Retail Management class, Second Life was used to simulate real-world experience developing and executing elements of a retail strategy. Following an introduction to Second Life, which was provided by Information Technology and Computing Services (ITCS), students received training on avatars and learned how to travel to different retailers that exist in Second Life using a teleport board. Following their initial exposure to the virtual world, student groups created retail stores and outlined the store’s target audience, unique selling proposition, merchandise assortment, store design and display and customer service.

Students were given options to choose from in terms of fixtures, lighting, and merchandise. Students selected additional wall coverings, floor textures, additional lighting fixtures, tables, avatars to greet customers coming into the store, and mannequins. In addition to developing plan-o-grams of their store layouts, in some cases the students included pictures of the merchandise and displays they wanted.

Students were asked to justify why their concept was unique and how their team would deliver a unique offering that would be valued by customers. The final store concepts included a sporting goods store with a sports bar upstairs, a sporting goods store with a racetrack and shoe store upstairs, a surf shop, a motorsports store, a women’s boutique, and a Halloween store. Students shared their concepts with their classmates and received feedback from their peers and from the instructor.

Following additional development of student retail plans, ITCS developed six stores within a mall, designed the elements in the stores, and created or found merchandise that could be sold. After the proposed retail strategies were brought to life and following a soft launch with other students, ITCS invited non-student shoppers, represented by avatars, to the mall on an “Open Mall” day. Each store served between 173 and 343 visiting avatars during the Open Mall event.

Students’ avatars provided customer service and observed the competition as the number of visitors and items transferred to shoppers were tracked by store. The number of visitors and items transferred to the shoppers was tracked by ITCS and shared with the students in an Excel file. The report showed the number of visitors, number of items bought, different types of items bought, where the items were located in the store/on displays, and the quantity purchased of each item.

Students were asked to analyze the performance of their stores relative to other students’ groups, with an emphasis on the impact of store design, customer service, merchandise and displays on shopper behavior. To perform the analysis, students integrated the information from their observations and the quantitative data in their analysis and made specific recommendations for improving the retail strategy at their stores. Students were assessed on their analysis and the reasoning behind recommendations.

Students were asked for verbal and written feedback on the exercise. Most students agreed or strongly agreed that the project gave them the opportunity to apply their understanding of retail strategy (96.2%), allowed them to apply their understanding of visual merchandising techniques (92.3%), and allowed them to be creative (92.3%). However, twenty three percent did not see the application of the virtual world to retailing in real life and forty two percent did not feel the project gave them an opportunity...
to observe shopper behavior. Further, forty six percent felt the virtual component of the project detracted from the learning goals.

The project fulfilled the instructor’s expectations because gave students an opportunity to apply what they learned about retail strategy, increased their familiarity with a technology that was new to them, forced them to make decisions about what to do and to solve problems when things did not go as planned. Therefore, students had to go beyond creativity in the development of their retail spaces to use creativity for problem solving, which is desirable in the marketplace. In their analyses, most student groups made connections between the course content and the application, and were able to support their recommendations with the data and their observations as they related to the course content.

The presentation will conclude with recommendations for future adaptations the exercise, including interdisciplinary and intercollegiate versions of the experience. References are available upon request.
STUDENT CENTERED LEARNING ABOUT CONSUMER BEHAVIOR USING FEATURE FILMS

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Fiona Sussan, George Mason University, Fairfax

ABSTRACT

We detail a project that we developed and refined that allows students to analyze a film for its consumer behavior content. Our assignment actively engages students in applying and synthesizing what they have learned in a novel way that encourages them to demonstrate a usable understanding of consumer behavior.

INTRODUCTION

The purpose of the paper is to outline an assignment that asks students to apply and synthesize (Boom et al. 1956) what they have learned in a consumer behavior course to the analysis of a feature film. The goal of this project is to demonstrate a usable understanding of consumer behavior. The paper is constructed in four sections. First, we address the problem and present a brief overview of extant marketing consumer research literature utilizing movies as subject matter. Second, we outline the details of the project. Third, we provide a brief example of the assignment and discuss how movies can serve to elicit understanding of consumer behavior content. Finally, we will discuss the applicability of the assignment for use in other marketing courses, such as marketing principles and international marketing, and other niche courses.

THE PROBLEM: APPLYING AND SYNTHESIZING CONSUMER BEHAVIOR KNOWLEDGE IN A COMPREHENSIVE FASHION

A primary goal of a consumer behavior course is for students to better understand consumer behavior in order to become more effective marketing managers. An additional goal, especially for students who are not going to practice consumer marketing, is to enhance their knowledge of consumer behavior so that they, as consumers can consume wisely. Traditional exercises and projects that are utilized in consumer behavior courses often ask students to use secondary data on consumers to construct a profile of a viable marketing segment. Alternatively, students may be asked to design, collect, and analyze consumer data for a real or hypothetical company that wishes to understand its potential or actual consumers. While useful in asking students to apply what they have learned in textbooks and class discussions, it is our experience that these types of project do not ask students to consider the entire course comprehensively when completing the assignment. Students learn how to construct consumer profiles and to examine reasons why and how consumers make decisions, but often the scope of these project limits their ability to examine the entire range of internal, external, and situational influences on consumer behavior. For example, the consideration of secondary or primary data may provide some insight into consumer attitudes and lifestyle, but perhaps not provide any perspective on cultural influences, consumer perceptions, learning, and perceived risk, among the long list of factors and well-accepted theories which may impact consumer behavior.

We use the traditional type of consumer profile project during the middle of the consumer behavior course in order to assess student learning of a limited range of consumer characteristics and influences on behavior. What we were looking for in developing the innovation discussed in this paper was a project that allowed students to reflect upon the entire scope of knowledge they acquired throughout the course – including internal influences on consumer behavior not usually researched in more traditional assignments.

The idea for the assignment came from one of the author’s backgrounds in the performing arts and interest in consumer behavior related material using various art forms, including film. When first assigned to teach consumer behavior at the undergraduate level over a decade ago, this author wanted to create a novel assignment that would motivate students and provide the opportunity for them to demonstrate the application and synthesis of consumer behavior knowledge from the whole course. The author learned of an organizational behavior instructor’s assignment where groups of students picked a novel set in an organization and analyzed it according to what they learned from the course, and decided to adapt that assignment to work in a consumer behavior course, using feature films instead of novels. The notion of using movies as illustrations of consumer behavior concepts is not new, as every few years it seems that instructors post requests on various academic marketing listservs asking for suggestions of movies that demonstrate various marketing theories. What we had not seen prior to the development of this innovative project was the use of movies by students themselves to demonstrate their knowledge of consumer behavior concepts.
Over the past twenty plus years, numerous consumer research scholars have demonstrated the value of examining consumption related issues using variety of cultural materials, including novels (e.g., Brown 1998; Fullerton 1994; Goodwin 1992; Hirschman 1990; Spiggle 1986); films (e.g., Hirschman 1992, 1993; Hirschman and Stern 1994; Holbrook and Grayson 1986), television (e.g., Hirschman 1988), music (e.g., Holbrook 1996), performance (Brown 1998), and visual art (e.g., Belk 1986; Ger and Belk 1995; Schroeder 1992, 1997, 2002a, 2002b). As Arnould and Thompson (2005) observe “Consumer culture theorists read popular culture texts (advertisements, television programs, films) as lifestyle and identity constructions that convey unadulterated marketplace ideologies (i.e., look like this, act like this, want these things, aspire to this kind of lifestyle) and idealized consumer types” (875). Numerous topics have been addressed in these studies, including consumption symbolism in the form of products, brands, and consumption activities. Specific subjects that have been addressed in consumer research studies that utilize commercial feature films has included, but is not limited to: the symbolic meaning of possessions, and particular forms of consumption phenomena such as prostitution and the taking of illegal drugs.

Despite this exemplary work, there exist many additional subjects related to consumption and consumer behavior that have yet to be explored by analyzing films. Recognizing this, the authors when developing this assignment, sought to ask students to examine films of their choosing and to find the consumer behavior related content therein. The project was designed to be comprehensive in nature; as being able to demonstrate an understanding of the entire range of factors and theories influencing consumption is crucial to being able to work in consumer marketing, and to understand how marketers are attempting to influence consumers. In analyzing the consumer behavior of others, it also encourages students to reflect upon their own decision making, in order to become wiser consumers.

THE ASSIGNMENT: THE STUDENT CENTERED LEARNING FILM ANALYSIS PROJECT

The assignment as described below is appropriate for an upper division consumer behavior course. Assigned at the beginning of the semester to be due at the end the course, students in groups ranging from two to seven members (depending on enrollment; average group size is six) pick and analyze a fictionalized movie and its characters with to demonstrate their knowledge of course principles. The group and films are chosen soon after the semester begins with the goal of encouraging students to work on the assignment throughout the semester. By the end of the term, students have been tested on this material using exams and other assignments and class projects, but are able to benefit from an opportunity to integrate and reflect upon this knowledge by applying and synthesizing it (Bloom 1956). Since the time that we began using this assignment eleven years ago, students have chosen to analyze a wide range of over 200 films, although most have been mainstream Hollywood studio productions. The following table includes the films that have been analyzed by students in the course through spring 2011.

Restrictions on the selection of films have evolved over time but now include using: (1) a film that has not been chosen before (to discourage plagiarism concerns), (2) legal DVD releases (so that students and the instructor have easy access to the film), and (3) films rather than television episodes (which becomes more difficult to analyze than a film, given that character and story line evolution often occurs over an entire season). These guidelines were developed as the result of problems occurring with the assignment, including plagiarism of previous projects, making multiple trips to cinemas in order to see the films, and having to analyze more than a few hours’ worth of content.

The basic requirements are to analyze four to six characters in the film and ten to fifteen concepts beyond the character descriptions and to turn in a ten page, double spaced, team paper. As each film is an artistic product, each will have a set of unique theories and concepts that it will address, but the instructor normally finds between thirty and fifty consumer behavior related factors from throughout the course that influences the behavior depicted in films “anchored” in what resembles real life. The instructor encourages students to stay away from fantasy-type genres (science fiction, cartoons), but at times students have been allowed to analyze such movies if they fit the requirements of the assignment. Examples of films that have offered adequate consumer behavior content for students to analyze have included: I Robot (science fiction), and Toy Story (cartoon). No are no other restrictions on choice other than having content appropriate for analysis of consumer behavior.

Students are told that they do not necessarily have to find films that have “shopping” or “buying” content; but that consumer behavior includes not only purchase, but the use and disposition of products, experiences, services, and ideas. Therefore, many films chosen have less to do with buying behavior, than with consumption (use) behavior. In addition to writing a paper on the film, the team also is required to present to the class a brief (fifteen minute) presentation in a creative manner and without using presentation software. In many other marketing and business school courses, students are asked to do presentations using presentation software, therefore, this
<table>
<thead>
<tr>
<th>Films That Have Been Used for Team Film Project (Fall 1998 – Spring 2011)</th>
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<tbody>
<tr>
<td>10 Things I Hate About You</td>
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<td>13 Going on 30</td>
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<td>17 Again</td>
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<td>21</td>
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<td>27 Dresses</td>
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<td>The 40 Year Old Virgin</td>
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<td>A Christmas Story</td>
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<td>About a Boy</td>
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<td>About Schmidt</td>
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<td>All About Steve</td>
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<td>Baby Mama</td>
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The assignment asks them to think of an alternate, creative way to present the material as creativity is an important skill for marketing students to master (McCorkle et al. 2007).

**SOLVING THE PROBLEM: AN EXAMPLE OF USING A FILM TO DEMONSTRATE UNDERSTANDING OF CONSUMER BEHAVIOR**

For the purposes of illustration and given page limitations, we have selected to examine one film that has been analyzed in one of the author’s undergraduate consumer behavior course. Students engage with the material by writing a brief plot summary, providing descriptions of the major characters as consumers, and analyzing concepts that they had learned in the course which appear in the film. They do this in a comprehensive fashion – after having learned all of the ideas taught in consumer behavior. This allows them to reflect upon, apply and synthesize the entire range of knowledge they have acquired in the course. Rather than providing character descriptions for four to six characters, and analyzing ten to fifteen concepts from the course, for the sake of brevity, only one character and the analysis of five concepts is shared below as an illustration.

**Brief Plot Summary**

*The Terminal* (2004) is the story of a man’s quest to fulfill a promise made to his dying father. Tom Hanks stars as Viktor Navorski, the protagonist of the film, who is forced to live in the JFK International airport in New York City after a military coup disposes the government of his fictionalized eastern European country while he is in flight to the United States. Over the course of nine months, Viktor learns to navigate life in the airport, to speak English, and makes friends with airport and airline per-
sonnel. The movie ends with Viktor escaping from the airport with the assistance of his friends, keeping the promise to his father by getting the autograph of a jazz musician playing at a hotel in New York City, and then planning to go home.

Brief Character Description

Viktor Navorski is a male consumer in his mid-forties (Baby Boomer age cohort). He is from the fictional country of Krakozhia. While his religion and social class cannot be determined, we assume that he has at least some level of higher education, given how quickly he learns to read and understand English. In the United States, he would be classified as Middle-Aged Single, as he does not appear to be married, nor mentions family other than his now deceased father in the film.

Viktor has a high tolerance for postponing gratification, given that he chooses not to escape from the airport when he had several opportunities during his nine-month stay there. He values his family and age (versus youth) given the purpose of his trip is to honor a promise he made to his father. Some of the motives demonstrated in the film include the need for consistency – he views himself as an honest person and will not lie to U.S. government officials in order to leave the country. He makes an exception to this when he helps a fellow foreign traveler to navigate the customs laws of the U.S. government so that the traveler is able to bring much needed medication to his father. He also illustrates the need for attribution when he tries to determine the external cause of his stay in the airport. In terms his lifestyle, he would be classified as a Devout using the Global Lifestyle Segments Identified by Roper Starch. He values duty, obedience, and respect for elders. While it is difficult to place him into an adopter category, in the airport, he appears to belong to the early majority, given that he relies heavily on his friends for information and is cautious about adopting products, such as books.

External Influence: Culture

Viktor hails from fictional country and does not speak English when he arrives to JFK. At the beginning of the film he is struggling to communicate verbally and non-verbally. He wants to take the “Big Apple Tour” and to “buy Nike shoes” but doesn’t understand what is happening to him. He repeats “yes” over and over to any question that is asked of him. He tries to signal non-verbally that he needs assistance in learning to use a pay telephone, but is ignored. Culture is more than just language differences between groups, and other examples of culture as seen in the movie include, but are not limited to: monochronic time perspective (Viktor has to make an “appointment” to talk to a janitor), agreements (shaking hands), and dating rituals and etiquette.

Internal Influence: Learning

Viktor learns to operate in the airport (i.e., be a consumer) by modeling others’ behavior. For example he watches passengers returning luggage carts and receiving money back and he does the same so that he can earn enough money to buy his meals. This is also an example of a fixed-ratio reinforcement schedule as consumers (including Viktor) know they will receive a reward (money/deposit) for every cart returned.

Consumer Decision Process: Types of Consumer Decisions

Viktor illustrates limited decision making when he purchases a guide book to New York in English. He wants to learn English (problem recognition), and goes to the bookstore to examine the books (external information search). He finds one that is an English version of the book written in his native language, compares them (limited alternative evaluation), and purchases it. He appears to experience no postpurchase dissonance.

Situational Influences: Shopping Motive and Shopping Orientation

Viktor wishes to invite his flight attendant friend, Amelia to dinner. Viktor window shops at the men’s clothing store at the airport, and purchases a suit he sees in a window display. This illustrates a consumer making a generally planned purchase – he knows the product category he will be purchasing but not the specific item. He is motivated interpersonal attraction, i.e., his opportunity to spend time with a woman he likes. Because he is confined to shopping in the airport, he would best be classified as a chameleon because his shopping style is situation specific. His shopping approach for the suit purchase differed from his tour book decision making process described previously.

AN EXAMPLE OF A NON-TRADITIONAL PRESENTATION OF THE FILM ANALYSIS PROJECT

For the above example, the student group that analyzed this film crafted a game show called “Know that Movie” complete with music and canned applause. One student acted as the game show host asking contestants questions concerning their consumer characteristics and behavior. These contestants were the remaining members of the student team, each taking the role of one of the major characters. One question asked by the host to the contestants was – To what Household Life Cycle category does Viktor belong? Another question was posed to the contestants that asked them to describe the physical surroundings (atmospherics) of Viktor and Amelia’s dinner date.
After a winner of the game was determined by the host based on the answers given by the contestants, the presentation concluded with a question/answer session with questions coming from the audience, consisting of both students and the instructor. Questions were asked, such as to what type of shopping orientation Viktor exhibited when shopping for a suit in the airport for the dinner date and, which shopping motive was displayed by Amelia when shopping for a book? Another question asked the team to elaborate upon the Planter’s Peanut can contains the jazz musician autographs collected by Viktor’s father as a sacred consumption object and as an example of the concept of extended self. The instructor then graded the presentation using the following rubric: Organization (introduction, logical flow, transitions, conclusions), Language and Style (clear, concise, appropriate word choice), Delivery (creativity, intelligibility), and Content (knowledge demonstrated and imparted). Each of the elements was given equal weight in the evaluation, and graded out of fifty points using a rating scale from poor to superior. Other creative presentations have included skits, talk show formats, and reality show spoofs.

ASSESSING THE ASSIGNMENT: GRADES AND FEEDBACK ON THE FILM ANALYSIS PROJECT

While the film presentation consists of the highlights of the team’s consumer behavior analysis of the film, the film paper is an in-depth discussion of the major characters as consumers and the consumer behavior ideas appearing in the film. The papers are marked independently from the presentation, and only after the instructor has graded for the presentation. This allows students the opportunity to use the feedback from the presentation when writing and editing their paper. For example, if the team makes a mistake in the content of their presentation, such as misclassifying Viktor’s Household Life Cycle category, the instructor will take off points for this on the presentation and note this on the grading template that is returned to the team prior to deadline for completing the paper, allowing students to rethink how to classify consumers in terms of their Household Life Cycle characteristics, and hopefully to correct their error.

When the project is assigned at the beginning of the semester, the students have a copy of the grading rubric for both the film project and for the presentation and therefore know at the outset the criteria that they will be graded upon. The point breakdown for the film project is also fifty points (out of five hundred points total during the semester) and the rubric consists of the elements plot (five points), character descriptions (twenty points), and consumer behavior concepts (twenty-five points). Students are graded upon their brief plot summary, the completeness and accuracy of their descriptions of the characters as consumers, and on their application of consumer behavior concepts and theories that explain behavior occurring in the film. Having used the feedback from the presentation to correct their paper prior to turning it in, the team usually does a good job on their analysis. The major problem encountered is the incomplete analysis of some of the characters as consumers, despite the instructor asking for specific characteristics. Some students invariably omit to include a discussion of one or more of these specific characteristics. Another problem occurs with editing the paper. Some teams do a poor job at editing and turn in papers that include inconsistent information, such as describing a consumer as upper-middle social class in one section, and as lower-upper social class in another section. In order to resolve these issues, as well as the problem of social loafing (Aggarwal and O’Brien 2008) as of fall 2010, students are now required to turn in rough drafts of their papers, and a moderate amount of feedback is given earlier (Ackerman and Gross 2010).

While the instructors have not formally assessed the film analysis project for assurance of learning purposes independent of all course components, comprehensive analysis of the entire consumer behavior course has indicated that over seventy-five percent of students demonstrate competence or high competence in the learning of the material. Additionally, tests for overall class performance between groups who received an A grade on the movie project vis-à-vis groups who received a B grade or lower indicate that the assessment does encourage learning. [This is basically the method used for reproducing the test for non response bias in the absence of panels in survey research.] Students themselves often provide positive feedback on the innovation and what they have learned from the project. Negative feedback has been minimal, and centered on its practicality. This negative feedback has been mitigated by providing a rationale for the project when assigning it. Below are excerpts from student course evaluations and student reflections on what they have learned from taking the course as part of an in-class exercise.

1. [This course] …provided us with projects and team work. This is way better than just study[ing] the book and take[ing] [the] exam.
2. Project really fit into course and helped me learn the topics.
3. The film project was a great project for incorporating everything that we have learned.
4. The types of papers were very different from what I expected. Provided a change from usual marketing classes.
5. This project was interesting and beneficial to all of us. We found that this project better allows us to use an artistic and analytical perspective on people in general.

Additional evidence of the quality of the innovation comes from other instructors who request permission to use the project. To date, several instructors at the authors’ university and instructors at other universities have used the project with reported success.

PROBLEMS ENCOUNTERED WHEN USING THE FILM ANALYSIS PROJECT

As noted previously, this project has been in use for over a decade. In that time, technology has changed so that the instructor now requests that the film be available legally on DVD when it is chosen. A recent problem encountered is when students wish to change films after they have been approved. Often this request comes toward the end of the semester when students begin to write the paper and discover another film would be easier to analyze. Because it is time consuming for an instructor to watch all of the films prior to the grading of the presentations and papers, it is advisable to prohibit the change of films once they have been approved by the instructor at the beginning of the semester. This requires the instructor to do a good job in screening the films to make certain that they fit the requirements of the assignment. In general, the time commitment in total for this assignment for a given semester with a class size of thirty-five to forty students is about 40 hours. This includes watching the films at least once and taking good notes on them, grading the individual drafts, grading the papers, and grading the presentations.

USING THE FILM ANALYSIS PROJECT IN OTHER MARKETING COURSES

While this project, including the paper and/or presentation was designed for an upper-division consumer behavior course, it can be utilized quite readily in a marketing principles undergraduate class. Introductory marketing classes typically include a discussion of consumer behavior focusing on the consumer decision-making process. Students can be assigned to write a short paper and/or prepare a short presentation discussing the consumer decision process as illustrated in a film.

This project can also be adapted for an international marketing class. Many films include cultural or cross-cultural content. This content can be analyzed in a similar fashion as other consumer behavior principles. For instance, the cultural component of the film example discussed in this paper can be expanded to other content found in the film, including but not limited to – cultural norms, such as conventions of appropriate food to consume, and symbols, such as flags. Beyond Hollywood films, films made in other countries can be analyzed for their cultural content as well. For example, one of the authors of this paper has assigned students in an International Marketing class to pick a country of interest and to watch a film made in or concerning that country in order to understand cultural aspects of marketing internationally.

Finally, this assignment has and can also be utilized in other, specialized marketing courses, such as macromarketing or marketing ethics courses. While the focus in consumer behavior courses is usually micro-level behavior, macromarketing content easily flows from the discussion of the choice, consumption of and disposal of products. In fact, we have found that students in consumer behavior often gravitate to discussing the macro level implications of the consumer behavior they find in the movies. Therefore, creating assignments that address both consumer behavior issues and macromarketing issues are not difficult. While not every film is ripe with macromarketing content, those that are offer opportunities for students to reflect upon macromarketing issues that correspond with or are a result of consumption behavior, such as green marketing and sustainability and ethical issues, as found in such films as Thank You for Smoking, Blood Diamond, and Fast Food Nation, among numerous others.

CONCLUSION AND FUTURE RESEARCH

The analysis of a film is a comprehensive assignment. It asks students to synthesize all of the material that they have learned throughout the semester and apply it to the discussion of a film. We recommend introducing the project at the beginning of the semester, and encouraging students to watch the film and then to refer back to it when taking notes during class, reading the textbook, and participating in class discussions on consumer behavior topics pertaining to and illustrated by the film.

Students completing this assignment in consumer behavior learn to think comprehensively about all of the well-established concepts and theories of consumer behavior and to find examples of them to explain the behavior that they are witnessing in a feature film. The ultimate goal of the innovation is for students to apply and synthesize knowledge of consumer behavior so that they can utilize their learning when they become marketing managers and/or in order to understand their own consumer decision-making behavior.
REFERENCES


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UNDERSTANDING STUDENT-PROFESSOR SERVICE RECOVERY ENCOUNTERS

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SUMMARY

Increasingly, higher education institutions are realizing that higher education could be regarded as a business-like service industry and they are starting to focus more on meeting or even exceeding the needs of their students. As universities begin to perceive students as consumers of higher education services, their satisfaction should be important to institutions that want to retain existing and recruit new students (Helgesen and Nesset 2007). Consequently, universities should try to increase students’ levels of satisfaction and decrease sources of dissatisfaction in order to retain students (Douglas, McClelland, and Davies 2008). Following Hemsley-Brown and Oplatka (2006), we believe that there is a demand for more research that explores the application of services marketing concepts to the higher education service industry. According to Iyer and Muncy (2008), higher education can greatly benefit from the application of marketing principles in the area of recovering students from service failures in the classroom. Service failures are common in academic settings (Iyer and Muncy 2008). Examples of service failures include the professor not coming to class or not being available during posted office hours, ambiguous exam questions, grading errors and refusal to respond to student questions related to course material (Frankel, Swanson, and Sagan 2006). For failures in the educational delivery system, Frankel et al. (2006) found that the professor’s response to student disappointments is what causes the student to remember the event either positively or negatively. Thus, it would be beneficial for educational institutions and particularly professors to understand how they can effectively recover from service failures (Swanson and Davis 2000). Both higher education institutions and professors should be interested in understanding how to respond when students are dissatisfied and attempt to move them toward voice behaviors (Mukherjee, Pinto, and Malhotra 2009) by ensuring that good recovery systems are in place.

The Study

This study aims at identifying how professors should behave and which qualities they should possess during face-to-face service recovery encounters. The paper also explores how students perceive the attributes of professors and how satisfied they are with them. For this purpose, an exploratory qualitative research study was conducted using the well established laddering interviewing technique that allows researchers to gain deep insights into under-researched topics. A total of 20 interviews were conducted with students in higher education in Bangladesh. Students were aged between 21 and 29 years (X = 24.7) with genders being almost evenly represented. All students were asked which qualities professors should possess and which behaviors they should exhibit during service recovery encounters. The responses acted then as the starting point for the laddering probes. While laddering is commonly used in exploratory qualitative phases of research projects (e.g., Zanoli and Naspetti 2002), the Kano model of satisfaction reveals which attributes of professors have the strongest impact on students’ (dis)satisfaction with service recovery. Laddering interviews alone do not provide this important information. Consequently, this research also uses the Kano model of satisfaction as it can reveal the factors that create satisfaction as well as the attributes than can cause dissatisfaction. Kano questionnaires were handed out to 101 students in Bangladesh. Students were aged between 19 and 23 years (X = 20.1).

Results and Further Research

To our best knowledge, this study is the first that uses laddering interviews and Kano questionnaires to investigate service recovery in higher education. The results present a rich insight into the service recovery expectations of students in higher education and provide a starting point for further research. The research reveals that the key attributes of professors desired by students include being approachable, listening actively, showing empathy and providing an explanation. Among a wide range of benefits, students link these attributes to enhanced teacher-student relationship, better academic performance and at a more abstract level, to desired end-states such as harmony and well-being. Professors can leverage this information to enhance the student-professor relationship and to foster positive student outcomes. By using methods such as laddering, researchers can reveal how all these identified elements that are of importance to students are interconnected and interdependent, which can then help professors realize that focusing on concepts (e.g., being competent or friendly or empathetic) in isolation is insufficient for recovering dissatisfied students in face-to-face
service recovery encounters. The Kano map reveals that students are very dissatisfied if professors do not take their perspective, do not show respect and if they appear to be insincere and fail to ensure transparency. The Kano map also shows that students are most dissatisfied if professors do not actively listen to them. However, as with any exploratory research, the findings of this study are tentative in nature. The use of convenience samples of students limits the generalizability of the findings; however, this is offset to an extent by drawing participants, who study in a wide range of areas including business, law, engineering and medicine, from various institutions in Bangladesh. Furthermore, as Greenberg (1987) points out, the potential for generalizability is not something that can be achieved in any one study, but is an empirical question that requires comparisons over different studies. Thus, what is now needed is similar research in a range of countries. Results from these studies could then be compared and differences and similarities revealed. Future studies should also explore the influence of failure type and gender, given that the type of failure (Smith, Bolton, and Wagner 1999) and gender (McColl-Kennedy, Daus, and Sparks 2003) have been found to be moderating variables during service recovery in other service industries. Even though our study has sample sizes similar to several existing laddering and Kano studies, future research studies could still use larger probability samples to expand understanding of student-professor service recovery encounters even further. References are available upon request.

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AN ASSESSMENT OF MARKETING DEPARTMENT STUDENT PORTFOLIOS

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SUMMARY

Business schools are under pressure from accreditation agencies, state legislatures, university governing boards and employers to assess what has been learned in the classroom. The emphasis is on improving student learning by assuring stakeholders that stated knowledge is taught and important skills are developed. Assessing student outcomes also provides faculty with valuable insights important to curricular program enhancements. However, such efforts continue to represent a daunting charge.

Even though schools have made progress toward developing assessment programs to meet new standards, research has called for further study on assessment measurement as AACSB requires demonstration of student knowledge or skills. The means for doing so remains open. The breadth and depth of some efforts have been documented but those specifically addressing action taken within marketing departments are limited.

The question confronting most faculty and administrators is have our students met articulated learning outcomes and if so how do we know. In order to address this question, the marketing department at a large Midwestern university developed a student portfolio as one means of determining if stated learning objectives are being met. This abstract summarizes the process used to develop student portfolios, how they were evaluated and how portfolios continue to help achieve department and college goals.

First, three faculty members requested university funding to implement a portfolio and support was provided. Peer schools were then contacted regarding their use of portfolios and the advantages and disadvantages of doing so. The information was compiled and a report presented to the faculty. Next, a Portfolio Committee was formed. The main purpose was to develop portfolio particulars and then confer with marketing department faculty for endorsement. The department developed eight learning objectives with a description, sample assessment tools, and student authorship requirements for each one. In addition, faculty sought to implement appropriate measures that successfully evaluated whether students met or exceeded learning goals. There was also consensus that based on the outcomes of such assessment faculty would be willing to improve the content or delivery approach used in courses to ensure students learn the core skills and knowledge required.

Students register for a pass/fail portfolio class in their senior year. The student portfolio is contained in a three-ring binder and must include representative work from marketing classes demonstrating acceptable performance in each of eight core outcome areas. Students are advised to showcase writing and communication skills as well as selecting assignments illustrating grasp of marketing. Portfolios are due not later than the last week of classes in the semester the student intends to graduate. A submission schedule is published each year and is available in the department and on the portfolio webpage. A sample of 10% of graduating senior portfolios is drawn in the spring, fall, and summer semesters and the Portfolio Committee members evaluate each one. Students may retrieve portfolios after the evaluation period.

The critical portfolio success factors included faculty involvement, formation of a Portfolio Committee, commitment at the college and university levels, student knowledge of portfolio requirements and a non rushed process to facilitate the understanding of all involved. Change continues to be an inherent part of the process. Based on a five-year evaluation by the Portfolio Committee and discussions with faculty and the department student advisor, many changes were made to enhance the portfolio usefulness to students and faculty. Refinements included modifications to required core curriculum, modifications to student learning outcomes, and closer coordination of multi-section courses.

The portfolio remains the department’s primary tool in performing assessment activities as they relate to mastery of core learning outcomes. While the department of marketing believes the current learning outcomes and portfolio assessment are adequate there is also recognition that there is room for improvement.
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A DESIRABLE EDUCATIONAL MODEL

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SUMMARY

Substantial discussion has occurred surrounding the potential negative consequences of a customer orientation in college education. As customers, students want to be entertained and to attain credentials with minimized effort. As service providers, many faculty members sacrifice rigor to satisfy customers. This pleasing approach likely enhances short-term satisfaction; however, it is harmful in the long run. Scholars urged that faculty stop treating students as customers to be pampered and restore rigor in the classroom. This salutary approach advances long-term interests, but turns students away.

Intuitively, a desirable educational model that can deliver immediate satisfaction and long-term benefits simultaneously would be ideal, but how? Two interrelated obstacles need to be overcome. First, substantial empirical evidence suggests that students are myopic and thus only interested in a pleasing educational model. How can their interests be aligned with the educators’ (and external stakeholders’) long-term oriented interests? And yet such alignment is critical for an educational model to be accepted by students and educators alike. At the theoretical level, this discrepancy has its root in the inherent tension between immediate satisfaction and long-term benefits. Realizing the long-term benefits (e.g., learning) of an educational product (a course) necessarily involves immediate sacrifices (e.g., working hard and long hours) on the part of the students; such sacrifices tend to reduce their immediate satisfaction (e.g., make a course less enjoyable).

Theoretical basis: We draw on the theory of optimal experience to overcome the inherent tension between immediate satisfaction and long-term benefits of an educational product. According to this theory, a person’s experience will be most positive when the person perceives that the environment contains challenges that match the person’s ability. When that happens, the person is not only enjoying the moment, but is also stretching his/her capabilities to grow. The pleasure that this state of experience produces is the active pleasure that is associated with active engagement in an activity and the resulting feeling of being more active, alert, concentrated, and creative. A closely related condition is motivation. Given that the person has the needed ability, she/he has to be willing to put out the efforts in order to achieve the optimal experience. Two other states of experience are relevant. Relaxation is a state of experience in which the person’s ability exceeds the level of challenge for a task. This state of experience is characterized by a feeling of relaxation, being in control, and comfort. The weakness is the lack of opportunities for growth. The pleasure that this state of experience provides is passive. In contrast, anxiety is a state of experience in which the level of challenge exceeds the person’s ability for a task. This state of experience is conductive to learning to the extent that it forces the person to stretch his/her ability to grow. The weakness is the escalation of negative emotions that may prompt the person to retreat.

Empirical basis: In a written assignment, undergraduate students (N = 109) were asked to evaluate the strengths and weaknesses of a pleasing versus salutary education model offered by two fictional professors:

- Pleasing model: Professor A creates interesting/non-challenging classes, rewards students for effort even if it yields poor outcomes, and respond to student problems, whether personal or academic, with compassion.
- Salutary model: Professor B sets rigorous standards, expects excellence from students at each step, and refuses to accept as adequate lesser achievements.

To counter student myopia, we explicitly asked the respondents to compare and contrast short-term versus long-term outcomes of these education models. Then on the basis of this analysis, the respondents proposed four key features of an “ideal” course, and provided justifications for their proposal. The results indicated that at least intellectually, students can be guided to overcome their shortsightedness. The proposed features appeared to combine pleasing qualities (e.g., interesting, caring, interactive, rewards) and salutary qualities (challenging). An analysis of respondents’ justifications revealed that the perceived contradictions between pleasing and salutary education models can be reconciled.

The pleasing, salutary, and desirable educational products likely deliver different states of experience to students. Features of the pleasing educational model—easy tasks coupled with lenient feedback and pampering—likely produce the relaxation state of experience for students. This state of experience is pleasant, but is not conductive to long-term well-being. Features of the salutary educational model—challenging tasks coupled with strict feedback and refusal to pamper—likely produce the anxiety state of experience for students. This state of experience is conductive to long-term well-being, but is not pleasant.
Proposed desirable educational model: We integrate the empirical findings and theory to show how a desirable educational model can be designed. The challenge is to overcome the tradeoff between short term pleasure and long term well-being. This can be achieved if the educational model approximates the structural conditions for the optimal experience, that is, if it provides students with manageable challenges and sufficient motivation to cope with the challenges. These conditions constitute an environment in which students can learn more and enjoy the process. Here the passive pleasure of relaxation is being replaced by the active pleasure obtained in the process of exerting efforts to overcome challenges.

More specifically, the desirable professor employs the following principles: (1) set high but achievable academic standards; (2) design tasks to provide students with interesting, relevance, and manageable challenges; (3) organize learning activities to encourage students to work together to overcome the challenges; (4) motivate and support students’ progress through encouraging feedbacks and caring (not pampering); (5) treat students as unique individuals and coach them to attain their best performance levels given their ability and aspiration.

Implications: Our proposed desirable educational model holds the promise of effectively integrating the interests and goals of faculty, external stakeholders, and students into the educational experience. The model has implications for the continued relevance of the customer orientation in college education, and for faculty to enhance teaching quality. References are available upon request.

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A CROSS-CULTURAL STUDY OF UNETHICAL SALES BEHAVIORS

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SUMMARY

Considerable literature has addressed ethics in sales management, growing our understanding of the effects of various corporate, sales manager, and personal and situational factors affecting ethical decisions. Additionally, ethics reviews (McClaren 2000), and ethical decision making frameworks (Ferrell and Gresham 1985; Ferrell, Johnston, and Ferrell 2007; Wotruba 1990), have added to the discourse. Finally, there is an extensive literature on unethical sales behaviors (USBs) associated with short-term sales incentives. Overall, the extensive sales management ethics research attests to the importance of this domain (Cadogan et al. 2009).

It seems that with organizational safeguards including codes of ethics, leadership behaviors, enforcement mechanisms, and ethics training, employees will be more prone to make ethical decisions (Cadogan et al. 2009). Still, the question lingers: why do motivated salespeople, under certain circumstances, tend to use USBs? Given the prevalence of USB promoting conditions in many sales settings, coupled with the fact that salespeople face ongoing ethical dilemmas, the study of USBs continues to be a vital area for sales research. Additionally, despite the rich literature on USBs, only a few studies have examined USBs in non-USA contexts.

Our research explores the effects of national culture on managing USBs across countries. Our theoretical framing takes Hofstede’s (1980) national culture dimensions of individualism and masculinity and we develop hypotheses as to how these cultural dimensions moderate the way that sales manager practices (monitoring, compensation structure) and an individual factor (commitment) affect the likelihood of USBs. Further, we use sales contests, i.e., short-term incentives, as our context because USBs associated with contests have been widely reported and the participating company confirmed they use sales contests in each country included in this research, i.e., Canada, Mexico, and USA.

Our sampling frame consisted of 948 salespeople from the Canada, Mexico, and USA sales forces of a USA-based multinational company. The study materials (provided in English for Canada and USA; in Spanish for Mexico) included a questionnaire and a manipulation that asked respondents to imagine an ethical scenario. Steps were taken to minimize potential common method bias.

Where possible, measures used 7-point scales. The multi-item measures demonstrated acceptable cross-cultural measurement invariance. We used multiple regression to test the effects of antecedents and culture’s moderating effects on each of the six USBs used in this study. The six USBs include making occasional exaggerated claims to customers, overemphasizing contest-targeted products, getting customers to forward buy, reducing helping and sharing among salespeople, accepting credit risks, and setting aside other responsibilities.

In sum, we found that monitoring reduces tendencies for most USBs including exaggerating claims, reducing helping and sharing among colleagues, accepting questionable credit risks, and setting aside responsibilities. Overall, these findings encourage firms to engage monitoring as a hybrid system of both behavior and outcome controls. We further expected that high individualism would weaken the negative effect of monitoring on salespeople’s tendencies to engage in USBs, and we found support for this expectation for each of the four USBs above.

As expected, a higher percentage of fixed pay in salespeople’s compensation inculcates salespeople in such a way that USBs including exaggerating claims, reducing helping and sharing among colleagues, accepting questionable credit risks, and setting aside responsibilities are decreased. We found that masculinity weakens the fixed pay-to-USBs relationship for each of the four USBs. Assertions that masculine qualities are associated with a drive to attain material awards and that this affects moral reasoning (Blodgett et al. 2001) as well as the likelihood of engaging in unethical behaviors (Chang and Ding 1995) seems well-founded, again indicating that qualities associated with masculinity heighten tendencies for USBs.

Of the six USBs, commitment reduced the likelihood of just two, accepting credit risks and setting aside other responsibilities. Also, the findings suggest that in high masculinity countries this effect is less present. It seems that the qualities associated with masculinity might override some of the beneficent qualities associated with commitment. As to why commitment, frequently associated with positive outcomes, was not found to reduce tendencies for most USBs we can surmise a possible reason. Highly committed salespeople might find themselves convoluted by incentives, i.e., knowing the importance of performing well on behalf of the firm these.
salespeople might find themselves rationalizing that it is temporarily acceptable to push the firm’s ethical normative boundaries to assure success.

Our findings suggest that as MNCs strive to inculcate salespeople to the ethical norms and values of the company, particular attention needs to be given to high individualism and high masculinity cultures. We further find that anticipating USBs is not as simple as saying they will be more prevalent in high masculinity or high individualism countries. Instead, it is a matter of anticipating which kinds of USBs will be more likely in which cultures. Finally, when considering the effects of self-enhancement bias and how this bias applies to unethical behavior (Manley, Russell, and Buckley 2001), the extent that salespeople might engage in USBs could be considerably greater than the data suggest. References are available upon request.

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APPLICATION OF THE THEORY OF PLANNED BEHAVIOR FOR PREDICTING FINANCIAL SALESPEOPLE’S ETHICAL INTENTIONS AND ACTUAL BEHAVIOR IN A DEVELOPING COUNTRY

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SUMMARY

The global financial service industry is highly competitive and growth is only possible through expanding the market or attracting competitors’ customers (Román 2003; Thornton and White 2001). Many customers are financially naïve and, thus, are potentially disadvantaged when dealing with financial service providers (Hoffman et al. 1991).

While financial services organizations should protect the interests of individual customers, less ethical organizations or salespeople may exploit a client’s naivety to improve their own position (Wray et al. 1994). Problems associated with marketing financial services such as insurance can result because policies are highly abstract products characterized by low credence attributes and, consequently, are difficult even for educated consumers to fully understand (Eastman et al. 1996; Román and Ruiz 2005). Consumers, therefore, rely more heavily on salespeople for unbiased advice and information. However, there is an agency problem as salespeople are compensated based on their sales performance, thus they might exaggerate benefits to customers in order to obtain a sale (Bellizzi and Hite 1989; Kurland 1996; Lee et al. 2009).

While research on ethical practices within the financial services sector exists (Dunfee and Gunther 1999), there is less research examining financial services in developing countries (Al-Shaikh 2003; Andaleeb and Anwar 1996; Wood 1995). Ethical selling of financial products in developing countries would be expected to be particularly important, as the consumers are potentially more vulnerable than those in developed countries (Andaleeb and Anwar 1996). Thus, the negative impact of unethical selling behavior in developing countries is potentially worse, as those who are already less well-off would be harmed (Amin et al. 2003; Kabeer 2002).

This research focuses on understanding insurance salespeople’s ethical intentions and behaviors in one such developing country, Bangladesh using Ajzen’s (1991) theory of planned behavior (TPB). The TPB uses social norm, attitude, and perceived behavior control as predictors of ethical intentions and to explain the underlying processes that lead salespeople to engage in ethical behavior (Henle et al. 2010; Park and Blenkinsopp 2009) and the study extends the TPB to look at the relationship between intentions and actual behavior.

Data were collected from 219 full-time financial services salespeople working for a large Bangladeshi life insurance company, from a population of 245 sales people. Fourteen respondents who scored more than 85 percent on Haghighat’s (2007, 2008) social desirability scale, were excluded. The usable sample was 205 respondents or 83.7 percent.

The ANOVA results indicated that the TPB variables did not vary by any respondent demographic characteristics (i.e., age, gender, education, job experience and performance), enabling these characteristics to be excluded from further analysis. AMOS 17 was used to test for items reliability, construct validity and to assess the structural equation modeling (SEM). The measurement model was validated by conducting an internal consistency test and validity assessments of the scale items. Cronbach’s Alpha and Composite Reliability (CR) of all the constructs in this study were equal to or higher than the cut-off value of 0.7, thus indicating acceptable internal consistency for the composite items used.

The analyses then examined the convergent and divergent validity of the instrument using procedures outlined by Bollen (2005). The model demonstrated both convergent and discriminant validity. The power of our model based on 205 respondents approached one, indicating adequate power for the assessment of the overall fit of the structural model (MacCallum et al. 1996). As all data were self-reported, common method variance (CMV) using Podsakoff et al (2003) guidelines suggested CMV was not an issue in the model. The structural path results identified that the TPB model was successful in explaining the determinants of salespeople’s ethical selling intentions, with social norm, attitude, and perceived behavior control all serving as predictors of ethical intentions. The results also review that ethical selling intentions translate into salespeople’s ethical practices.

Our study suggests that within a developing country context there is a high degree of ethical orientation amongst financial salespeople. Given the potentially higher level
of consumer vulnerability, this suggests that salespeople do not appear to take advantage of information asymmetry or, in other words, the lower financial literacy of consumers within this developing country (Andaleeb and Anwar 1996; Kefela 2010). It is not clear whether this is the result of good corporate practice or a greater ethical understanding of the respondents.

The results suggest that managerial interventions designed to change (1) attitudes toward ethical selling, (2) established norms about ethical practices and, importantly, (3) increase salespeople’s perceived behavioral control about ethical selling, would be likely to improve ethical sensitivity among financial salespeople in developing countries, and could possibly also have benefits in developed countries. However, training to achieve such changes will possibly only occur through intentions, as there was not a direct link to actual behavior which could be included in corporate culture. This suggests that simply having good policies in place (i.e., organizational norms) would not be sufficient unless there is more than compliance and the behavior becomes integrated into the individual’s psyche. References are available upon request.

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ETHICAL JUDGMENTS IN THE BUYER/SELLER DYAD: A COMPARISON OF SALESPEOPLE AND NON-SALESPEOPLE

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SUMMARY

Numerous studies have investigated the variables that impact a person’s ethical judgments. O’Fallon and Burrettfield (2005) reported that, in the last ten years, over 150 papers have been published on the topic in the business literature. This research has clearly established that a set of constructs such as Idealism, Machiavellianism, and relativism affects a person’s judgments when facing situations having ethical content. Such variables have been shown to affect both salespeople and non-salespeople. A question that has not been answered, however, is whether salespeople and non-salespeople are affected differently by such variables when they make ethical decisions in a buyer/seller context. Though we can safely conclude from past research that factors such as Relativism and Machiavellianism do affect salespeople’s ethical decision making, we are not able to draw the stronger conclusion that salespeople are unique in the way they are affected by such variables. Non-salespeople have also been shown to be affected by variables such as these. It would only be through comparing salespeople and non-salespeople that evidence could be made which would indicate that salespeople are somehow different from the general population in the way they make ethical decisions.

It is generally accepted that the way that people make ethical judgments mature and change over time. The most common approach to studying these changes is based on the cognitive moral development work of Kohlberg (1969, 1984) which is based on theories which emerged in developmental psychology, particularly those posited by Piaget (1965, 1970). However, since the bulk of the ethical judgment research in business is conducted with adult subjects (e.g., Goolsby and Hunt 1992), it is clear that it is not just the passage of time in the early years of one’s life that causes moral development to occur. Beyond the maturation process, one would expect life experiences in an area to impact a person’s ethical decision making in that area. For a person in sales, that would mean that their accumulated experiences in the buyer/seller dyad would provide them a unique context with which to evaluate buyer/seller situations having ethical content. The non-salesperson would not have comparable accumulated experience and context with which to judge buyer/seller situations having ethical content.

The focus of the paper was to explore two research questions: (i) compare the actual judgments made by salespeople versus non-salespeople and (ii) how strong are the other key factors in affecting these judgments.

The results of the study indicate that, when a definite harm has occurred, salespeople judge buyer/seller situations having ethical content differently than non-salespeople. Whether the harm occurred to the buyer or the seller, the bias of the salespeople was in the direction favoring the salesperson. Overall the impact of (Ethical Behavior, Self Importance, Idealism, Relativism, and Machiavellianism) these variables on ethical decision making were stronger for salespeople than for non-salespeople.
WHAT SHAPES ETHICAL JUDGMENTS OF SUPERVISOR BEHAVIOR?
ACTION INTENTION OR OUTCOMES

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SUMMARY

Introduction

How do salespeople ethically judge managerially actions? This study attempts to addresses the question of whether managerial intentions, actions, or the outcome matter most when salespeople make ethically laden decisions. Specifically, managers can have opportunistic and/or altruistic motivations and outcomes can be opportunistic and/or altruistic. At the same time, managers can either take an action to curb a morally questionable circumstance or fail to do anything in hopes that the situation will take care of itself (Reidenbach and Robin 1990). This research examines how these factors affect an onlooker’s moral judgments and reactions to the sales manager’s decision process. Specifically, an experimental design manipulates whether or not a sales manager had opportunistic or altruistic intentions, whether the manager took action or ignored the situation, and whether the outcome turned out opportunistically (personal gain) or altruistically (gain for society) in an experimental design.

Contributions

The work contributes to marketing ethics and sales management theory and practice. An experiment modeled after a real-world professional sales situation provides a venue for testing hypotheses. Given the real-world nature of the scenario, the moral dimensions are not so clear and obvious. Thus, we contribute theoretically by intermingling ethics and leadership theories in a context involving how comfortable one would be with a supervisor who either acted to benefit others unselfishly or himself selfishly, and either acted or stood idle, to try and shape the eventual outcome. Basic leadership tenets suggest that a manager’s ethics influence those of subordinates both through explicit and implicit actions. Practically, leadership theory likewise suggests that managers are placed in lofty positions because they are expected to take action when confronted with a dilemma. This notion proves to be very telling in this particular research.

Hypotheses Development

The hypotheses present a basis for assessing the impact of the manipulations on subjects’ assessment of morality and willingness to be lead by the manager as captured by desire to work for the particular manager. Three hypotheses predict that subjects prefer a manager who (1) takes action, (2) is altruistic, and (3) is associated with an altruistic outcome. However, the role of action is theoretically pivotal and should interact with the other experimental variables in way that creates larger differences in judgments when actions are taken. Action implies that the manager is acting out a plan and not just conceiving a plan.

Methodology

A 2 X 2 X 2 experimental design includes manipulations of sales manager action, their intent, and the outcome of the situation. A nationwide online sampling firm with access to salespeople encompasses the sample frame. Subjects were contacted via email, clicked through to a scenario and then answered an online questionnaire. A causal design was implemented by randomly assigning subjects to one of each of the eight conditions embedded in a sales management scenario (Kerlinger and Lee 2001).

Results

The findings suggest a strong tendency for salespeople to have an affinity toward action-oriented sales managers. ANOVA results show a strong tendency for taking action in both moral equity and intentions to work for the manager. Intention and outcome were likewise significant for both dependent variables however weaker in magnitude than intentions. A significant two-way interaction for the Action by Outcome manipulations exists with Moral Equity as the dependent variable.

The mediation analysis also supports the contention that moral equity mediates the relationship between the experimental variables and the intention construct. The
causal process is then from the experimental variables to the moral judgment of the act, which then affects the intention to work for the sales manager.

The results suggest a strong partiality toward sales managers taking action when presented a moral dilemma, regardless of motivation. Reasons for the strong action bias may include subject perception that a manager is in fact a leader and leaders should take action or that apathy in itself is a negative sales manager characteristic. References are available upon request.

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SUMMARY

The link between corporate social performance (CSP) and firm financial performance (FP) has been studied extensively in management literature for the past few decades, as evidenced by several meta-analyses (e.g., Orlitzky and Benjamin 2001; Orlitzky, Schmidt, and Rynes 2003). Although the majority of studies support a positive association between CSP and FP, a number of studies found a negative relationship between the two (Peloza 2009). Sen and Bhattacharya (2001) suggested that the mixed results could be caused by overlooking the underlying processes as to how and why CSP affects a firm’s FP. Neville et al. (2005) proposed a theoretical framework that a firm’s overall reputation mediates the relationship between a firm’s CSP and FP, and called for empirical testing of the model. To address this issue, the goal of our study is two-fold: 1) we test the conceptual model proposed by Neville et al. (2005) to see if the mediating role of a firm’s reputation helps to explain the relationship between a firm’s CSP and FP; 2) we examine a firm’s CSP initiatives in two categories: internal and external. Internal activities would mainly affect stakeholders within a company, while external activities have more consequences on stakeholders outside a company. We assess the impact of internal and external CSP on a firm’s reputation, and we also examine how such an impact varies across the manufacturing and service industries.

Resource dependency theory (Pfeffer and Salancik 1978) states that a firm is dependent on various groups of stakeholders to provide resources important to a firm’s operation. For example, employees inside a firm would influence the production efficiency, product quality and etc. Outside of a firm, groups of consumers and investors provide financial resources to a firm. Stakeholders inside a firm assess CSP from a different view than those outside the firm. For example, the stakeholders inside a firm put more emphasis on the internal activities, such as employee relations and corporate governance. The stakeholders outside a firm are more responsible to the issues that are likely to influence the communities the firm belongs to (such as environmental issues, community relations, etc.).

A firm’s reputation reflects the aggregation of information “into collective judgments that crystallize into reputational orderings of firms in organizational fields” (Fombrum and Shanley 1990, p. 234). Therefore, we propose:

H₁a: Firm reputation will be negatively influenced by public’s concerns about its internally-oriented CSP performance.

H₁b: Firm reputation will be positively influenced by public’s perception of its strengths in internally-oriented CSP performance.

H₁c: Firm reputation will be negatively influenced by public’s concerns about its externally-oriented CSP performance.

H₁d: Firm reputation will be positively influenced by public’s perception of its strengths in externally-oriented CSP performance.

Internal resources (such as employees) are more important to the service sector, while external group responses are more important to the manufacturing sector. Therefore, we expect that internal activities have more impact on the reputation in the service industries than the manufacturing industries, while external activities are more important to the manufacturing sector.

H₂a: Firm reputation will be more negatively influenced by public’s concerns about its internally-oriented CSP performance in the services industries than in the manufacturing industries.

H₂b: Firm reputation will be more positively influenced by public’s perception of its strengths in internally-oriented CSP performance in the services industries than in the manufacturing industries.

H₂c: Firm reputation will be less negatively influenced by public’s concerns about its externally-oriented CSP performance in the services industries than in the manufacturing industries.
H$_{2a}$: Firm reputation will be less positively influenced by public’s perception of its strengths in externally-oriented CSP performance in the services industries than in the manufacturing industries.

Meanwhile, we propose that a firm’s of good reputation will improve its financial performance:

H$_1$: Firm’s financial performance will be positively associated with firm reputation.

We collected data for the publicly traded Fortune 500 companies from multiple archival sources: COMPUSTAT, Fortune America’s Most Admired Corporations (FAMA), Kinder, Lydenberg, and Domini & Co. data (KLD), and Center for Research in Security Prices (CRSP).

KLD database provides measurement of CSP in four categories: the internal concerns, internal strengths, external concerns and external strength. Firm reputation is measured by FAMA ratings from 2006 to 2008. Tobin’s q captures a firm’s financial performance. In addition, we control for the variables including firm size, competition intensity, leverage and liquidity based on previous studies (Mahoney and Roberts 2007; Waddock and Graves 1997; Makni, Francoeur, and Bellavance 2009).

Results show that firm reputation fully mediates the positive impact of internal CSP strengths on firm FP, but not other three CSP aspects. The industry type (manufacturing versus service) moderates the impact of CSP on firm reputation. In particular, the study finds both the positive and the negative impact of internal CSP concerns on firm reputation is stronger in the service industries than in the manufacturing industries. However, external CSP strengths have a stronger impact in the manufacturing industries. The results suggest that the external CSP performance is more important to firms in the manufacturing industries while the internal performance is more critical to firms in the service industries. References are available upon request.

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SUMMARY

Introduction and Background

As a response to the growing social and environmental concern and awareness, more and more companies proactively publish their CSR-related principles and activities. As one of the most important sources of information on corporate activities, corporate annual reports include corporations’ self-reported CSR performances and provide a means of determining the quality of the corporations’ commitment to CSR (Macleod 2001). Past research that analyzed annual reports or CSR reports in various national contexts (e.g., Abbott and Monsen 1979; Gray et al. 1995, Campbell 2004) has relied mainly on simple measures, such as word and page counts (Chen and Bouvain 2009), and mostly failed to provide a category scheme that goes beyond CSR-related activities. Therefore, in this paper, we seek to overcome some of this deficiency by using a combination of quantitative and qualitative approaches.

Data Analysis and Key Findings

In order to identify recurring themes in the reports, we used content analysis. All reports were transferred to Rich Text Format, which is required by the analysis software Maxqda that we employed. The main categories found were Stated Philosophy toward CSR, CSR Motives, CSR-related Internal Activities, CSR-related Activities toward Suppliers, CSR-related Activities toward Society, Corporate Donations, Sponsoring and Charitables, CSR-related Cooperation, and Commendations. As to both CSR-related motives and activities, the longitudinal analysis of trends in CSR reporting reflects the growing importance of CSR in the stakeholder dialogue over time. To answer the question if and to what extent CSR activities are truly embedded in corporate strategy, we examined the relation between the three types of CSR-related motives (performance-driven, stakeholder-driven, value-driven) and CSR activities, using SmartPLS 2.0 (Ringle et al. 2005). The impact of performance-driven motives on CSR-related activities is positive and significant for all paths but the effect on supplier-directed activities and corporate giving. Regarding stakeholder-driven motives, our results reveal significant effects on all activities except for the relation to employee-directed activities and corporate giving. As to value-driven CSR motives, all paths show significant effects apart from activities directed at suppliers.

Conclusions

Our results support the idea that along with the publics’ increased demand for businesses to operate responsibly, there has been a rise in significance of stakeholder-driven and value-driven motives as normative basis for engaging in CSR. Overall, in a combination of qualitative and quantitative analyses, this paper builds upon and extends past research efforts in the field of CSR and CSR reporting, as it provides deeper insights into qualitative, longitudinal, and quantifiable effects, encompassing a rich category scheme that also account for the stated CSR-related philosophy and motives to engage in CSR, related to different fields of CSR activities. References are available upon request.
ISO GUIDANCE ON SOCIAL RESPONSIBILITY TOWARD CONSUMERS: IMPLICATIONS FOR MARKETERS

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ABSTRACT

The relationship between business and consumers is more often than not, fraught with conflicting interests and in this process business may resort to practices that may be unfair to consumer interests. Globalization has increased these complications even further. The expectations of consumers from product and service providers have in the meanwhile increased and there is a greater emphasis on businesses and marketers to be more socially responsible. ISO 26000, a recent Guidance Standard advocates that it is important for business to engage with its stakeholders on seven core subjects – organizational governance, human rights, labor practices, environment, fair operating practices, consumer issues and community involvement and development to adopt more sustainable practices. The focus of this paper is on the guidance provided to organizations by the standard on consumer issues, like, fair marketing practices, protecting health and safety, promoting sustainable consumption, organizing dispute resolution and redress, ensuring data and privacy protection, and providing access to essential products and services and consumer education. Though it is presently a guidance standard, it is likely to impact marketers, and consumer protection initiatives in many countries and organizations. It is a commendable effort in so much as it places the initiative of becoming socially responsible on marketers irrespective of the country in which they operate.

Key Terms

Social responsibility, sustainable consumption, dispute resolution, grievance handling mechanism, MDG, value chain, product safety.

INTRODUCTION

In all societies, interaction between organizations and individuals takes different forms – some pleasant and others not so pleasant. There are not only differences in the legal systems, but also differences in the level of development, economic conditions, and exposure to goods and services. Globalization has opened up frontiers in consumption that have hitherto been available to selected few. While the increased variety of goods and services has increased materialism and consumerism, it has also resulted in identifying many practices that have been unfair. It is true that the social, political, legal, and economic conditions vary from nation to nation, yet the need for responsible conduct from organizations appears to be universal. The need for ethical conduct is no more restricted to individuals but there is more and more realization that an ethical conduct is required even in doing business.

Vitell et al. (1986, 2006) investigated the extent to which consumers rely on ethical norms (deontology) versus the perceived consequences of behaviors (teleology) in forming their ethical judgments and in determining behavioral intentions in situations involving ethical issues. Three studies were conducted, revealing that consumers tended to rely primarily on ethical norms and less on perceived consequences in forming ethical judgments. Results also indicated that consumers, to a large degree, relied primarily on ethical norms in determining their behavioral intentions in situations involving ethical issues.

Barrels (1967) was one of the first to note the importance of the role of culture in ethical decision-making identifying cultural factors such as values and customs, religion, law, respect for individuality, national identity and loyalty (or patriotism), and rights of property as influencing ethics. In their general theory of marketing ethics, Hunt and Vitell proposed that “cultural norms affect perceived ethical situations, perceived alternatives, perceived consequences, deontological norms, probabilities of consequences, desirability of consequences, and importance of stakeholders” (1986, p. 10).

Hofstede (1980) argues that societies differ along four cultural dimensions – individualism, masculinity, power distance, and uncertainty avoidance. All four of these cultural dimensions relate to ethics in the sense that they may influence the individual’s perception of ethical situations, norms for behavior, and ethical judgments, among other factors. The implication is that as societies differ with regards to these cultural dimensions so will the various components of their ethical decision-making differ.

In a study of U.S. research firms, data subcontractors, and corporate research departments, Ferrell and Skinner (1988) reported that in the absence of formalized standards and codes of conduct, the acceptability of various activities and procedures (ethical or unethical) was ambiguous.
It is in this context, that the International Standards Organisation (ISO) took the initiative to focus on laying down guidance on what constitute socially responsible practices and decided to formulate a Standard – ISO 26000 Guidance on Social Responsibility (SR). The standard aims to provide organizations with a harmonized, internationally agreed guidance to improve the way organizations interact with its various stakeholders and the society at large.

The need for ISO to work on an SR standard was first identified in 2001 by ISO/COPOLCO committee on consumer policy. ISO’s Technical Management Board (TMB) set up a multi-stake-holder ISO Ad Hoc Group on Social Responsibility. In 2003, it completed an extensive overview of Social Responsibility initiatives and issues worldwide. In an international, multi-stakeholder conference organized by ISO in 2004, the positive recommendations lead to the establishment of the ISO Working Group (WG SR), which laid the foundations of the standard at its second meeting, in September 2005 in Bangkok.

It was developed using a “multi-stakeholder approach” involving experts from more than 90 countries and 40 international or broadly-based regional organizations involved in different aspects of social responsibility. Representatives from six different stakeholder groups, including consumers, government, industry, labor, non-governmental organizations (NGOs), and service, support, research, and others (SSRO) from both developed and developing countries were involved in the process. The document was finalised and officially released in November 2010.

DEFINITION OF SOCIAL RESPONSIBILITY

The term has a huge variety of definitions and has been defined in different countries to mean and include different things. The term “Social responsibility” in India for example, was understood to mean philanthropy at one time but today it has acquired a much wider and concrete meaning. Subsequently, its scope was widened to apply to companies and, therefore, the term Corporate Social Responsibility (CSR) acquired popularity. Even the concept of CSR has undergone various definitional changes over time (Carroll 1999; Lee 2008).

The European Commission, for example, defined CSR as “a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” (EC 2001). Later on the concept of CSR was expanded to include adherence to ethical values, compliance with legal requirements, respect for people, society, and protecting the environment. According to Hopkins (2003), the aim of CSR is “to create higher and higher standards of living while preserving the profitability of the corporation, for people both within and outside the corporation.” The British government defined CSR as “the voluntary actions that business can take over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society” (BIS 2008). The guidance standard has laid to rest the existence of such multiplicity of definitions by developing a consensus on its meaning.

According to this guidance standard, “the essential characteristic of social responsibility is the willingness of an organization to incorporate social and environmental considerations in its decision-making and be accountable for the impacts of its decisions and activities on society and the environment. This implies both transparent and ethical behavior that contributes to sustainable development, takes into account the interests of stakeholders, is in compliance with applicable law and consistent with international norms of behavior, and is integrated throughout the organization and practiced in its relationships” (2010, ISO DIS 26000).

Further, the practice of socially responsible behavior is no longer restricted to the corporate world and includes all institutions irrespective of size and nature. Thus, the standard hopes to influence the activities of profit making and non-profit making organizations as well as government. All organizations are expected to incorporate these principles whether large or small.

CORE AREAS AND PRINCIPLES

It focuses on seven core areas – organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development. It advocates seven principles on which acts of social responsibility should be based: accountability, transparency, ethical behavior, respect for the following: stakeholder interests, rule of law, international norms of behavior and human rights.

The standard recognises the interactive relationship between organizations, society and other stakeholders and advocates that organizations identify stakeholders and continuously engage with them.

NEED FOR CONCERN

ISO 26000 is a guidance standard and therefore, countries may decide to adopt it voluntarily or may choose to ignore or adopt it partially. However, in today’s global economy, the situation is different. Most countries enter into trading and business relations with each other for the supply of raw, semi finished or finished products. Such relationships require paying attention to the expectations of consumers in target countries. If one country requires its suppliers to follow some of these guidelines, the value chain partners will either have to be compliant or decide...
to look for business elsewhere. Such a decision may not be always feasible and may depend on the profitability and length of relationships cultivated thus far. A viral transmission of these guidance actions may slowly creep into contracts between countries. The provisions in the standard may also influence legislation governing the conduct of business and in some countries be adopted as such. The legislative changes may not necessarily be in the form of a single law, but relevant changes could be made in sections and incorporated under different laws.

Consumer expectations, globally, are rising too. This is fuelled not only by education but also by the increasing reach of the media. Due to rising inflationary pressure and the need to sustain acceptable lifestyles, more and more consumers want to maximize value for money and hold erring businesses or organizations providing shoddy service answerable to defective products or deficiency in services. Further, the guidelines are a step towards achieving the Millennium Development Goals (MDG), which guide policy making in many countries.

**SOCIAL RESPONSIBILITY TOWARD CONSUMERS**

Consumers all over the world have been facing the brunt of many irresponsible and unfair trade practices of various organizations. With globalisation and the growing distance between the organisation and consumers, the problem is assuming disproportionate dimensions. Practices that are unacceptable in one country are not buried there; they are transferred to countries where legislation is inadequate and marketers can get away easily. Even where legislation is adequate, the consumers are subjected to newer forms of deception and tactics to part with their money, without they even realizing it.

In developing countries, like India where the consumers are just waking up to such practices, the situation is very precarious. The consumer complaints are rising as efforts are being made to increase awareness about consumer rights and unfair trade practices. In many countries, as a result of such conduct, the consumers are raising their voice against such irresponsible behavior and consumer litigation is on the rise.

Organizations are, therefore, expected to be responsible toward their consumers by providing education and accurate information and using fair, transparent and helpful marketing information and contractual processes. They have a role in promoting sustainable consumption; minimizing risks from the use of products and services, through design, manufacture, distribution, information provision, support services, and recall procedures. They are expected to ensure security of consumer information and the privacy of information so collected. These expectations are based on the rights of consumers arising from United Nations Guidelines for Consumer Protection.

**Guiding Principles**

The standard specifies the guiding principles that should be considered by organizations in being socially responsible toward consumers. These principles are:

1. Ensuring protection of consumer rights. These include: right to satisfaction of basic needs; right to safety; right to be informed; right to choose; right to be heard; right to redress; right to consumer education and right to a healthy environment.
2. Respecting the right to privacy.
3. Using the precautionary approach.
4. Promoting gender equality and empowerment of women.
5. Promoting universal design.

**Consumer Issues**

The Guidelines identify the seven consumer issues that must be addressed and suggest related actions that may be undertaken by organizations to be socially responsible. The seven issues are: using fair marketing, factual and unbiased information and fair contractual practices; protecting consumers’ health and safety through safe processes, products, handling and disposal; promoting sustainable consumption by encouraging reuse, recycling and reduction in wasteful consumption; providing consumer service, support, complaint and dispute resolution to reduce consumer inconvenience, loss and damage; protecting consumer data and privacy; facilitating access to essential services like food, water, electricity, and sanitation and promoting education and awareness.

Accordingly, if organizations intend to maximize profits, they can do so (and there is nothing wrong with it); but such profits should result from fair marketing practices that safeguard the consumer interests. The guidance emphasizes the means through which profits are earned rather than oppose business in achieving the goal of profit maximization.

The guidance standard requires that marketers provide comprehensive information to their consumers. The consumers must be told not only about the advantages or unique features of the brands but also about the drawbacks, the weaknesses and the areas or circumstances where the brands do/may not perform. They should also not unfairly target vulnerable groups, just to have a bigger pie of sales.
The guidance suggests that while communicating with consumers, an organization should not engage in practices that are deceptive, misleading, fraudulent or unfair, including omission of critical information. Marketers should clearly distinguish advertising and marketing communications from news and factual presentation of information so as not to confuse consumers. It is expected that they openly disclose total prices, terms and conditions of the products and services, accessories required for use, and taxes and delivery costs to the consumers, rather than lead them into making purchases by quoting low prices for partial products and services.

When consumers are offered credit, details of all the costs involved, due dates of installment payments, amount payable, number of payments and the actual annual interest rate as well as the average percentage rate (APR) must be disclosed to him in advance. In case of credit cards for example, consumers are led to believe that making the payment for minimum amount due is adequate. The card issuers never specify that it could also mean a rise in debt due.

If any claims regarding brand features, efficiency or performance, etc., are made, organizations should substantiate claims or assertions upon request; and avoid use of text or images perpetuating stereotyping based on gender, religion, race and sexual orientation. Many times, especially in case of imported goods, labels are in another language with which the consumers are not familiar. Therefore, complete, accurate, understandable, and comparable information should be provided in the languages of the target market. The organization’s physical address, telephone number, and e-mail address, when using domestic or cross-border distance selling, by any means whatsoever should be communicated clearly.

Consumers are required to sign contracts when they purchase goods and services. More often, these contracts are very lengthy and are cleverly drafted by the legal departments. The jugglery of words is often to favor an organization’s interests at the cost of those of the consumers.

The Guidance prescribes that organizations should use contracts that are written in clear and understandable language; and are transparent about the duration of the contract and the cancellation periods. Further, they should not include unfair contract terms, such as the unfair exclusion of organization’s liability, the right to unilaterally change prices and conditions, the transfer of risk of insolvency to consumers; and provide clear and sufficient information about prices, terms, conditions, and costs.”

The organizations should produce safe products and services that do not carry unacceptable risk of harm to the users, others, property and the environment when used or consumed in accordance with the directions for use. Potential risks must be anticipated to avoid harm or danger. Where it is not possible to foresee or eliminate all risks, measures to protect safety should incorporate mechanisms for withdrawal and recall of products.

Further, the organizations should on their own initiative, assess the adequacy of health and safety laws, regulations, standards, and other specifications to address all health and safety aspects. They should go beyond minimum safety requirements where there is evidence that higher requirements would achieve significantly better protection, than conforming to the minimum requirements. For this purpose, they should use product designs that can reduce the number or severity of accidents in general and for different user group(s), especially the vulnerable groups.

The guidelines encourage organizations to reduce risks by using inherently safe design, using protective devices, and providing sufficient information for users. In product development, organizations should not only avoid use of harmful chemicals, but also perform a human health risk assessment of products and services before introducing new materials, technologies, or production methods, convey vital safety information to consumers using symbols, preferably internationally agreed ones, and wherever possible, use such symbols to supplement the textual information. The marketers should not only instruct consumers in the proper use of products but also warn them of risks involved in intended or normally foreseeable misuse; or dangers due to improper handling or storage while in the possession of consumers. Where products and services fail to address the above requirements, the business organizations should withdraw all products still in the distribution chain, and recall products using appropriate measures and media to reach people who purchased the product.

Principle 8 of the Rio Declaration on Environment and Development promoted the concept of sustainable consumption. While producers contribute by deciding what to produce, how to produce and how much to produce, the consumers play a pivotal role in fostering sustainable development through their purchase decisions.

Organizations should not only educate consumers on the impacts of their lifestyle choices on their well-being and that on the environment, but should offer socially and environmentally beneficial products and services considering the impact of full product life cycle on the environment and society.

Additionally, consumers should be provided with traceable information about the environmental and social factors related to production and delivery of products or
services, including, where relevant, information on resource efficiency, performance, country of origin, energy efficiency (where relevant), contents or ingredients (including, use of genetically modified organisms), by using relevant labeling schemes.

The marketers should provide warranties and guarantees, technical support regarding use, and mechanisms for return, repair and maintenance for their products and services.

They should advise consumers on appropriate use and on recourse or remedies for faulty performance; and monitor the effectiveness of their after-sales service, support and dispute resolution procedures by conducting surveys of their users to take measures to prevent complaints by consumers. They should clearly inform them on how they can access after-supply services and support as well as dispute resolution and redress mechanisms. For this purpose, they should offer adequate and efficient support and advice systems; maintenance and repair at a reasonable price and at accessible locations and make information readily accessible on the expected availability of spare parts for products. They should make use of alternative dispute resolution, conflict resolution and redress procedures that are based on national or international standards, are free of charge or are at minimal cost to consumers, without requiring consumers to waive their rights to seek legal recourse. The Guidelines recommend that organizations should use three ISO guideline standards pertaining to customer satisfaction codes; internal complaints handling; and external dispute resolution for this purpose.

In order to prevent personal data collection and processing by a business organization from infringing privacy, the guidance recommends that the organization should limit the collection of personal data to information that is essential for the provision of products and services or be obtained with the informed and voluntary consent of the consumer by lawful and fair means. The organization should specify the purpose for which personal data are collected, either before or at the time of data collection; and not disclose, make available or otherwise use it for purposes other than those specified, without the informed and voluntary consent of the consumer or when required by law.

It should provide consumers the right to verify whether the organization has data relating to them and the right to challenge these data, as defined by law. If the challenge is successful, the data should be erased, rectified, completed or amended, as appropriate.

It should be the responsibility of the organization to protect personal data by adequate security safeguards and disclose the identity and usual location of the person responsible for data protection in the organization. Further, they should hold this person accountable for complying with the above measures and relevant law.

Although the state is responsible for ensuring that the right to satisfaction of basic needs is respected, an organization supplying essential services should not disconnect them for non-payment without providing the consumers an opportunity to make payment within a reasonable time. In setting prices and charges, the institutions should offer, wherever permitted, a tariff that will provide a subsidy to those who are in need; operate in a transparent manner, providing information related to the setting of prices and charges. They should not resort to collective disconnection of services that penalize all consumers regardless of payment, in cases of non-payment of bills payable collectively by a group of consumers. They should manage any curtailment or interruption of supply in an equitable manner, avoiding discrimination against any group of consumers; and continually maintain and upgrade its systems to help prevent disruption of service. Thus, economic status should not be used to guarantee availability of uninterrupted service and that people who are not well off or are temporarily in some financial difficulties should not be discriminated against without being provided a reasonable opportunity to adjust payments.

Whenever there is a formal contract between an organization and a consumer, the organization should verify that the consumer is properly informed of all relevant rights and obligations. Education, however, does not exempt an organization from being responsible if a consumer is harmed when using products and services.

In its education and awareness activities for consumers, the organization should include information on aspects related to health and safety, appropriate laws and regulations affecting them, ways of obtaining redress and agencies and organizations for consumer protection. The organization should provide information through product and service labeling and manuals and instructions. They should include information on weights and measures, prices, quality, credit conditions and availability of essential services; risks related to use and any necessary precaution required in financial and investment products; environmental protection; efficient use of materials, energy and water. They should also inform consumers on sustainable consumption and proper disposal of wrapping materials, waste, and leftover products. Further, the guidelines require that social responsibility should be integrated within the whole organization and the logical steps that an organization may take are also explained.

CONCLUSION

The above guidelines require the businesses to be proactive rather than being reactive. It is expected that
institutions not only respect and comply with laws but go the extra mile to give to consumers over and above what is expected of them as the minimum/threshold level. They also have the added responsibility of helping in revising laws and devising new legislation that cares for consumer interests.

Research has not yet been able to establish how people in business are likely to react to what is ethical and how it must be pursued across various cultures. This guidance is a first step toward the effort of creating a level playing ground for all – the consumers and the marketers to arrive at a consensus on what is acceptable as being socially responsible. It attempts to define some boundaries and lifts up the smog on a mix of efforts that could be made by business to build customer value and better customer relations. It also provides a tool to improve institutional image and long run profitability. It suggests another form of non price competition amongst marketers that would lead to better customer satisfaction. The guidelines touch upon all four P’s of the marketing tool kit—the product, price, promotion/communication, and physical distribution.

What is a compelling force in these guidelines is the consensus with which they have been framed. Almost two thirds of the countries in the wold have participated in their formation. They represent the universal appeal in how they expect organisations should respond to their customers’ needs. The impact can be observed from the way the big corporations are changing the way they deal with their customers, if the number of recalls could be considered an indication, or the mandatory requirements by governments of many countries that require manufacturers/marketers/packers to provide their contact information explicitly on the packages or websites/office premises.

Marketers are likely to be involved not only in compliance with newer legislation but also with new or revised standards devised through consensus. At the international level, the Consumer Policy Committee (COPOLCO) has initiated the preparation of standards that take care of consumer interests. The Priorities Working Group (WG) of COPOLCO provides it with a systematic approach to priority setting and monitoring of consumer issues and consumer participation in standards work of interest to consumers. It plays an active role in devising standards to protect consumers’ interests on demand from various member countries.

Over the years, the working group has recommended formation of standards for elderly and persons with disabilities, social responsibility, environmental management systems, environmental labeling, and customer satisfaction. There are many areas on which standards are presently being developed, including: standards on sale of second hand goods, product recalls, network services billing, product safety, toy safety, and food safety and security. Counterfeiting and fraud are two more issues likely to receive greater attention in the near future.

The COPOLCO Working Group on “consumer protection in the global marketplace” is in the process of researching current standards and other initiatives for call/customer contact centers with a view to developing a proposal for COPOLCO to consider for recommending formation of a standard in this important area of consumer interface.

It is also developing a position paper on the issues of consumer information and protection in the context of the emerging digital economy. The Group is also engaged in developing a guideline incorporating issues such as challenges of interoperability, net neutrality, consumer information, measures needed to protect the interests of consumer and international co-operation.

Guidelines for the assessment and improvement of energy services to users are also in the pipeline KATS (Republic of Korea) has indicated its support to act as a secretariat if a Project Committee is formed; and SABS (South Africa), to act as Chair. Furthermore, the working group has a watching brief on such matters as energy sustainability, smart meters, along with environmental and other labelling.


An attempt is being made to study ISO members’ implementation of toy safety standards to promote international harmonization of requirements for toy safety. While there are many Guideline Standards, there are some that are likely to become mandatory over the course of years.

The need for these standards is felt because consumers face inconveniences and difficulties in these areas. The consumer complaint data in different countries is examined and the standardization bodies of these countries provide support for the formation of these standards. Thus, the future sees more involvement in representing consumer interests. The stakeholder approach in governance will also mean greater representation of consumer interests in the management of organizations. Marketers need to prepare themselves for these changes because the pressure to perform would now be created by the users of the products and services as witnessed by increasing acceptance of organic food, responsible employers and environment friendly energy saver products including...
hybrid cars, bulbs, and appliances. Questions are being raised against rating agencies that manipulate ratings for funds or favors. All these developments spell caution for marketers and the need for change in marketing philosophy.

The small and medium businesses will have to change the way they market their products and services too. While they may have independent customers of their own, they are also an important constituent of the value chains and supply chains of many big businesses. Consumer pressure would ultimately compel the bigger businesses to seek supplies from those organizations that are not only responsible to their customers but also towards their employees, environment and communities. They would also have to use fair operating practices by themselves and ensure use of such practices by organizations within their sphere of influence. There is a separate set of guidelines on how businesses must relate to each other but they have not been discussed here.

Further, the responsibility of business does not end with a sale and proper handling of consumer grievances is essential. While philanthropy is acceptable, the responsibility of business does not end with providing scholarships and grants. They should continuously engage with their consumers by incorporating their points of view during the processes of generating and delivering customer value. In this case they must also include environmental considerations and the impact of goods and services on the community. They are responsible not only for themselves but also for other organizations within their sphere of influence. In this regard, the guidelines also expect good governance practices from the marketers to facilitate delivery of customer value.

Such expectations also have implications for business education. In educating the future marketers and business leaders, it is important to impart training on ethical business practices and building sustainable customer relationships. They can no longer continue to use unfair or unethical practices in the wake of increased role of social media and fast paced communication alternatives. They need to be trained to be sensitive to the needs of the consumers and to treat them with respect. No longer it would be enough to wish consumers a happy birthday or a happy anniversary while they are provided shoddy goods and services. They will have to build a relationship based on fairness and trust. The standards for customer care would also need to be revised and the post purchase processes would need to be equally emphasized as the pre-purchase communications.

With the way information is being sought by consumers from different countries; the popularity of social media amongst the literate, and the access of all consumers literate or otherwise, to mobile technology, it will become more and more difficult for organisations to hide their wrongdoings or irresponsible actions. Therefore, rather than wait till the last moment, it is in the interest of organisations to prepare themselves for the changes taking place globally and treat their consumers responsibly.

ENDNOTES

1 2010. ISO DIS 26000.
NOTE 1 Activities include products, services and processes.
NOTE 2 Relationships refer to an organization’s activities within its sphere of influence sphere of influence to include, “area or political, contractual or economic relationships across which an organization has the ability to affect the decisions or activities of individuals or organizations.”
NOTE Area can be understood in a geographic sense, as well as in a functional sense.”
2 2010. ISO DIS 26000.
3 2010. ISO DIS 26000.
4 ISO DIS 26000.
The guidance standard defines the consumer under subclause 2.1.2 as an “individual member of the general public purchasing or using products or services for private purposes’ and a customer in 2.1.3 as an” organization or individual member of the general public purchasing products or services for commercial, private or public purposes’.
5 In the U.S., a developed country with a strong consumer protection culture, for example, in F.T.C. v. Cyberspace.com, the FTC found that the company sent mail that appeared to be a cheque for $3.50 to the consumers. Attached to an invoice was an agreement to pay a monthly fee for internet access. The existence of this agreement was disclosed at the back of the check, in fine print. The FTC concluded that the practice was misleading to reasonable consumers. In another case, the FTC alleged that Gateway committed unfair and deceptive trade practices by making retroactive changes to its privacy policy without informing customers and by violating its own privacy policy by selling customer information when it had said it would not. Gateway settled the complaint by entering into a consent decree with the FTC that required it to surrender some profits and placed restrictions upon Gateway for the following 20 years.
7 2010.ISO DIS 26000.
8 United Nations Conference on Environment and Devel-
REFERENCES


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A CUSTOMER PERCEIVED VALUE PERSPECTIVE ON MOTIVATIONS UNDERLYING BOYCOTT PARTICIPATION

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SUMMARY

Introduction

During recent years, the topic of consumer boycotts has gained growing interest in both marketing research and practice. Understood as strategic tools or techniques of expressing consumers’ disapproval of corporate products and behavior or with the change of corporate actions, anti-social company behavior implies the risk of being targeted by consumers buying avoidance. Existing studies on motivations why consumers participate in different types of boycotts uncovered various reasons: social responsibility, safety, environmental protection, social dilemma, affirmative and political actions. Generally speaking, research shows consumers’ beliefs, attitudes, and values play a crucial role in the context of consumer boycott activation. Incorporating relevant theoretical and empirical findings, this study aims to expose additional antecedents by using the customer perceived value perspective to provide a better insight into the dimensionality of motivations underlying boycott participation. Based on a multidimensional concept encompassing financial, functional, individual, and social value components, we identify and explore the factor structure and related cluster segments based on these value dimensions and the link to consumers’ boycott intention and behavior.

Methodology

All measures used in the study were adapted from existing scales, especially from the study by Klein, Smith and John (2004) and draws new conclusions from exploratory interviews. Specifically, the qualitative section of the study included written definitions of customers’ value preferences as well as their individual boycott intention and behavior. Items were rated on five-point Likert scales because they are more commonly used in Germany than the seven-point scales. To investigate the research model, face-to-face interviews with private customers were conducted in Germany. A total amount of 481 valid questionnaires was received.

Results and Discussion

Within the data analysis, we first uncovered the various dimensions underlying the consumers’ value perception and boycott behavior by a factor analysis using the principal component method with varimax rotation. Then, the factor scores for each respondent were saved and consequently used in stage two for clustering them into market segments. The results strongly suggested the presence of four clusters: Cluster 1 is referred to as the self-centred sceptics, members of Cluster 2 are referred to as the ambitious activists, Cluster 3 is referred to as the concerned waverer, and members of Cluster 4 are called the mindless follower.

Conclusions and Implications for Theory and Practice

The cluster analysis results revealing four types of consumers based upon their value perceptions linked to individual boycott participation might enable marketing researchers and managers to understand the multifaceted boycott phenomenon from a customer value-based perspective. Future research focusing on motives for consumer boycott participation, therefore, should consider different value types that influence consumers’ purchase choices based on the nature of the financial, functional and individual utilities of the potentially boycotted product. From a managerial perspective, a better knowledge of the relevant value aspects that influence the decision to boycott may help explain why different groups of consumers do or do not buy the company’s products or services. Due to the fact that a consumer boycott acts as a sign of perceived corporate irresponsibility, it may result in long-lasting negative corporate image and reduce brand value. References are available upon request.
STRIKING THE RIGHT CHORD WITH ORGAN DONATION

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SUMMARY

Organ donation has long been a contentious, often unpleasant issue to discuss. Understandably, it reminds us of our own mortality, specifically, that we are all going to die someday. However, organ donation discourse is necessary; there is a growing need for human body parts to further medical research, improve patients’ quality of life and to save lives. It would seem that while technological and medical advancement has accelerated the demand for organs, public policy has lagged behind in its ability to change organ donation norms of behavior.

How should governments go about marketing this cause? What types of promotional appeals should be used? What style of public policy should be pursued? Should incentives be provided to donors?

It would be inappropriate to think that the number of organ donors could be increased through the use of a promotional campaign that openly requests people to register. Rather, stages of change theory would suggest that promotional campaigns are most effective in bringing about behavioral change only when the audience is already favorably inclined toward donation. Borrowing from stages of change theory, Parisi and Katz (1986) found that positive attitudes toward organ donation are not necessarily enough to reach the action stage characterized by signing a donor card. Instead, their research indicates that negative attitudes are more powerful at dissuading action than positive attitudes are at persuading. This means potential organ donors need to already have high levels of positive helping behavior attitudes and low levels of negative helping behavior attitudes.

Guy and Patton (1989) suggest that helping behavior (which includes the one time decision to become an organ donor) stems from two critical internal sources – egotistic and altruistic motivations. The first motive relates to self-interest and manifests itself through attitudes relating to the ego and positive expectations about one’s personal welfare. The second motive to help someone in need is altruistic and is based on a genuine heartfelt desire to help the needy.

Our exploratory methodology included a survey of literature, government papers and media documents. We also conducted a survey (n = 420) and held two in-depth focus groups. Some of the topics investigated included: spirituality, charitable behaviors, death, interest and knowledge of organ donation and incentives to donate.

The conceptual framework for this paper has been modeled on the very nature of giving behavior, namely the altruistic and egoistic sources of giving behavior as theorized by Guy and Patton (1989). Altruistic variables are thought to facilitate positive attitudes toward organ donation, while egotistic variables are thought to facilitate positive or negative attitudes toward organ donation. This separation of motivational attitudes into two dimensions is supported by Parisi and Katz (1986) who believe such an approach leads to better predictions of willingness to donate because without it, the magnitude or combined effect of each dimension cannot be ascertained. The following is a summary of the variables that contribute toward our conceptual framework and resultant propositions.

The first category of egotism relates to personal welfare is captured by leadership and personal influence; feelings of self-respect and the importance of respect from others. Focus group participants extended this thought by suggesting that organ donors exhibit a greater degree of social connectiveness. Our proposition is that leadership and personal influence will be positively associated with willingness to donate. The second category of egotism is linked to personal distress and requires researchers to gain knowledge about those feelings and beliefs that either strengthen or impair people’s willingness to register as an organ donor. Life continuity is a source of helping behavior designed to lower personal distress as it examines attitudes relating to the natural flow of life, that is, expectations about the treatment of one’s body during the movement from life to death. The literature reviewed and focus group comments suggest that our proposition should hold that high levels of life continuity anxiety will be negatively associated with willingness to donate. Personal distress also comes in the form of fear. Organ donation can conjure unpleasant, distasteful images in the minds of some people. The persistent negative portrayal of organ donation in Hollywood has also been found to be contributing toward negative fear attitudes. Logically therefore, our proposition pertaining to fear is that it will be negatively associated with willingness to donate.
In our conceptual framework the first altruistic motive is charitable feelings. The exploratory survey research carried out for this paper suggests that those who report behaving charitably “often” or “very often” are 43 percent more likely to be in possession of a signed donor card. Our proposition is that charitable feelings will be positively associated with willingness to donate. The concept of family values is an altruistic motive related to the cohesion within the family unit; it impacts upon the extent to which sensitive issues are discussed within families. Focus group comments indicated that donor card holders tend to attach greater importance to family values than non-donor card holders. We therefore propose that family values will be positively associated with willingness to donate. Our final altruistic motive is spiritual connection. This is the belief that part of one’s spirit leaves the body of the donor and lives on in an organ recipient. Commenting on this subject, some focus group participants expressed concern that organ donation may interfere with the reincarnation process. Lwin et al. (2002) called this a ‘psychic price’. We therefore consider it to be a spiritually grounded obstacle and propose that it will be negatively associated with willingness to donate.

Incentives for organ donation were investigated in both our two in-depth focus groups and by means of a survey. Paid funerals (financial incentive) and mutual insurance pools (non-financial incentive) were found to be the most favorably rated initiatives. We propose that the effect of egotistic and altruistic attitudes on willingness to donate will both be partially moderated by incentives.

The in-depth focus groups and the exploratory survey administered in this research provide useful information concerning the predictive factors central to organ donor card ownership and posthumous organ donation. We need to know if an incentive would modify behavior amongst non-donors. The style of public policy could include a more tangible “thank-you” reward. The authors of this paper believe paid funerals and/or mutual insurance pools may be an acceptable way to increase donor rates. But we still need to know if the helping behavior will differ for financial or non-financial incentives. It is time this issue left the realm of philosophical debate, and into empirical research.

We also need a better understanding of the division of egotistic and altruistic motives. Social marketers should be interested to know if empirical data will support the proposed existence of two distinct co-existing attitudinal constructs in relation to organ donation. Thus, developing a tipping point profile of these consumers is essential. Social marketers need to formulate promotion strategies that encourage this segment to close the gap between their favorable attitudes and signing an organ donor card. References are available upon request.

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ENCOURAGING GREEN BEHAVIOR IN A FORCED ADOPTION CONTEXT: SMART METERS IN FRANCE

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ABSTRACT

We look at forced adoption of a green behavior. Specifically, we examine reactions in France to the European Union’s directive mandating the installation of smart meters. We report findings from a qualitative study and propose a model that examines psychological reactance and its impact on long-term engagement with the behavior.

INTRODUCTION

Recent evidence of global warming, the ecological risks of petroleum exploration and renewed appreciation for the planet’s limited resources have yielded an increased interest in sustainability among both consumers and CEOs (Kell and Lacy 2010; Hoffman 2010). More responsible human consumption of natural resources is a key element of maintaining an ecosystem that is sustainable, given projected population growth and the corresponding growth in energy demands.

Innovations developed to facilitate a sustainable lifestyle and sustainable communities abound in the market. Hybrid automobiles, alternative energy sources, and cleaning products more healthy for the environment are presented to consumers as having the potential to make significant impact. The “behavioral wedge” stream of research proposes that a full 20 percent of U.S. household CO2 emissions could be eliminated with little or no reduction in household well-being by expanding behavioral change initiatives that have met with success in smaller studies (Gilligan, Dietz, Gardner, Stern, and Vandenbergh 2010). However, achieving these behavioral changes will require particularly successful marketing efforts. Both academic studies (Rogers 1983) and the popular press (Johnson 2007) contain examples of benefit-providing innovations that have faced significant adoption hurdles, despite extraordinary promise.

Given the significant potential impact of behavioral change and yet the uneven pace of voluntary adoption of innovations in the past, some governments have determined that to achieve goals such as those set in the Kyoto Protocol (1998), forcing consumers to adopt “green” innovations through regulatory means may be necessary. However, is mere adoption of these innovations enough to achieve the intended goals?

In this paper, we look at two key elements related to sustainability and these forced adoptions. First, we examine enduring behavioral change – what we call post-adoptive engagement with an innovation – where adoption of that innovation is forced upon the consumer. We explore a range of outcomes from long-term engagement on the positive side to an active disengagement due to psychological reactance on the negative side. Second, we look at the role marketing can play in encouraging engagement rather than reactance when adoption is forced.

The context for our study is smart metering in France. European Union (EU) Directive 2006/32 (2006) mandates that smart meters, discussed in detail below, be installed in all EU households by 2020 for the purposes of increasing energy end-use efficiency, reducing energy consumption and reducing CO2 output. While successful rollouts have occurred in Italy (2006) and Sweden (2009), other countries have experienced significant resistance from consumer organizations regarding the forced adoption of these meters (Van Gerwen et al. 2010). Even in cases where meters have been successfully installed, studies suggest that the impact may be limited due to a lack of engagement on behalf of the end consumer (van Dam, Bakker, and van Hal 2010). In the context of smart meter deployment, consumer attitude and engagement may shape public policy regarding the meters as it did in the Netherlands and will play an essential role in successfully reducing energy consumption. While regulatory agencies can mandate the installation of such meters, maximum reduction of energy use will require that consumers engage fully with the devices. “Achieving the expected benefits that are attributed to smart metering largely depend on its positive acceptance and correct understanding by final customers” (Smart Metering 2010).

FORCED ADOPTION AND POST-ADOPTION ENGAGEMENT

In many regulated environments, consumers don’t have the discretion to choose between adoption and non-adoptions of a product or service but are legally forced to adopt. Automobile insurance, health insurance, seat belts, and smart meters are examples of products or services that consumers are forced to adopt or purchase in certain markets in order to comply with local and national laws.
However, mere adoption for legal compliance may not provide the consumer the full benefits of the product or service nor achieve the broader societal goals that originally prompted the regulation. Improperly worn seatbelts (Grant, Pedder, and Schewchenko 1991), healthcare that is used not for preventive office visits with a doctor but rather for emergency room visits (Oetjin, Oetjin, Rotarius, and Liberman 2010), and unexamined data from smart meters (Van Gerwen et al. 2010) are examples of situations where a consumer may have adopted a product or service but has not engaged with the product or service to a great enough extent to allow maximum benefits to accrue to either himself or society at large. The full benefit of certain regulatory efforts may only be realized when post-adoption behavior is changed and full engagement is achieved. Yet in most instances, regulations themselves focus only on the act of adoption.

SMART METERS IN THE EUROPEAN UNION

A smart meter is “an advanced meter (usually an electrical meter) that records consumption in intervals of an hour or less and communicates that information at least daily via some communications network back to the utility for monitoring and billing purposes (telemetering). Smart meters enable two-way communication between the meter and the central system” (Smart Meter, Wikipedia). Smart meters can also include in-home displays for direct feedback of energy use and energy cost to the consumer.

In 2010, EU countries were at various stages of experimentation and installation of smart meters. Italy and Sweden had achieved almost 100 percent installation of smart meters, although with varying degrees of meter sophistication and often without in-home displays that residents can use for feedback and to monitor their energy usage. The U.K., Germany, France, and Belgium have begun smaller-scale trials (Van Gerwen et al. 2010).

Unlike other countries, the U.K. pilot has placed significant emphasis on the end user and his engagement with the meter. In the U.K., the in-home display is considered an essential element of the meter (Van Gerwen et al. 2010), and utility companies involved in the roll out are required to provide education along with installation of the meters (Donoghue 2010). It’s believed that by encouraging the customer to interact with the meter, residents will reduce their energy consumption level and/or shift their consumption to times of day when the stress on the power grid is lower.

Despite some early successes, there are two significant challenges that may hinder the EU from achieving its energy saving goals using smart meters. First, consumer rebellion against the forced adoption of the meters has forestalled the installation or delayed deployment of the meters in at least one country. The Netherlands government delayed and dramatically changed its plan to install smart meters in every residence after concerns about privacy and cost-benefit analyses were raised by the Consumer’s Association (Van Gerwen et al. 2010). These concerns were ultimately taken up by senators for debate, and the regulation in the Netherlands was significantly amended to eliminate the legal obligation to accept a smart meter (penalties for refusal had been severe). As a result of consumer action, consumers are now allowed to reject the installation of a smart meter or may choose to install a smart meter but block the remote reading capability by the utility (Van Gerwen et al. 2010).

A second less dramatic challenge but one with potentially more insidious and longer-term consequences is lack of consumer engagement with the meters. Lack of engagement may occur for a variety of reasons: lack of education about the meter, lack of interest or skills in using the meter, lack of in-home display with the meter or consumer rejection in a forced adoption context. Whatever the reason for the lack of engagement, it is believed by some that significant energy savings opportunities are lost with an unengaged populace. Thus, in at least two different ways (allowing the consumer to refuse adoption or communication and not encouraging consumer engagement), the consumer’s likelihood of engaging with the meters is potentially significantly reduced.

What is the impact of these challenges to reaching the EU goals? One study suggests that even in a country as small as the Netherlands, persuading only 20 percent of the population to engage fully with the meter can extend the net present value of the installation by 105 million euro or 14 percent (Van Gerwen et al. 2010).

INITIAL QUALITATIVE STUDY: ATTITUDES TOWARD SMART METERS IN FRANCE

Our research includes an initial qualitative study and the development of a model for empirical testing. Below, we discuss the results of the qualitative study, how our model has evolved based on the results of the qualitative study, and plans for future research.

The research is a response to an interest of a French electricity distribution company (“FEDC” going forward) whose primary research objective, influenced by the events in the Netherlands and several publications in French press raising privacy concerns issues (e.g., Mullenex 2010), was to better understand the potential for consumer rejection of the meters. The FEDC was interested in the attitudes and opinions of residents in France and their perception of the meters as intrusive devices. With a cultural heritage of strong individualism and rebellion in France (Guichard 2010) and the recent events in the
Netherlands, rejection of the meters was a valid and serious concern.

Eight focus groups were conducted with the total of 50 participants (15 men and 35 women) between September 28 and November 30, 2010. Two interviewers conducted the focus groups; one of these interviewers was present for all eight groups. The participants were recruited via extended relational networks: some via an announcement on Viadeo (a French equivalent of the professional social network LinkedIn), others via mailings to an extended relational network, and some via the base of persons who have already participated in focus groups organized by the school a few years ago.

Ages ranged from 19 to 68 and professions included students, retired persons, small company owners, nannies, office clerks, lawyers, teachers, financial consultants, engineers, artists, unemployed people, and housewives among others.

This study was an exploratory one, and our goal was to discover the range of attitudes and preoccupations concerning smart meters in France. We did not have initial hypotheses concerning these preoccupations, except for the objective of testing the level of preoccupation concerning intrusion into private life. Thus after initial “ice-breaking” games inviting participants to elaborate on the word “electricity,” and after testing their level of interest in their electrical consumption (“What was the amount of your last electricity bill?”) open-ended questions were asked, such as, “Have you heard of innovations in electricity consumptions,” “If I say ‘smart meters’ what do you think about?” Following that, a short presentation of smart meters was given by interviewers, followed by a “post-it” session where each participant put down individually the advantages he/she perceived, his/her concerns, and whether he/she would be willing to have a smart meter at home. These post-its were used as a basis for the collective discussion that followed.

The focus groups were video recorded. The record was used to discover the themes of the concerns and the frequencies of the concerns by theme. The most frequently raised concerns are listed in Table 1 in order of frequency, with the definitions and some participants’ quotes. These results are further discussed in the following sections.

Awareness of FEDC’s smart meter project in France was low among participants in the focus group. Only ten of the 50 participants had heard of smart meters being tested in France for individual consumers. Initial perceptions were not positive but with low awareness, there remains the opportunity to shape attitudes with the larger population going forward.

Expected Concerns: Consumer Data, Privacy, and the Meters

As anticipated, privacy concerns about the meters exist, but interestingly, they did not dominate the focus groups as expected. In four of the eight groups, privacy concerns associated with the data gathered by the meters were not raised spontaneously by the participants within the first 40 minutes. In these cases, the topic was introduced by the moderators.

As previous research has shown (Smith, Milburg, and Burke 1996), consumer concerns regarding information privacy are multi-faceted. In our study, the most frequently cited privacy concerns were possible commercial use of data gathered; possible misuse of data gathered and data security. The concerns about the possible “big brother” aspect of the government utility company having access to so much detailed information about the home and its residents, cited heavily by the media, was much less present and thus was introduced by moderators when it did not rise organically. The comments below demonstrate the different sources of concern, ranging from discomfort that the data is shared (or sold) to being exposed to additional advertising.

• “If the information collected is disclosed or sold to other organizations, then yes it would bother me.”
• “The only risk is that one is tracked from a commercial point of view.”
• “This looks like the case of cell phones, I’m afraid we will be bombarded by advertisements.”

Participants wanted to have guarantees in terms of data usage, and the legal questions regarding the capture and use of their personal information came out repeatedly.

• “Is it going to be governed by the law?”
• “The commercial aspect should always be followed by a legal aspect.”

However, participants declared they would continue trusting the electric company: “An electric meter does not change an ethics of a company.”

Concerns regarding the “big brother” effect, which had played a large role in the deployment in the Netherlands were only raised by four people.

• “This is Big Brother. I’m afraid of being tracked.”
• “This is Big Brother – the data is our life.”
• “A bit intrusive into one’s privacy.”
### TABLE 1
Concerns Revealed via Focus Groups

<table>
<thead>
<tr>
<th>Concerns</th>
<th>Any phrase of a participant referring to the cost of the meters, or the post deployment amount of electricity bill.</th>
<th>“One way or another, they will make us pay.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial concerns</td>
<td>Any phrase of a participant referring to the voluntary use of the data collected by utilities with goals different from electricity consumption forecasting, and bringing additional commercial advantages to the utility</td>
<td>“If the information collected is disclosed or sold to other organizations, then yes it would bother me.”</td>
</tr>
<tr>
<td>Commercial use of data</td>
<td>Any phrase of a participant referring to the access to the data collected by the utility by an unauthorized third party.</td>
<td>“If this data get pirated, they [criminals] can find out empty homes”</td>
</tr>
<tr>
<td>Misuse of data / data security</td>
<td>Any phrase of the participant referring to the needed rules and regulations concerning collection and usage of the data.</td>
<td>“Is it going to be governed by the law?”</td>
</tr>
<tr>
<td>Legal assurances regarding data usage and security</td>
<td>Any phrase of the participant referring to “Big Brother – the data is our life.”</td>
<td>“Big Brother is paranoia!”</td>
</tr>
<tr>
<td>“Big Brother” effect</td>
<td>Any phrase of the participant referring to the “Big Brother” effect.</td>
<td>“This is Big Brother – the data is our life.”</td>
</tr>
<tr>
<td>Use of meters by individuals</td>
<td>Any phrase of the participant referring to the utilization of the smart meters and related services by individuals.</td>
<td>“It should be simple to use!”</td>
</tr>
<tr>
<td>Control and choice</td>
<td>Any phrase of a participant referring to the control and / or choice in different aspects related to the installation and utilization of smart meters.</td>
<td>“Are we going to have any choice to have or not this smart meter at home?”</td>
</tr>
<tr>
<td>Social aspects</td>
<td>Any phrase of the participants referring to the social effects of the smart meters project.</td>
<td>“What will happen to workers who check on meters now?”</td>
</tr>
</tbody>
</table>

Even when hearing their co-participants express “big brother” concerns, other participants maintained that the “big brother” threat was minimal:

- “When they say ‘Big Brother,’ I do not think of [FEDC] first!”
- “Big Brother is paranoia!”

**Financial Concerns**

As stated above, privacy concerns were not the most frequently mentioned or actively discussed issue. Instead, the financial implications resulting from meter installation and use raised the greatest number of comments. In each group, the cost of the meter and the question of financial remuneration were raised. Participants raised the initial cost of the meter, the disposal of the old meters, and the entity to which savings would accrue from reduced energy usage. They expressed skepticism that if the meters were used to save energy or to use energy at less expensive times of the day, individuals would recognize the savings. Instead, there was concern that the utility would recoup these benefits itself. Participants expressed an unwilling-
ness to pay for the meter but resignation that they would likely be forced to pay.

- “One way or another, they will make us pay.”
- “All the electronics included in this meter, it means we will consume even more electricity. Who will pay for it?”
- “Sarko [French President Nicolas Sarkozy] will create a tax for people who consume too much.”
- “There will be bonuses and penalties to better target us [at the consumption level].”

Interestingly, the participants noted that the segment of consumers most likely to interact with and use the meter is also the segment comprised of environmentally focused consumers and thus, overall energy savings from this segment was likely to be marginal. In fact, only three participants said that even if they accrued no financial savings as an individual from using the meter to conserve energy, they would still be interested in using it for the collective good.

Participants also expressed opinions regarding how the data would be presented to the user and also expressed some social concerns regarding the loss of jobs for meter readers and the loss of a “human touch” with the utility provider. These are not the focus of our current study and are excluded here for space reasons.

A MODEL OF ENGAGEMENT IN A FORCED ADOPTION CONTEXT

As sustainability becomes not just a popular consumer issue, but one of great concern to governments and corporations worldwide, marketing theorists and practitioners must look for how their work can advance these efforts. What opportunities do marketers have to shape attitudes, change behaviors, and encourage consumer engagement with innovations that can enhance sustainability? How can marketing inform these efforts? Based on our results from the focus groups and from marketing theories in adoption of innovations and psychological theories in psychological reactance, we propose the following model (see Figure 1) that explains engagement in a forced adoption context.

Engagement

The ultimate measure of reaching the EU’s goals will be reduced energy usage by residents of the EU. In this context, it is believed that one contributor to sustained

![FIGURE 1 Model of Adoption of Environmental Behaviors in a Forced Adoption Context](image-url)
energy use reduction is long-term engagement with the smart meter. At least one previous study has suggested that such engagement is difficult to achieve (van Dam, Bakker, and van Hal 2010), where researchers found that energy use reductions of 7.8 percent were achieved in the short term (four months) but not sustained in the medium to long-term (15 months). Whether this was due to the establishment of good habits and hence, less need for daily interaction with the meter, or is due to other reasons is not known, but results suggests that long-term impact of smart meters is not easily obtained.

There is no generally agreed upon definition of engagement in the marketing literature (Gambetti 2010). For our purposes, we define engagement as regular and ongoing interaction with and use of an innovation over time. This notion is consistent with implementation and confirmation stages in Rogers’ model (Rogers 1983, p. 190). Strong engagement with meters would lead to maximum energy savings by each consumer, benefiting the individual, the region, and the global environment.

As in most behavioral studies, we anticipate that attitude toward communications messages associated with the meters and the behavioral intentions that ensue will also be drivers of long-term engagement.

**Psychological Reactance**

In a situation of forced adoption, it’s likely that some consumers will exhibit not just engagement or disengagement, but something entirely opposite of that: rejection or psychological reactance (Brehm 1966). Psychological reactance states that when an individual’s freedom is imposed upon, a strong adverse reaction can occur in an individual prompting him or her to take action that restores their autonomy. Having a physical meter installed within one’s home might be expected to produce such a reaction, and this was evidenced in the focus groups. The idea of forced adoption was met with reluctance – “Do we have a choice?” – and possibly the beginnings of psychological reactance: “It’s possible that people in France can rebel as they did in Holland.”

Studies on psychological reactance show that psychological reactance is driven both by an individual trait (psychological reactance proneness) as well as the messages and events to which an individual is exposed (Dillard and Shen 2005). We propose that in a forced adoption context, individual psychological reactance proneness will be a key drive of attitudes and behaviors surrounding the meters.

Proposition 1: A higher level of psychological reactance proneness will be associated with (a) more negative attitude toward the behavior; (b) lower behavioral intention to use the meter and (c) lower long-term engagement with the meter than a lower level of psychological reactance proneness.

**Desire for Control**

Another emerging factor in the qualitative study was consumers’ desire for control over the meter and other elements surrounding it. Participants expressed frustration at their inability to control the adoption decision and indirectly expressed their desire to control other aspects such as the set-up and operation of the device, the data collected and frequency of collection, and the manner in which the data was provided to them, both in terms of content and format. A measure of desire for control (e.g., Parker et al. 2009) will be included in the study as an antecedent of engagement. Although a high desire for control might lead to higher engagement in an environment of true choice, in a forced adoption context, we believe the opposite will be true.

Proposition 2: A higher desire for control will be associated with a lower level of engagement.

**Concern for Information Privacy**

Understanding the consumer’s concern for information privacy (Smith, Milburg and Burke 1996) is critical for successful deployment of the meters. Similar concerns have already delayed one deployment (the Netherlands); understanding the hurdles faced here will be critical not just for the FEDC but for other deployment efforts in Europe and world-wide.

Proposition 3: A higher concern for information privacy will be associated with a lower level of engagement.

**Technology Readiness**

Smart meters are technological innovations that, in an unforced adoption context, would likely be taken up by different segments in different time frames. Technology readiness is one measure that helps predict what consumers are likely to adopt earlier rather than later. We intend to examine consumers’ technology readiness (Parasuraman 2000) as a predictor of engagement. The “Technology Readiness Index” (TRI) classifies individuals by their propensity to embrace a technology, placing consumers into one of five technology belief segments – explorer, pioneer, paranoid, skeptic or laggard – based on their measures on four dimensions: optimism, innovativeness, discomfort and insecurity. Unlike more traditional innovation diffusion categorizations (e.g., Rogers 1983), the TRI explicitly recognizes that consumers may simultaneously hold conflicting views of innovations and tech-
technology. For example, someone might have a very low level of discomfort with technology but have a similarly low level of optimism with regard to the benefits technology can bring to his/her life. (Space constraints prohibit a full explication of the TRI model.)

Proposition 4: TRI segments high in optimism and innovativeness will have greater propensity for engagement with smart meters than will segments with low scores on either dimension.

Concern for the Environment

Clearly, issue involvement will play a role in consumer’s reaction to meter installation and marketing messages regarding the smart meters. We include a measure for “concern for the environment” (Stern, Dietz, Abel, Guagnano, and Kalof 1999).

Proposition 5: A higher concern for the environment will be associated with a higher level of engagement.

Forced Adoption and Strategic Alternatives for Increasing Engagement

The FEDC, the EU and other entities deploying sustainability innovations have many more strategic levers in their hands beyond forced adoption. We propose to explore two sets of strategic levers, or moderators of the relationship between individual characteristics and engagement outlined above.

The Offering

First, from a practical standpoint, the details of the offering must be decided upon. The financial structure of the offering, the legal aspects regarding privacy, and assurances of data security must be determined and communicated. The FEDC must determine how (and if) it will charge the consumer for the meter in order to achieve not just short-term financial returns to the project nor only short-term acceptance of the meters, but also long-term engagement by the consumer. What fee structure will be most likely to increase adoption at both levels – both of accepting the meter and then of engagement with the meter? Similarly, what protections will the FEDC place on the data and what legal regulations will protect consumers’ privacy? While seemingly straightforward questions, avoiding psychological reactance is critical for maximum engagement. Because these were such strong discussion points in the focus groups, we list these here separately from other strategic considerations.

Proposition 6: The relationship between individual characteristics and engagement and the degree of psychological reactance induced will be moderated by the structure of the offering to the consumer.

Achieving Full Engagement Through Marketing Strategy

Given the profile of the individual consumers and the relationship of their individual characteristics (reactance proneness, technology readiness, concern for information privacy and desire for control) with engagement, what strategies should be employed by the FEDC to achieve maximum engagement? What messages will resonate with different segments (e.g., different technology readiness segments) and be less likely to provoke psychological reactance? What is a persuasive and credible source for messaging about the smart meters? How interactive must these messages be in order to optimize the balance between desired behavior/attitude change and cost? Will online communities be a more effective means of achieving full engagement? How can engagement be sustained over the long term? First, we intend to explore previous examples of forced adoption (such as seat belts) to determine those communications that lead to both positive and negative outcomes. These will then be considered in future studies along with change management theories in a forced adoption context in an attempt to provide significant new understanding.

SUMMARY AND FUTURE RESEARCH

This paper describes the first phase of a multi-phase research project regarding the role marketing can plan in sustainability efforts worldwide. Our initial phase described here looks at consumers’ post-adoption engagement with sustainability-oriented technologies in a forced adoption context and begins to explore how marketing can enhance and influence those efforts. Our follow-on work will begin to test moderators such as possible framing arguments agencies can take to enhance engagement (Angst and Agarwal 2009), and will also begin to incorporate strategies from change management to examine the role these strategies can play in targeting change in both attitude and behavior.

Ultimately, marketing and management theory has the opportunity and the obligation to contribute to sustainability efforts underway by local, regional, national and global entities, helping them achieve their goals. Given the current economic crisis, each dollar of investment in such activities must achieve the greatest return possible in
the shortest amount of time to capture returns and invest savings in additional projects. Marketing, psychology and management have much to contribute to helping these initiatives achieve success. This study is a step in unveiling how business theories can contribute in tackling the critical challenges facing the world today.

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PROMOTING HEALTHFUL FOODS: COULD WATER BE THE ANSWER?

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SUMMARY

The obesity epidemic has social, political, and scientific center stage as people, communities, and countries grapple to find policies that might reverse devastating trends. Research in traditional areas of health promotion often points to the role that marketing plays in food preference and choice but does not examine it deeply. There is a need to understand the ways in which promotional efforts contribute to the epidemic. The current work seeks to contribute to this cross-disciplinary stream by further examining food and drink combining.

Recently, researchers have expressed concern that the familiar combo meal (soda and fries with an entrée) not only inflates caloric intake but also threatens the potential efficacy of proposed policy interventions. Sharpe and Staelin (2010) argue that proposed soda taxes may have little effect on reducing overall caloric intake when bundles incorporating soda remain available. We acknowledge not all consumers visit fast food restaurants; however, bundled foods and suggestions for food combining are not uncommon elsewhere. For example, grocery stores provide parents with options such as Lunchables targeted for children. Similarly, gas stations and convenience stores regularly offer discounts when a soda and chocolate bar are purchased in combination. Bundling soda and chocolate may inadvertently “teach” consumers to combine chocolate and soda in combination.

Of interest in the research, is the notion that the seemingly pervasive practice of bundling particular “types” of food and drink may habituate individuals to the complementary tastes of the paired items. Over time, this habituation may lead consumers to feel that one item tastes better with the other, incomplete on its own, and also incomplete when paired with other complements that do not provide the anticipated taste combination.

This research includes a pilot study and lab work. The purpose of the pilot study was to establish the extent to which stereotypical food combinations are prevalent. We anticipated that marketplace offerings would have instilled in consumers an expectation that particular food and drink items belong together. Hence, we predicted that adults would agree that certain combinations make sense, while other food/drink pairings will be perceived as “wrong.” This prediction was supported by the pilot study findings. Results of a short survey, administered to 60 students at a large state university, showed that participants agreed that soda “belonged” with French fries or with pizza. By contrast, participants disagreed with soda being a suitable complement to raw or cooked vegetables.

Our next question, then, was to determine whether there is an arising preference or disinclination for food that stems from the drink context. In a lab study with 75 preschool children, the following hypotheses were tested:

H1: Fussiness regarding eating will be related to brand knowledge. Children with higher brand knowledge scores will score higher on the fussiness scale.

H2: There will be a significant negative relationship between fussiness and children’s acceptance of vegetables. Children with higher fussiness scores will consume smaller amounts of vegetables than children with lower fussiness scores.

H3: There will be a significant relationship between type of beverage (sweetened drink vs. water) and children’s acceptance of vegetables. Children will consume a smaller amount of vegetables on the sweet drink taste trial than on the water trial.

From the pilot study, we found strong inclinations against the pairing of soft drinks with cooked or raw vegetables. While children are expected to hold fewer associations between food and drink, naturally arising preferences from exposure may also influence choice.

One parent of each child completed a survey regarding their child’s TV viewing habits, fussiness regarding eating, and exposure to various foods. Children took part in a collage task to assess brand knowledge, as well as a taste-sampling task. Each child was seen on three separate occasions (once for the brand knowledge task, and twice for the separate taste-test trials).
In the lab study, children’s acceptance of raw vegetables was related to the type of drink consumed, and was not an outcome of their general fussiness regarding eating. This finding reiterates what was learned in the pilot study with adults. Vegetables offered in combination with a sweetened beverage are not looked upon as favorably as vegetables offered in combination with water. This finding points to a variety of behavioral change strategies that might be employed to encourage healthier eating among young children.

Additional research is needed to more fully understand the mechanisms by which sweetened beverage consumption reduces child acceptance of raw vegetables. We suggest two competing hypotheses, which may not be mutually exclusive. First, a physiological mechanism may be at play, wherein children’s taste palates are less accepting of certain flavor combinations. Alternatively, psychological mechanisms might explain the observed results. Exposure to marketing may have instilled in children a sense that certain items “belong together,” whereas others do not.

If even the smallest exposure to sweetened beverages affects children’s acceptance of vegetables, there is reason for action. From a transformative consumer research perspective, eating environments should foster positive dietary habits, rather than discourage vegetable consumption. Possible policies that might be considered as voluntary industry decisions or enforced promotion limitations include offering only water as the default drink in combo meals, especially when targeting children. Likewise, buffet restaurants – where children frequently serve themselves - might limit visual and physical access to soda by replacing all-you-can-drink soda fountains with water fountains. If soda is offered, access to it may be less convenient. Similar measures could be implemented in the home environment. For example, parents could make certain that water is the drink served with all meals. Sweetened beverages might be kept out of sight, or sweetened drinks could be removed from the home environment. References are available upon request.

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COMMUNICATING PRODUCT SUSTAINABILITY TO CONSUMERS: AN EXAMINATION OF SUSTAINABILITY DISCLOSURE FORMATS IN FOOD PRODUCT EVALUATIONS

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SUMMARY

Recently, companies have begun to promote sustainability efforts, and consumers have shown a growing demand for environmentally responsible products and practices (e.g., Sisodia, Wolfe, and Sheth 2007). Despite an increase in consumers’ interest in sustainable and environmentally friendly products, there have been a limited number of studies focusing on package-based disclosures of sustainability levels and their implications on consumers’ perception on products and purchase intentions. The primary purpose of this paper is twofold: (1) How does the addition of various sustainability labeling factors on food product packaging affect consumers’ attitudes and purchase intentions? and (2) Does the amount of information disclosed in sustainability labeling influence consumers differently across environmental involvement levels?

Following an initial pilot test, different types of sustainability labels varying in the level of information disclosed are constructed, and then an experiment is conducted. The main experimental study was a 2 (dimensions of sustainability: absent vs. 5 dimensions present) × 2 (color disclosure: absent vs. color present) × 2 (index disclosure: absent vs. an index value present) × 2 (product sustainability: a more sustainable product (i.e., apples) vs. less sustainable product (i.e., frozen pizza) mixed experimental design). The dimensions of sustainability, color, and index manipulations were between-subjects factors and product sustainability was a repeated-measure factor. The conditions of the study were randomly assigned and the order of stimuli for apples and pizza was counterbalanced. A total of 211 undergraduate students were invited to participate in an online study via email.

The findings suggest that the type and amount of sustainability information disclosed influences consumers’ evaluations and purchase intentions, and the strength of the effects is moderated by internal characteristics, such as environmental involvement. References are available upon request.

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MARKET RELATIONSHIPS BETWEEN U.S. BEEF PRODUCERS AND MEATPACKERS: ETHICAL, MORAL, AND POLITICAL IMPLICATIONS OF THE CONTROVERSY

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SUMMARY

In recent years, tensions have raised among U.S. beef producers and meatpacking companies as a consequence of issues related to competitive prices and profitability; existence and access to competitive markets; and collusion of meatpacking companies. The purpose of this paper is to address the controversy between U.S. beef producers and meatpackers looking at their market exchanges and competition relationships.

Changes in the business structure of livestock and meat production and marketing have long generated interest and controversy in Congress (Becker 2006). These structural changes are commonly referred as consolidation, concentration and/or vertical integration. Greater concentration power among packers firms reduces producer’s negotiation power in terms of pricing. The counterargument of the lack competitive prices states that producers can obtain better prices by focusing on quality; if they produce better quality meat, they can obtain a premium price for their production. This pricing model could be considered a dual-pricing system. The contradiction with the dual-pricing system is that while producers are forced to produce better quality meat to remain in business, they are also forced to cut cost of production, which eventually will result in sicker, weaker cows with less tender, less flavorful meat and smaller ribeyes (Leonard 2010).

Some members and participants of the farm community assert that these structural changes have undermined the conditions of the more “traditional” U.S. farming system (smaller-scale, independent, family-based farms and ranches). Overall, these changes, they argue, have transformed markets where producers face less price transparency, loose negotiation power, and has contributed to lower prices paid to farmers. These groups believe that federal officials and regulation agencies have not enforced existing laws designed to prevent anticompetitive behavior, and that laws should be strengthened to address today’s realities (Becker 2006; Leonard 2010; Kennedy 2010). In opposition, others emphasize that present competition and anti-trust policies remain appropriate and effective; arguing that the sector’s agricultural changes are desirable outgrowth of other factors like technological and managerial improvements, changes in consumer demand, and global competition. They also argue that changes in market relationships have brought U.S. consumers the ample variety of high-quality, low-priced products, and that new laws or more aggressive interpretation of existing laws will prevent private investment and innovation, making the industry less competitive and efficient (Becker 2006; Young and Hobbs 2002).

Proposition 1 (P1): A change in innovation through a dual-pricing mechanism, transforms the dynamics of the relationships between beef producers (sellers) and meatpackers (buyers), resulting in a change of the market structure (MS) (from MS1 to MS2) The dynamics of the relationship of the new market structure (MS2) are asymmetrical.

The ultimate goals of trading partnerships relationships, according to a Fair Trade definition, are to seek dialogue, transparency and respect (FINE 2001). Asymmetrical relationships have different effects across beef producers and meatpackers. The meatpacking sector is much more concentrated than cattle production. Four firms slaughtered 81 percent of steers and heifers in 2004, and 71 percent U.S. cattle of all types (USDA-NASS 2005). Recent concentration numbers approach those of the early 1900’s when 50% to 75% of the slaughtered market was dominated by a handful of firms (USDA 1999; Ferrier and Lamb 2006).

The above market conditions have different consequences on the competitiveness and the ability of firms to remain profitable. At the same time, the ability to lobby in Congress depends on the market influence; as a result, the greater the market concentration (e.g., the CR4) the greater the negotiation power.

Proposition 2 (P2): Asymmetrical conditions resulting from MS2 have negative consequences on the seller. The relatively lower negotiation power (P4) determines that sellers regulation lobbying occurs through bureaucratic channels.

Contradictorily, Proposition 3 (P3): Asymmetrical conditions resulting from MS2 have positive consequences on the buyer. The relative higher negotiation power (P4) suggests that buyers anti-regulation lobbying occurs through direct and effective channels.
The influence of buyers disrupts the transformation and evolution to a new market structure (MS3) that could address the asymmetrical market conditions of MS2.

Besides the negotiation power that market concentration gives to the buyers, political and economical power is also based on ideologies, ethical, and moral standards. If buyers can defend their arguments of no antitrust violations sustained in free market competition ideologies (e.g., justifying competitiveness in the basis of pricing based on quality) or market efficiency (e.g., vertical integration), regulation agencies are less likely to intervene.

Proposition 4 (P4): Political and economic negotiation power with regulation agencies is dependent not only on concrete indicators, but on subjective ones. If market structures can be justified on ideologies that justified morality and ethical concerns, regulation to address anti-trust phenomena is less likely to occur.

The problematic market relationships between U.S. beef producers and meatpackers could be explored as especial case of quasi monopsony the juncture between fair trade and no competition. References are available upon request.

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USING BEHAVIORAL REASONING THEORY AND PARTIAL LEAST SQUARE-SEM TO EXAMINE THE DRIVERS OF GENEROSITY BEHAVIORAL INTENTIONS OF BUSINESS STUDENTS’ COLLEGE SERVICE-LEARNING EXPERIENCE

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SUMMARY

This research uses behavioral reasoning theory (BRT) and Partial Least Square Structural Equation Modeling (PLS-SEM) to examine the drivers of generosity behavioral intentions (future volunteering intentions and future donation intentions) that a college service-learning volunteer experience (SLE) has on business students. The study draws upon previous BRT research (Costa-Font, Rudisill, and Mossialos 2008; Lee, Westaby, Chyou, and Purschwitz 2007; Sarif and Shiratuddin 2010; Wagner and Westaby 2009; Westaby 2005a, 2005b, 2006; Westaby and Fishbein 1996), and proposes a model that considers the influence of satisfaction (i.e., reasons) as a mediator of students’ SLE beliefs and values and generosity behavioral intention.

Background

Colleges tout that SLEs give students the opportunity to gain both hands-on application of classroom teachings as well as citizenship behaviors (Berger 2004). However, little research exists regarding these citizenship behaviors/behavioral intentions (specifically volunteering behaviors see for example, Tomkovick et al. 2008). In fact, there is some evidence that this requirement may negatively impact these behaviors (Stukas, Snyder, and Clary 1999). Furthermore nonprofit organizations are increasingly challenged to obtain/sustain funding and volunteers to meet the growing needs of the people and communities they serve (Bussell and Forbes 2002). From a marketing perspective, nonprofits have to increase the visibility of their organization to increase volunteer and donor awareness (Wymer, Wymer, Knowles, Knowles, and Gomes 2006) which requires branding, marketing, and targeted marketing messages. As a solution, many nonprofits are collaborating with colleges and universities to obtain volunteers and need better ways to do this – both short- and long-term.

Generosity Behavioral Intentions, the Endogenous Dependent Variables

The definition of behavioral intention is the likelihood an individual will undertake a particular action (Westaby 2005). Generosity behavioral intentions in this present study include future volunteering intentions and future donation intentions.

Reasons (Satisfaction), the Endogenous Mediating Variable

New research on BRT suggests that not only do reason variables explain variance in intentions, they also explain variance in intentions over and above that explained by global motives. The reason variable explained 15 percent of the variance in behavior which is a significant increment in prediction over and above the variance explained by the attribute variables in the model used by Westaby (2005a). Reason provided unique insight into specific turnover motives (e.g., salary and supervisor relationships), explained the hiring/not hiring practices among agriculture workers of young workers (Lee et al. 2007), and influences intentions (Costa-Font et al. 2008; Kim et al. 2010; Wagner and Westaby 2009). Also, drawing upon Marta and Pozzi (2008), who demonstrated that satisfaction with volunteer experiences positively affects future volunteer intentions, the following is suggested, reasons (satisfaction) lead to generosity behavioral intentions therefore: (H1a, b) Satisfaction will have positive relationships with both future volunteering intentions and future donation intention.

Beliefs and Values, the Exogenous Driver Variables

Beliefs/values have been shown to be good predictors of reasons (satisfaction). It is believed the VFI measures beliefs/values and it has been shown to predict satisfaction (Clary et al. 1998; Davis 2003; Van Vianen, Nijstad, and Voskuijl 2008) (check van Vianen). Since satisfaction is defined as reasons for/against an action, the extent to which a volunteer’s beliefs/values are met (operationalized through the VFI), the more/less-satisfied volunteers will be. Additionally, several researchers have demonstrated that the greater the motive congruence, the greater the satisfaction with volunteering. In other words, the extent to which volunteer experiences align with volunteer goals/motives is a good predictor of satisfaction (Clary et al. 1998). Since the VFI measures beliefs/values
and satisfaction measures reasons and beliefs/values predict reason, it is believed the individual dimensions of the VFI will be positively related to satisfaction such that: (H2a–f). All six of the VFI’s dimensions will be positively related to satisfaction.

**Results, Implications and Future Research**

As hypothesized, the model supports all relationships. This research builds upon the behavioral reasoning theoretical model and captures the impact of satisfaction with the college business students’ SLEs on generosity behavioral intentions (future volunteering/donations) as well as the impact of satisfaction on the relationship between beliefs/values and future generosity behavioral intentions. As BRT posits, the results demonstrate that beliefs/values drive reasons (satisfaction), which in turn drives (generosity) behavioral intentions. Increased satisfaction should be a key marketing element for nonprofits since it drives both future volunteering intentions and future donation intentions.

Based on the results presented in this study, in order for nonprofit organizations to increase satisfaction with the SLE and universities to instill citizenship behaviors, emphasis must be on the following attributes found in the VFI. The *values* construct is significant and indicates that college business students have the perception they can help (altruism) and want to demonstrate their concern for others (humanitarian). The significance of the *understanding* construct indicates that these students want to learn about specific causes from their volunteer experiences and expect to apply their knowledge, skills, and abilities through the SLE. Additionally, the significance of the *career* construct is an indication that these students also expect to gain career-relevant skills that will help them with current, or prepare for new, careers. Finally, the *protective* construct represents college business students’ desires to participate in SLEs to protect their egos, feel less lonely, escape from personal problems, and reduce guilt over being more fortunate than others. In sum, college business students want SLEs that allow them to apply their skills in a way that enhances their career opportunities while demonstrating concern, providing an escape from their own problems, and reducing guilty feelings.

Future researchers may want to look at other ways to operationalize the BRT constructs in this context, including using the global motives construct. Additionally, researchers may want to survey the whole student population at a school and even use multiple schools from different parts of the country so the results would be more generalizable. References are available upon request.

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BIASING EFFECTS OF GROUP AFFILIATION ON ETHICAL JUDGMENT

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SUMMARY

Ferrell and Gresham’s (1985) model of ethical decision-making provides researchers with a descriptive framework, fruitful for empirical testing and theoretical understanding. A growing body of literature has sought to extend and enrich this model by considering important contextual features found to influence ethical judgment and decision-making (Hunt and Vitell 1986, 2006). This study examines one such contextual factor: group affiliation. Driven by the need for a positive social identity, the in-group bias occurs when individuals favor their in-group or derogate their out-group (Tajfel et al. 1971).

The present research investigates group affiliation between consumers, a seller, and the seller’s target market. On the basis of theory and prior findings (Barry et al. 2006), we anticipate that consumers will judge a salesperson’s actions more (vs. less) harshly when the salesperson is an in-group (vs. out-group) member who transgresses the consumers’ in-group (vs. out-group) [H1]. Generally, one would expect a direct relationship between ethical judgment and severity of punishment, whereby the more unethical the behavior the more severe the punishment; however, group affiliation has been shown to increase willingness to forgive violations of social norms (Bernhard et al. 2006). Therefore, we anticipate that consumers will select milder (versus harsher) forms of punishment for a salesperson that is a member of the consumers’ in-group (versus out-group) when the salesperson transgresses members of the consumers’ in-group [H2].

To test these hypotheses, we conducted an experiment using a 2 (Regional association of target market = participant’s own in-group versus out-group) x 2 (Regional association of salesperson = participant’s own in-group versus out-group) between-subjects design.

Seventy-six undergraduate students enrolled in a marketing course at a large, Midwestern, public university received extra credit for participation in this online study created using Qualtrics™ software. Participants answered a series of preliminary questions before reading a hypothetical sales scenario. Among these preliminary questions was an item asking participants to indicate the city or town they most closely identify with. This information would later be used to manipulate regional affiliation.

The hypothetical scenario was divided into three sections. Section I described a salesperson as a member of the participant’s regional in (vs. out)-group. Section II further explained that the salesperson had recently developed a new product specifically designed for the participant’s regional in (vs. out)-group. Section III indicated that the product was a high-interest rate credit card and that members of the target market incurred a significant amount of debt after using the credit card (adapted from Bellizzi and Hite 1989).

After reading each section, participants were presented with a sequence of items. The first two sequences were manipulation checks on salesperson affiliation (α = .75) and on target market affiliation (α = .87). Both were measured with five items and averaged to form indices. The third sequence of items included our dependent variables.

The dependent variables were Reidenbach and Robin’s (1988) multidimensional ethics scale (MES), Jung and Kellaris’ (2002) global ethical judgment scale (DL), and a punishment scale adapted from the work of Bellizzi and Hite (1989) and that of Smith and Cooper-Martin (1997). We created an ethical judgment index in which we averaged participants’ responses across the MES and DL scales (α = .85), given a significant collinearity between these measures (r = 0.9). Punishment was measured by asking participants to select the appropriate level of punishment for the salesperson according to five pretested (n = 77) punishment options found to differ from each other (p < 0.1) according to perceived harshness (Bellizzi & Hite 1989).

Results. Post test manipulation checks verified that participants in the target market’s in-group perceived individuals in the target market to be more similar to themselves (M = 5.12, SD = 0.76) as compared with out-group target market members (M = 3.96, SD = 0.99; t(1, 74) = 5.55, p < .001). Similarly, participants in the salesperson’s in-group perceived the salesperson to be
more similar to themselves ($M = 4.70, SD = 0.72$) as compared with a salesperson from a different region ($M = 4.23, SD = 0.93; t(1, 74) = 5.55, p < .05$).

To test $H_1$, an ANOVA on ethical judgment revealed a significant 2-way interaction, $F(1, 72) = 4.56, p < .05$, with no main effects. As expected, participants judged an in-group salesperson that transgressed their regional in-group to be less ethical than both an in-group salesperson that transgressed the participants' out-group ($M_{clerk/in\text{-}target/in} = 2.65, SD = 0.69, M_{clerk/in\text{-}target/out} = 3.23, SD = 0.89; t(35) = 2.1, p < .05$), and an out-group salesperson that transgressed the participants’ in-group ($M_{clerk/out\text{-}target/in} = 3.19, SD = 0.81; t(31) = 2.02, p = .05$).

To test $H_2$, an ANOVA on punishment severity revealed a significant 2-way interaction effect, $F(1, 72) = 5.57, p < .05$, with no main effects. Consistent with the ethical judgment results, participants selected more severe punishments for an out-group salesperson that sold a harmful product to their respective regional out-group ($t = 21$), than for both out-group members that sold to their in-group ($M_{clerk/out\text{-}target/out} = 3.52, SD = 1.03, M_{clerk/out\text{-}target/in} = 2.83, SD = 0.71; t(37) = 2.4, p < .05$) and in-group members sold the same product to their own out-group ($M_{clerk/in\text{-}target/out} = 2.68, SD = 1.04; t(41) = 2.60, p < .05$). However, participants did not punish in-group members that sold the same harmful product to their in-group any more than when an out-group member sold the same product to their in-group ($p > 0.1$). Although participants judged these transgressors to be the most unethical amongst all conditions, the in-group bias reduced the severity of the recommended punishment.

When judging the ethicality of an act, it appears that people look beyond the nature of the act itself and implicitly consider their relationship to the parties involved. A transgression against an in-group may seem more loathsome because it carries two offenses: the transgression itself is compounded by the sin of disloyalty. However, these findings go beyond a simple main effect of group loyalty. An out-group salesperson that transgresses an out-group (the salesperson’s own in-group) is viewed with disdain similar to that with which an in-group salesperson violating in-group members is viewed. It appears that consumers not only develop in-group loyalties; they embrace the principle of loyalty as *per se* moral criterion. References are available upon request.

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RECESSION, FINANCIAL HARDSHIP, AND ETHICAL JUDGMENT: DO TOUGH TIMES BEGET TOUGH JUDGES?

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ABSTRACT

Economic recession has lead to financial hardship for many individuals. Such struggles may affect ethical judgment, as the drive to satisfy basic needs overwhelms moral considerations. This study examines how the experience of hardship and empathy combine to shape ethical judgments of a telemarketer’s behavior. Exploratory findings from two studies show that people who experience financial hardship during a recession are more lenient judges of an ethically controversial behavior (non-disclosure of relevant information), particularly when they are less empathetic. Highly empathetic people, presumably mindful of harm to victims, tend to judge more harshly irrespective of their own experience of hardship (Study 1). However, when empathy is directed to the telemarketer (Study 2), people who have suffered less under the recession become more lenient judges.

Keywords: Recession, marketing ethics, ethical judgment, empathy, moral psychology.

INTRODUCTION

As of this writing, 14.5 million Americans are collecting unemployment with 6.4 million of those people having been unemployed for more than six months (Reddy 2011). Moreover, for those who recently re-joined the ranks of the employed, 36% have taken a salary cut of more than 20% from their previous job (Reddy 2011). By almost every measure, the United States has not seen this level of economic stress since The Great Depression.

Economic pressures may encourage aggressive, even reckless or irresponsible behavior on the part of marketers. Perhaps the temptation to “skate the edge” of legal and ethical limits increases as consumers become more reluctant to buy, such that some marketers cross the line. The popular and business press reports many such examples which spatial constraints prevent us from reviewing here.

Importantly, economic conditions may also shape how consumers view marketers’ behavior. The experience of financial hardship may make some consumers more tolerant and forgiving of ethically controversial behavior on the part of marketers, as moral ideals take a back seat to economic survival. Conversely, economic struggle may make other consumers harsher judges of ethically controversial marketing practices, as they empathize with the plight of fellow consumers who fall prey to such practices.

This study examines how the experience of hardship during economic recession influences judgments about an ethically controversial marketing practice. We also explore the potential moderating role of empathy.

THE IMPACT OF ECONOMIC RECESSION ON MORAL JUDGMENT

Financial hardship may affect moral judgment in several ways. The need for financial security is a universal condition of social existence and a strong driver of human behavior. The absence of such security may drive individuals to pursue lower-order survival needs to the exclusion of higher-order moral ideals (Maslow 1943). Hence, financial hardship may make people less sensitive to ethical considerations. Additionally, emotional duress arising from financial hardship may cause people to adopt a more introspective focus. Hardship is, after all, ultimately “about me.” If selfish concerns overshadow the needs of others, people may become desensitized to unethical behavior and the plight of those harmed by it.

Economic hardship may also operate on ethical judgment by making economic criteria more salient. As economic criteria loom larger, moral criteria may seem less important (Haidt 2006). Hence individuals who have experienced hardship may not give as much weight to ethical considerations as those less touched by recession. Moreover, people who have experienced hardship may adopt an implicit frame of reference that makes ethically controversial marketing seem less objectionable in comparison to other evils (Boyle et al. 1998; Kellaris et al. 1996). There is a (tasteless) joke about a college student who phones home to report that he spent all his college savings on drugs, got a DUI, and impregnated a girl he met through a cult he joined. His parents were in shock. After a long pause, the student confessed that none of those things really happened; however, he got an F in his accounting class. Relieved, his parents said they were glad the news wasn’t so bad after all. By analogy, the joke
illustrates the principle that “bad” can seem “not so bad” when compared to things that are worse. Such may be the case among people who have experienced significant hardship during a recession. Unethical behavior should still be viewed as unethical, but may be judged less harshly by those who have experienced relatively worse things.

Finally, we note that financial hardship is often cited as the motivation for crimes such as burglary and domestic violence, with economic downturns causing significant increases in their occurrence (Moyer 2009). From this observation one might reasonably infer that environmental conditions can overwhelm moral sensibilities. Therefore, those who have suffered hardship during an economic recession may be prone to less discerning moral judgment.

**The Role of Empathy**

Empathy plays a key role in ethical sensitivity and judgment. Kohlberg’s third stage of moral development (Kohlberg 1981) features an emphasis on normative ethical standards such as the Golden Rule – i.e., treatment of others. Dymond (1949) famously defined empathy as “cognitive role taking” whereby a person attempts to imagine himself in another’s situation.

There are two primary cognitive modes to empathy (Hoffman 2000). The first is mediated association, which involves a person taking cues from another that relate to his own experiences, then inferring things about the other person on the basis of those cues. The second is role or perspective taking, which is an exercise in imagination by the person beholding another’s situation and identifying with it. Perspective taking should engender sensitivity to the plight of others, which is then manifested in ethical judgment of the wrongs against him/her.

Hardship and perspective-taking empathy combine in the ethical judgment of companies frequently during PR scandals. During last summer’s oil spill by British Petroleum (BP), the firm replaced its CEO, Tony Hayward, an aristocratic British executive, with Bob Dudley, a Gulf-area native with a heavy southern drawl (the first time an American had ever been named to head BP). Political contests routinely feature candidates shooting guns, bowling, eating at diners, taking shots of whiskey or declaring “I feel your pain” to foster empathy and identification from voters. Organizations and individuals take these actions for one reason: empathy makes an impact on judgment.

**RESEARCH QUESTIONS AND PREDICTIONS**

Although we undertook this study in an exploratory mode, our effort was guided by a number of research questions. How would a person’s own financial suffering under the recession affect their judgment of a financially-related ethical transgression? How would victimization of the marketer’s target be regarded? What role might personal traits such as empathy play in shaping judgment of the marketer’s actions?

On the basis of the afore-going discussion and inferential reasoning, we anticipate that people who were less affected by the recent economic recession ("low hardship") should be more critical, harsh judges of an ethically controversial act of a marketer. Conversely, people who were more affected by the recent economic recession ("high hardship") should be more lenient, forgiving judges of an ethically controversial act, as their frame of reference attenuates the perceived severity of the transgression. Again, “bad” may seem “less bad” from the perspective of one who has experienced “more bad.”

One’s level of empathy should also influence ethical judgment, such that highly empathetic individuals may be expected to judge controversial behavior more critically. The ability of a person to transport himself or herself into the perspective of another should make them more sensitive to the suffering of a victim and thus more critical of the transgressor who caused the victim’s suffering. Less empathetic individuals may be expected to judge more leniently, as they empathize less with victims.

We further anticipate that one’s experience of financial hardship during the recession and their level of empathy may combine to shape ethical judgment. Although there is insufficient basis for predicting the exact pattern of interaction, we anticipate that empathy will act as an “intensifier” type moderator, exaggerating the influence of hardship experience among less empathetic individuals. The countervailing nature of the two variables – hardship making one less sensitive and empathy making one more sensitive – suggest such an interaction. In summary of our predictions, we anticipate that:

H₁: The level of financial suffering a person has experienced should be negatively associated with the harshness of their ethical judgments.

H₂: Empathy should be positively associated with harshness of ethical judgments.

H₃: Empathy should moderate the influence of financial hardship on the harshness of ethical judgments such that the impact of hardship on judgmental leniency should be greater among less empathetic individuals.

**STUDY 1**

To examine these exploratory research questions, we conducted a small-scale study with one-hundred one student participants. Participants were exposed to a sce-
Participants and Procedure

Participants were one-hundred and one (N = 101) students enrolled in an introductory marketing class at a large, state university in the Midwestern region of the United States. The sample included 55 males, 46 females. Course credit was offered as an incentive to participate. Participants were recruited in class and asked to visit an online questionnaire established via Qualtrics™ software. At the opening of the survey, students were provided with brief, written instructions. The procedure took about 10 minutes to complete. Upon completing the study, students were thanked for their participation and later debriefed in class. Online “sign-in sheets” were then returned to instructors so course credit could be administered.

Scenario

As a target for ethical judgment, participants were exposed to a scenario describing ethically controversial behavior of a telemarketer. The scenario read as follows:

Alex has been out of work for eight months causing extreme financial difficulties that could result in the loss of Alex’s car and home. In addition, the financial pressure has caused Alex significant marital trouble, requiring marriage counseling.

Desperate for financial help, Alex agreed to take the credit card. What the telemarketer did not mention is that a single late payment would result in the zero percent interest rate converting to a 30% interest rate with high monthly fees. The telemarketer had been clearly instructed to make this point clear to any prospective customers. But, the telemarketer omitted the detail of the hidden interest rate and fees in hope of increasing the chance for a sales commission.

In the spirit of full disclosure, we note that originally there were two manipulated variables in this study: a priming manipulation providing alternatively optimistic/pessimistic overviews of the recession, and a “victim” manipulation wherein the telemarketer’s customer had suffered little or much during the recession. Analyses showed no effect of either manipulation (or their interaction with each other and measured variables) on ethical judgment. Hence they were dropped from further analysis and the data set was treated as merely correlational.

Measures

The dependent variable, harshness of ethical judgment, was measured using a seven-item, seven-point scale adapted from multiple sources (Jung and Kellaris 2002; Reidenbach and Robin 1988). The items, shown in the Appendix, were summed and averaged to form a composite scale with alpha reliability of .96.

Experience of hardship during the recession was measured using an original, four-item, seven-point Likert scale. The items, shown in the Appendix, were summed and averaged to form a composite scale with alpha reliability of .86. To simplify the analysis, low and high hardship groups were formed via median split.

Empathy was measured using Mehrabian and Epstein’s (1972) 33-item scale. Five items were eliminated to yield an alpha reliability of .82. Low and high empathy groups were formed via median split. A series of confounding checks found no significant correlation between the hardship and empathy measures (Pearson correlation = -.05, n.s.). Males and females did not differ with respect to hardship experience (t = .146, df=99, n.s.), but did differ statistically in empathy. Mean empathy scores were 16.38 for males, 38.24 for females (t = 5.75, df = 99, p < .001, two-tailed). Given the confounding of empathy and gender, we control for gender in our analysis.

For the sake of reporting integrity, we note that other measures (e.g., trait materialism) were gathered in the context of this study, but not used in the current analysis. Whereas they appeared after the DV and other measures were gathered, their presence could not influence the results reported here.

Analyses and Results

As an initial assessment of the impact of recession, hardship experience and trait empathy on ethical judgment, we computed correlation coefficients. Results show a significant, negative association between hardship experience and harshness of ethical judgment (Pearson’s r = -.296, two-tailed p = .003), and a positive association between empathy and harshness of ethical judgment (Pearson’s r = .186, two-tailed p = .062). When controlling for gender, the partial correlation of empathy and harshness increases in magnitude to r = .194 (two-tailed p = .05). This provides initial evidence in support of our conjecture. Whereas individuals who suffered hardship during the recession tend toward leniency in their ethical
judgments, empathy has a countervailing influence. More empathetic individuals tend to judge an ethically controversial behavior more harshly.

**Joint Impact and Interaction**

To further explore the joint impact of hardship and empathy on ethical judgment, we conducted an analysis of covariance (ANCOVA) with hardship and empathy groups as IVs and respondent gender as a covariate term. Results show significant main effects of both hardship experience ($F = 7.34, p < .01$), empathy ($F = 4.05, p < .05$), and their interaction ($F = 3.85, p < .053$). The interaction is depicted in Figure 1.

Among individuals low in empathy, those who experienced more hardship during the recession were significantly more lenient judges of the controversial marketer’s actions (mean = 5.7) compared with those in the high empathy group (mean = 6.6, $t = 3.19, df = 49, p < .002$). Whereas ethical judgments of individuals who experienced less hardship during the recession did not differ across empathy groups, ethical judgments of those who experienced more hardship differed significantly between low (mean = 5.7) and high (mean = 6.4) empathy groups ($t = -2.19, p < .034$ two-tailed). Thus, the harshness or leniency of ethical judgment is a joint function of recession hardship experience and one’s level of empathy.

**Discussion**

Findings indicate that financial hardship appears to make people judge ethical transgressions more leniently ($H_1$), that empathy leads to harsher ethical judgments ($H_2$), and that empathy acts as an “intensifier” moderator of the impact of financial hardship on ethical judgment ($H_3$). People who had suffered more under the recession appeared to become callous or jaded to a telemarketer’s transgression, as if to say *caveat emptor* to the victim. The wording of the scenario directs feelings of empathy by the judge toward the “victim” of the scenario, rather than toward the transgressor. This had a significant effect, as more empathetic participants were harsher in their judgment of the telemarketer. And, as empathy made the judge more sensitive to the victim’s plight, it made the judge more punitive toward the transgressor. Given that the transgression was economically motivated, we wondered what would happen if empathy might be directed to the seller. A second study was conducted to explore this question.

**STUDY 2**

We conducted a second study to explore what happens when empathy is directed toward the seller (telemarketer) versus a target (victim). To explore the notion of leniency versus harshness, we used a “harshness of punishment” measure as the DV. We hypothesize that among those who suffered less hardship during the recession, the recommended punishment for a telemarketer’s transgression will be harsher when empathy is directed toward the victim and more lenient when empathy is directed toward the telemarketer. Among those who experienced more hardship during the recession, judgment (recommended punishment for the telemarketer’s transgression) should be unaffected by empathy.
Method

Seventy-six (N = 76) participants were assigned to one of two versions of a scenario describing ethically controversial behavior of a telemarketer. Whereas one version emphasized the economic plight and extenuating circumstances of the telemarketer, the other version emphasized the economic plight of the target (victim). Ethical judgments of the marketer’s behavior were captured using a single-item “harshness of punishment” scale where participants could recommend a harshness of punishment on a scale of zero to 100. Experience of hardship during the recession, trait empathy and gender were measured. The procedures were identical to those used in Study 1.

Results

To assess the joint impact of the scenario and hardship experience on harshness of punishment, we conducted an analysis of covariance (ANCOVA) with scenario and hardship groups as IVs and respondent gender as a covariate term. Results show a significant interaction effects of scenario and hardship experience ($F = 4.23, p < .05$). The interaction is depicted in Figure 2.

Among individuals who experienced less hardship during the recession, those exposed to the scenario directing empathy to the telemarketer were significantly more lenient (mean punishment = 45.42) compared with those exposed to a scenario directing empathy to the victim (mean punishment = 64.95, $t = -2.535, df = 36, p < .05$). No differences were observed across scenarios among those who suffered more hardship during the recession (n.s.).

DISCUSSION

Results from two studies show that the experience of hardship during a recession can influence one’s ethical judgment. Empathy plays a role in shaping ethical judgment (study 1), as does the focus of that empathy (study 2). It appears that people judge the same marketing transgression more harshly or more leniently, depending upon their circumstances and that of the other parties involved. These findings provide additional evidence of what has been termed “unintentional moral relativism” (Boyle et al. 1998), wherein the same act is viewed differently across situations.

Implications for Marketing

We believe these provisional results provide an indication of a behavioral pattern worthy of notice by marketers. Firms, like people, make (or are accused of making) ethical transgressions. And these alleged transgressions affect public perception of those firms and consumers’ willingness to patronize them. Fortune® 500 Companies
such as Enron, WorldCom, Arthur Andersen and others have evaporated overnight as the result of unethical practices and the public being unwilling to do business with them. Still others, such as Ford, have experienced depressed earnings over the long-term for being viewed as unethical (Fisse and Braithwaite 1983).

The present findings suggest that during times of economic duress those individuals most affected are less sensitive to ethical wrong doing. It appears that those hardest hit in a recession allow the greatest leeway. By extension, companies under public scrutiny or criticism during a recession should not attribute it to an “angry environment” or think that something will “blow over.” Such an outlook is dismissive of the potential long-term damage that can be done to the company and its image. Indeed, this study suggests the opposite: that an organization had to be more brazen to raise the ire of the public in a recession and such outrage signals a need for the organization to work more aggressively on “damage control” and enhance its image.

FURTHER RESEARCH

Understanding of the impact of economic recessions and their attendant financial hardship on ethical judgment is arguably important for the field of marketing as a key component of being able to assess, manage or repair damage to a company’s image resulting from accusations of misconduct. Some questions that await further investigation include: How do economic and moral reasoning differ? How do they combine when forming ethical judgments? What happens when they come into conflict? Under what circumstances might economic considerations trump moral considerations and vice versa? How might this process vary across individuals? On a practical level, how can marketing professionals avoid the pitfalls of external pressures skewing ethical perceptions and decision-making? And how can they manage the perceptions of “recession jaded” customers? Each of these represents an opportunity for further research with potential to enrich marketing practice.

REFERENCES


Fisse, Brent and John Braithwaite (1983), The Impact of Publicity on Corporate Offenders. SUNY Press.


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**APPENDIX**

**Measurement Scales**

<table>
<thead>
<tr>
<th>Scale/Source</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harshness of Ethical judgment</td>
<td>Please rate the actions on the following criteria:</td>
</tr>
<tr>
<td>(Jung &amp; Kellaris, 2002, Reidenbach &amp; Robin 1988)</td>
<td>• 7 Point Likert: Just → Unjust</td>
</tr>
<tr>
<td>Cronbach’s alpha = .960</td>
<td>• 7 Point Likert: Acceptable To My Family → Unacceptable To My Family</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Ethical → Unethical</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Positive → Negative</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Right → Wrong</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Appropriate → Inappropriate</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Good → Bad</td>
</tr>
<tr>
<td>Hardship during Recession</td>
<td>How significant has the financial impact of the recession been on you?</td>
</tr>
<tr>
<td>(Original)</td>
<td>• 7 Point Likert: Not at all → Highly Significant</td>
</tr>
<tr>
<td>Cronbach’s alpha = .860</td>
<td>Please rate how appropriately the following adjectives apply to the financial impact of the recession on you.</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Not at all Appropriate → Extremely Appropriate: Significant</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Not at all Appropriate → Extremely Appropriate: Harsh</td>
</tr>
<tr>
<td></td>
<td>• 7 Point Likert: Not at all Appropriate → Extremely Appropriate: Maximal</td>
</tr>
<tr>
<td>Empathy</td>
<td>Empathy Scale (9 Point Likert: Very Strong Agreement → Very Strong Disagreement). Variables with “(-)” are reverse coded:</td>
</tr>
<tr>
<td>Mehrabian &amp; Epstein 1972</td>
<td>• It makes me sad to see a lonely stranger in a group.</td>
</tr>
<tr>
<td>Cronbach’s alpha = .819</td>
<td>• People make too much of the feelings and sensitivity of animals. (-)</td>
</tr>
<tr>
<td></td>
<td>• I am annoyed by unhappy people who are just sorry for themselves. (-)</td>
</tr>
<tr>
<td></td>
<td>• I become nervous if others around me seem to be nervous.</td>
</tr>
<tr>
<td></td>
<td>• I find it silly for people to cry out of happiness. (-)</td>
</tr>
<tr>
<td></td>
<td>• I tend to get emotionally involved with a friend’s problems.</td>
</tr>
<tr>
<td></td>
<td>• Sometimes the words of a love song can move me deeply.</td>
</tr>
<tr>
<td></td>
<td>• I tend to lose control when I am bringing bad news to people.</td>
</tr>
<tr>
<td></td>
<td>• The people around me have a great influence on my moods.</td>
</tr>
<tr>
<td></td>
<td>• Most foreigners I have met seemed cool and unemotional. (-)</td>
</tr>
<tr>
<td></td>
<td>• I don’t get upset because a friend is acting upset. (-)</td>
</tr>
<tr>
<td></td>
<td>• I like to watch people open presents.</td>
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<tr>
<td></td>
<td>• Lonely people are probably unfriendly. (-)</td>
</tr>
<tr>
<td></td>
<td>• Seeing people cry upsets me.</td>
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<tr>
<td></td>
<td>• Some songs make me happy.</td>
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<tr>
<td></td>
<td>• I really get involved with the feelings of the characters in a novel.</td>
</tr>
<tr>
<td></td>
<td>• I get very angry when I see someone being ill-treated.</td>
</tr>
<tr>
<td></td>
<td>• I am able to remain calm even though those around me worry. (-)</td>
</tr>
</tbody>
</table>
APPENDIX (CONTINUED)
Measurement Scales

• When a friend starts to talk about his problems, I try to steer the conversation to something else. (-)
• Another’s laughter is not catching for me. (-)
• Sometimes at the movies I am amused by the amount of crying and sniffing around me. (-)
• I am able to make decisions without being influenced by people’s feelings. (-)
• I cannot continue to feel OK if people around me are depressed.
• I am very upset when I see an animal in pain.
• Becoming involved in books or movies is a little silly. (-)
• It upsets me to see helpless old people.
• I become more irritated than sympathetic when I see someone’s tears. (-)
• I become very involved when I watch a movie.
• I often find that I can remain cool in spite of the excitement around me. (-)

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POWER AND DEFERRAL: THE ROLE OF ANTICIPATED REGRET

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Derek Hassay, University of Calgary

SUMMARY

Past research has shown that people often defer a choice when presented with several attractive alternatives (Dhar 1997; Tversky and Shafir 1992), even when each alternative on its own is seen as sufficiently attractive (Iyengar and Lepper 2000). The phenomenon of choice deferral has traditionally been attributed to the experience of decisional conflict or difficulty in selecting the best option (Tversky and Shafir 1992; Dhar 1997; Luce, Bettman, and Payne 1997).

Holding the level of conflict constant, the present research examines how differences in consumers’ psychological state of power influence their propensity to defer choice. In a consumption environment, subjective feelings of power may arise from a number of sources. These include relatively persistent sources such as one’s status and social class, but also more fleeting sources. For example, Wathieu et al. (2002) proposed that consumers’ sense of power could be influenced by contextual factors such as the degree of control that they have over the choice set composition and their ability to assess progress during the choice process. In addition, consumers’ sense of power can easily be activated by recalling previous experiences with power, or by simply encountering cues to the possession of power (Anderson and Berdahl 2002; Anderson and Galinsky 2006).

In this paper, we argued that a high sense of power can both increase and decrease consumer propensity to defer choice. We proposed that power reduces the ability to anticipate future regret, which, in turn, could lead to either more or less choice deferral, depending on whether choosing or deferring is the more justifiable decision.

Three experimental studies using different manipulations of power and regret provided consistent support for the proposed mechanism, and ruled out alternative ones. For instance, previous research on choice deferral (Dhar 1997; Luce 1998; Tversky and Shafir 1992) suggests that difficulty in deciding amongst the available options is the main reason why consumers elect to postpone a choice. Thus, it is possible that the effect of power on choice deferral is due to differences in perceived decision difficulty rather than anticipated regret. It could be argued that powerful individuals perceive the choice task as less difficult, and are thus less likely to defer choice than powerless individuals. This explanation is plausible and consistent with prior research. However, unlike the proposed regret-based mechanism, it can only predict a negative effect of power on deferral. Study 1 showed that power leads to a lower incidence of choice deferral, but does not impact consumers’ perceptions of decision difficulty.

Study 2 was designed to provide a more direct assessment of the regret-based mechanism. We reasoned that powerful individuals are less likely to consider the possibility of a bad decision, and thus less likely to anticipate regret. This is different from the notion that power reduces the influence of anticipated regret on choice deferral (i.e., the powerful are just as likely as the powerless to anticipate regret but they ignore it when making a decision). In other words, our conceptualization argues for differences in the accessibility of anticipated regret but not necessarily in its diagnosticity. Study 2 predicted and found that when regret is made salient, powerful consumers defer choice at least as frequently as powerless consumers.

Finally, in Study 3, we examined a purchase situation in which greater regret is associated with delaying one’s decision than with choosing now. Here, we found that low power consumers defer choice less frequently than high power consumers, but this positive effect of power on deferral disappears when regret is made salient.

These findings have important implications for the current power literature. One of the key tenets of the approach/inhibition theory of power (Keltner et al. 2003; Galinsky et al. 2003) is that elevated power promotes action whereas powerlessness leads to inaction and avoidance behavior. Our results, however, suggest that the power/action relationship may not always operate in the same direction. This is because anticipation of regret mediates the relationship between power and action/inaction. In other words, to accurately predict the effect of power on action/inaction, one must understand the nature of the relationship between regret and action/inaction.

Our findings also have implications for research on choice deferral. This research often stresses (and frequently manipulates) decision conflict/difficulty as the main predictor of choice deferral. In contrast, our results indicate that when the level of decision difficulty is held constant, consumers’ ability to anticipate future regret
plays an important role in determining whether they choose now or postpone their decision to a later time. In all of our studies, regret anticipation was influenced by consumers’ psychological states of power. However, a number of factors other than power may also impact regret anticipation, and by extension the likelihood of choice deferral. For instance, people are less likely to anticipate regret when they can easily reverse the outcome of a decision (Zeelenberg et al. 1996). This suggests that marketers who offer liberal return policies should experience fewer lost sales due to choice deferral than those who do not. References are available upon request.

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DISENTANGLING AFFECT AND MEMORY IN CONSUMER CHOICE

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Judith Zaichkowsky, Copenhagen Business School, Denmark
Antoine Bechara, University of Southern California, Los Angeles

SUMMARY

In three experiments, this research finds (1) that novel, positively valenced choice options significantly increase consumers’ choice reaction time, whereas well-known, neutral options significantly decrease reaction time; (2) that positive mood enhances this effect and results in approach behavior toward the novel option, while negative mood decreases this effect and results in avoidance behavior away from the novel option, and (3) that this effect is rooted in activation of the cingulate gyrus and the ventromedial prefrontal cortex, according to functional magnetic resonance imaging (fMRI). This research heeds prior calls in behavioral decision theory asking for a closer investigation of the amount of affect in choice, an improved characterization of how affect influences choice, and a more detailed differentiation between affective and memory processes.

Keywords: Emotion; mood; memory; behavioral decision theory; decision neuroscience; fMRI.

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A BAD MOOD CAUSES A POSITIVE EVALUATION: THE INTERACTION BETWEEN INCIDENTAL MOODS AND INFORMATION PROCESSING

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SUMMARY

Many dual processing models have been developed by cognitive psychologists (Novak and Hoffman 2009). In brief, the dual processing model contains a more rational path and a more experiential and emotionally-involved path (Epstein 1994; Smith and DeCoster 2000). One of the experiential paths, the imagery processing mode, has attracted increasing research attentions such as incidental learning, problem framing, probability assessment, purchase timing and new provide evaluation (MacInnis and Price 1987; Rossiter and Percy 1978; Zhao, Hoeffler, and Dahl 2009).

MacInnis and Price (1987) defined imagery as “(1) a process (not a structure) by which (2) sensory information is represented in working memory” (para. 473). Imagery-based processing mode is fundamentally different from discursive (or descriptive) information processing. Discursive processing is a more analytical, symbolic and semantic style of information processing mode and is less attached to sensory information. Discursive processing includes: for instance, verbal encoding and retrieval and adopts an attribute-by-attribute strategy. On the contrary, imagery-based processing is more closely associated with sensory information and is a more holistic process. By using imagery processing, people can depict a mental image that represents feelings and ideas, and can generate emotions and affective experiences (MacInnis and Price 1987; Yuille and Catchpole 1977). The inclusion of affect in imagery-based processing allows human to evaluate the affect domain of newly encountered objects (Cohen 1982; Zajone 1980). Considering imagery processing is more emotionally involved relative to discursive processing (MacInnis and Price 1987), it is apparent for one to anticipate that human’s incidental mood would play a significant role in the imagery processing system.

Effects of individual’s emotions or transient mood states have been well documented. Many studies have shown that human’s emotions can color their judgment and behavior such as product evaluation (Gorn, Goldberg, and Basu 1993) and impulse buying behavior (Weinberg and Gottwald 1982). A classic example, provided by Schwarz and Clore (1983), showed that people exhibited higher level of life satisfaction on a sunny day compared to those who responded on a rainy day. The extraneous moods elicited by two weather conditions were incorporated by research respondents into overall evaluation of their life satisfaction. In other words, people may ask themselves “How do I feel about it?” and adjust themselves to make mood-consistent evaluations of unrelated objects. The “how-do-I-feel-about-it?” heuristics suggested that individuals would assimilate their evaluation toward their current but unrelated emotions and misattribute those emotions as information (Schwarz and Clore 1983). Nonetheless, it solely considers the valence of human emotions. Accordingly, a negative emotion could only result in an inferior evaluation following the “how-do-I-feel-about-it?” heuristics.

This proposed study aimed to enhance current understandings of human affect in judgment and decision making by taking not only the valence but also the activation level of emotions into account (for review, see Russell and Barrett 1999; Russell and Carroll 1999). In order to do so, the role of imagery-based processing was incorporated. This current study hypothesized that a reverse relationship between evaluation and negative emotions would occur under two prerequisite conditions – (1) the consistency between the type of negative emotion and the object being evaluated, and (2) the usage of imagery-based information processing mode. For example, a nervous individual may evaluate personal-defense equipments such as a pepper spray more positively because a fit between individual’s feeling of intense and the theme of pepper spray help one experience/imagine the event of using pepper spray more vividly. In contrast, a lethargic person wouldn’t display the same evaluation even though the feeling of nervous and lethargic both locates in the negative side of the emotion-valence continuum. Correspondingly, two research hypotheses were proposed:

H1: When using discursive processing, an incidental mood would color people’s evaluation toward an object in accordance with the valence of the mood despite the level of mood activation.

H2: When using imagery processing, an incidental mood would color people’s evaluation only when the valence and activation are both in accordance with object.
The results of this study aimed to improve the current knowledge of human affect by examining the interaction between imagery-based processing mode and incidental moods. By using imagery-based processing, human could utilize not only the valence but also the specific types of emotion as actual information. This proposed study could also provide several marketing applications. Marketers should be aware that simply alluring a positive mood among consumers will not be enough to skew consumer’s evaluation of a product. Besides, a negative mood induction will not necessarily hurt their product evaluations. The key is to create a mood that fits the emotional response possessed by consumers using imagery processing mode. References are available upon request.

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SEEING FIRST OR SMELLING FIRST? ORDER EFFECTS OF SENSORY CUES ON PRODUCT EVALUATIONS

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SUMMARY

Consumers tend to have different types of sensory reactions while experiencing food (Shiv and Nowlis 2004) and other sensory-experiential products, such as perfumes, movie clips, and music. For instance, in evaluating food and beverages, consumers are influenced by their visual and olfactory aspects. Similarly, while evaluating a movie, consumers are influenced by the visual and auditory aspects of the products. With the multi-billion dollar food and beverage industry becoming highly competitive with the proliferation of several brands (Fusaro 2009), companies are trying out innovative approaches in terms of package design and aesthetic appeal to lure consumers. The sensory-experiential aspects of food products (such as the color, scent, texture, taste, and appearance) are particularly critical in influencing consumer choices and perceptions.

Prior research, across multiple disciplines, has documented the effects of different types of sensory stimuli inputs on the evaluation of products (e.g., Krishna and Morrin 2008). These studies have typically examined the effects of individual sensory inputs, such as color, shape, scent, and touch. However, no Study has examined how the order in which multiple sensory stimuli are encountered can influence product evaluations. This is especially relevant since in many real world situations, consumers might often encounter sequential stimuli that appeal to multiple sensory aspects. We propose that the order in which sensory stimuli are encountered can influence product evaluations. This is especially relevant since in many real world situations, consumers might often encounter sequential stimuli that appeal to multiple sensory aspects. We propose that the order in which sensory stimuli are encountered can influence overall judgments. More specifically, we hypothesize that consumers would have a more favorable evaluation of a food sample (such as beverages, cookies) when they encounter the visual stimulus prior to the olfactory stimulus. However, we also hypothesize that this effect is contingent upon level of hunger, and find that this effect is reversed under high level of hunger.

In Study 1, a single-factor (sensory order sequence: C–S vs. S–C) between-subjects design experiment. A beverage was used as the product in Study 1. The results of Study 1 showed that participants expressed higher taste ratings for the beverage in the C–S (vs. S–C) condition. Study 2 attempted to provide additional direct evidence regarding the underlying process for the order effects of evaluating the sensory cues by examining two manipulated effects C–S’ versus S’–C (where S’ implies an undesirable scent). The results of Study 2 provided empirical support for the theorizing regarding the interaction between the sensory stimuli, and showed that participants’ perceptions about tastes of the beverages were higher in the C–S’ than for the S’–C condition.

Finally, Study 3 attempted to examine if hunger influences the order effects of evaluating the sensory cues of food color and scent. Study 3 used a 2 (order of sensory cues: C–S vs. S–C) X 2 (level of hunger: low vs. high) between subjects experiment with cookie used as a product. The results of this study showed that when not hungry, participants had higher perceived expected taste of the cookie for C–S, than for S–C; in contrast, under high levels of hunger, participants had higher perceived expected taste of the cookie for S–C, than for C–S.

In conclusion, the results of three experiments reveal interesting results regarding effects of sequential presentation of sensory cues (of food color and smell). The findings have both theoretical and practical implications regarding how the sequential order of sensory cues can influence product evaluations. References are available upon request.
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MIRROR, MIRROR ON THE WALL WHICH FOOD IS TASTIEST OF ALL

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SUMMARY

With the alarming increase in the percentage of overweight people in the United States (Streib 2007), various weight-loss strategies such as low-carbohydrate diets, physical exercises, fat burning or appetite reducing pills, and fat removal surgeries have been proposed. At the same time, some have suggested self-driven ways of controlling obesity by changing people’s eating habits and introducing standards of healthy eating. The aim of these standards is to promote eating of healthy foods and prevent unhealthy eating practices. However, there are still many people who do not follow these standards though they believe that it is harmful for them.

Research has shown that regardless of the actual taste, considering a food as less healthy makes it more tasty (Raghunathan, Naylor, and Hoyer 2006). Thus, making an unhealthy food less tasty could potentially reduce its consumption and help people to practice healthy food consumption. Based on this idea, in this research, we examined under what conditions an unhealthy food could be perceived as less tasty, without changing its ingredients, with the ultimate goal of changing people’s preferences of unhealthy foods. Specifically, we show that consuming unhealthy foods in the presence of a mirror makes them appear less tasty than consuming them without a mirror.

Past research has shown that self-focused people tend to compare themselves with standards of correctness (Duval and Wicklund 1972), and experience positive affect when they act in concert with these standards, and negative affect when they act in opposition to these standards (Duval, Silvia, and Lalwani 2001). Importantly, when someone feels the negative or positive affect, she or he does not immediately know the reason for such feelings (Oatley and Johnson-Laird 1996). Moreover, research has shown that self-focused people tend to attribute negative events to external factors and positive events to self (Duval, Silvia, and Lalwani 2001).

Based on self-awareness literature, we suggest that mirror, as a self-awareness enhancing tool, can be used as a decorative item in many food consumption settings to affect the consumption and taste perception of food. According to the reviewed literature, it is expected that eating a healthy or an unhealthy food in front of a mirror generate positive or negative feelings since standards of healthy eating are widely accepted. Therefore, we propose that if people consume their food in a room decorated with mirrors compared to a room without mirrors, they will attribute the positive affect of eating a healthy food internally to self and the negative affect of eating an unhealthy food to the food taste as an available external factor.

In the first study, we provided empirical evidence for the proposed effect of mirror decoration on food taste. We asked participants to choose between a healthy and a tasty chocolate bar and then consume it in a room with or without a mirror. Results confirmed our expectations and showed that participants gave a lower overall taste evaluation to the tasty chocolate bar when they consumed it in front of a mirror compared to the no-mirror condition. However, the taste evaluations of the healthy chocolate bar were not significantly different between the mirror and no-mirror conditions.

Study 2 and 3 investigated two factors moderating the effect of mirror decoration on food taste. Research has shown that people must perceive themselves responsible for acting against standards in order to experience the negative feelings (Duval, Silvia, and Lalwani 2001). Accordingly, the second study showed that when participants did not perceive themselves to be responsible for eating the unhealthy food (i.e., when they think that there is no choice and they have to do it), they did not give a lower evaluation to the taste of the unhealthy food in the mirror condition compared to the no-mirror condition.

Research has also found that simplicity of the connection between cause and effect is an important factor for the attribution system; and people tend to attribute the effects to the most plausible causes (Duval, Silvia, and Lalwani 2001). Therefore, we expected that introducing a more plausible cause for the negative affect would move the attribution of discomfort away from the taste of the unhealthy food. Study 3 supported this expectation and showed that when we introduced music as a more plausible cause of the negative affect, participants did not evaluate the taste of the unhealthy food to be lower in the mirror condition compared to the no-mirror condition.

In sum, this research contributes to the literature on healthy and unhealthy food consumption, and the self-awareness theory by demonstrating the link between the self-awareness and the attribution of feelings induced by
the self-standards comparison system. At a practical level, results of this research suggest that mirror decoration can be used in food consumption settings to decrease unhealthy eating practices as mirrors make the unhealthy foods less tasty and thus the consumption of the unhealthy foods would be less pleasant. References are available upon request.

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A MAGICAL TOUCH: THE SECONDARY-CONTAMINATION EFFECT

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SUMMARY

Peculiar beliefs are beliefs “presumed (by scientists, at least) to not be veridical” and “do not have a rational, empirical, or scientifically established link to an outcome they are intended to influence.” Despite it may be denied on the conscious level, the influences of peculiar beliefs in consumer’s daily life are prevalent and play an important role in individuals’ lives through its influence on the non-conscious level. While prior research on peculiar beliefs provide considerable evidence as to its role in social psychology, it is surprising that relatively few efforts have been made to understand its influences on consumer behavior and its role in marketing. An important but neglected research area in the field of peculiar beliefs is the synergistic effects of various forms of peculiar beliefs. Scholars have identified two specific types of peculiar beliefs that have recently received attention in the consumer psychology and marketing literature: superstition and magical thinking. Although obviously related, research on these two as of yet disparate peculiar beliefs is scant. To fill this gap, this research introduces an important but rarely examined concept – the secondary-contamination effect (hereafter SCE) – and demonstrates its influences on consumer responses.

Based on the literature in social psychology and consumer psychology, we define the SCE as the changes in consumer perceived luck and other downstream responses which are affected by physically contacting with an object previously touched by another person (i.e., a contaminated object or vehicle). The concept of the SCE has its origins in medical and social psychology literature. However, it has never been examined in consumer behavior context. We contribute to the research on peculiar beliefs in consumer behavior by introducing the concept of the SCE and examining its influence on consumer responses. This research also seeks to address the psychological mechanism underlies the SCE. Based on the literature on active-self concept, the authors argue that consumer’s self-concept will be temporarily changed by contacting with a contaminated object.

This paper investigates the SCE with four studies. Study 1 provides initial support to the existence of SCE. By contacting with the source (our confederate), the neutral vehicle’s inner quality was changed. We made participants physically touched this contaminated vehicle and captured their perceived luck and Likelihood Judgment. The results indicated that touching a contaminated vehicle temporarily changed participant’s self-concept and lead to higher perceived luck. Perceived luck then in turn had positive effects on likelihood judgment of winning a lottery game. Study 2 shows that SCE is not homogeneous across participants. Touching a contaminated vehicle had stronger effects on perceived luck and Likelihood Judgment for those with high trait superstition. Another important finding of Study 2 is the replication of mediating effect of perceived luck, which again demonstrates that we can temporarily change participant’s self-concept, lead to different perceived luck level, and then is reflected on their assessment toward likelihood of winning the lottery. In Study 3, the authors explored another important moderating factor: Participant’s awareness of influences of peculiar belief. Based on the Flexible Correction Model, the authors hypothesize that consumers who are aware of the influences of peculiar beliefs in their daily lives will make adjustments with these possible sources of influence. A lab-based experiment provides supports to our hypothesis. Our last study (Study 4) inquires an interesting question: Whether the occurrence of first contamination should be visually observed by consumers to activate the SCE? Research in consumer contamination suggests that direct observation is not a necessary condition for contamination effect. Empirical evidences suggest that the SCE could be activated by consumer imagination. In other words, what is really important is consumer’s belief that the neutral vehicle has been contaminated.

Based on the empirical evidences, the authors also provide theoretical and managerial implications. Limitations and future research directions are also mentioned. References are available upon request.
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THE JOINT EFFECT OF DISCOUNT AND TIME RESTRICTIONS ON PERCEIVED PRICE PROMOTIONAL VALUE

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SUMMARY

Despite the fact that time restrictions are the second essential element of any price promotion, the joint effects of discount and time restrictions have not been fully recognized yet. These effects are based on consumers’ beliefs about the covariation between discounts and time restrictions. When explicitly present, time restrictions play a key role in determining the typicality of a price promotion and consequent consumer reactions. Building on prior findings from price-promotion literature, we develop a comprehensive conceptual framework that integrates attribution perspective and that parsimoniously accounts for consumer reactions to price promotions when both a discount and time restrictions are present.

In a price-promotion domain, offering too high a value is likely to be perceived as a violation of the “common sense of selling” (Friestad and Wright 1994, p. 7; Maxwell 1999). During price promotions that offer excessive value, consumers may draw a variety of inferences (Shweder 1980, 1982; Xia, Monroe, and Cox 2004) to explain price promotional behavior that seems contrary to marketer interests. Consumer reactions to a price promotion in such situations will be determined by their interpretations of the underlying causes behind a retailer’s price promotional behavior (Kelley and Michela 1980). One of the plausible explanations consumers may arrive at in such situations is that a retailer is selling poor-quality products. Indeed, prior research shows that discounts that are too large may be perceived as a sign of low quality (Darke et al. 1995; Friestad and Wright 1994).

Although excessive value in a price-promotion context is traditionally associated with higher than expected discounts, discount is not the only price promotional element that contributes to the perception of the overall value offered by a marketer. When explicitly present, time restrictions play a key role in determining the value offered during price promotions. Even when a discount alone raises no questions (e.g., 40% off regular price), time restrictions may indicate that a retailer is offering a prohibitively high value (e.g., when a 40% discount is offered for 6 months) and may not be able to incur such high expenses unless the promoted product is of poor quality.

In this research, we develop a comprehensive conceptual framework that integrates an attribution perspective and shows how consumers react to price promotions when both a discount and time restrictions are present. Our conceptual framework fully accounts for the joint effect of two key price promotional elements – discounts and time restrictions. We also introduce the concept of perceived price promotional value and show that it is instrumental in determining the typicality of a price promotion and consequent consumers’ reactions.

Specifically, we suggest that, during price promotions, consumers implicitly estimate not only the perceived value of a deal (Monroe 1979) based on the size of the discount but also the overall value that a retailer is offering to all consumers during a price-promotion campaign (perceived price promotional value). Perceived price promotional value is based on both the discount and time restrictions and reflects a marketer’s financial expenses related to a price-promotion campaign. Consumer evaluations of an identical deal in terms of the discount size will differ greatly depending on whether the price promotional value is perceived as typical or excessive. When consumers doubt that a marketer can cover all promotional expenses, they will try to restore the common sense of selling by assuming that the product quality is poor and adjust it downward to compensate for the excessive price promotional value. Conversely, when perceived price promotional value is not significantly different from those that other retailers in an industry offer during price promotions, consumers’ deal evaluations are likely to change linearly with the change in the discount size (Monroe 1979). References are available upon request.

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SUMMARY

Upselling is a widely utilized sales tool especially in American service industries like car rentals, hotels, and travel businesses. It denotes a salesperson’s attempt to persuade “a customer to purchase a higher-level product or service, richer in functions for the user and more profitable for the company” (Vercellis 2009, p. 335). A decision in favor of the upsell option indicates the reconsideration of the initial decision already made but not paid for yet and is therefore distinct from related concepts such as cross-selling and up-grading. Although recent publications anecdotally highlight that successful upselling requires an elaborated understanding of a firm’s customers (Salazar et al. 2007), no study can be found that investigates the critical factors and effects of upsell offers in the direct seller-customer interaction within the service encounter. Moreover, practice shows that it is not self-evident that the customer always decides in favor of the upsell offer although it might be obviously beneficial. In contrast, it might even be detrimental for future sales in case the customer feels pressurized or overwhelmed. Thus, the purpose of this research is to provide a conceptual clarification of the customer’s decision process underlying an upsell choice as well as to provide an answer to the question of when and why customers decide in favor or against an upsell offer and how this affects customers’ willingness to pay.

Our theoretical considerations build upon a three-step choice process that characterizes a typical decision process in most service encounters dealing with upselling. In a first step, the decision maker chooses from a given set of available options according to his or her preferences. The second step denotes the direct customer-seller interaction in the service encounter in which the salesperson submits the upsell offer to the decision maker. The final decision in favor of or against the upsell is the third step of the process. We expect that customers’ experiences and decision processes in the first step are decisive for the final decision concerning the acceptance or rejection of the upsell offer. Put differently, we expect that the amount of cognitive effort invested in the initial choice stage determines the final choice. This perspective is consistent with the effort-accuracy framework positing that a decision maker always strives to maintain a balance between the effort (i.e., costs) invested in a decision strategy and the accuracy of choice (i.e., benefits) (Bechwati and Xia 2003; Betman et al. 1993; Johnson and Payne 1985; Payne 1982). A high amount of cognitive effort invested in the initial decision raises switching barriers (Burnham et al. 2003; Fornell 1992). The higher the time and the cognitive costs associated with a switching decision regarding a product or a provider, the higher the probability that the buyer gets cognitively locked-in (Johnson et al. 2003; Murray and Häubl 2007; Zauberman 2003). We argue that this also holds even when the decision maker solely arrived at a decision without prior usage of the product or service. Therefore, in order to realize the upsell one question remains: How can the salesperson frame the upsell arguments so as to release the decision maker from the cognitive lock-in?

In order to answer this question, we draw on regulatory focus theory (Higgins 1997; Higgins et al. 2001) that emerged as an auspicious new approach to examine the persuasiveness of advertising (see e.g., Zhao and Pechmann 2007). Researchers found that the “message’s regulatory focus,” i.e., the extent to which the message emphasizes accomplishment or safety aspects, affects advertising persuasiveness (Zhao and Pechmann 2007). Due to the fact that an upsell embodies a superior product or service option, the upsell message can either highlight promotion or prevention aspects. We postulate that prevention-framed upsell messages introduce a kind of structured conflict while questioning the assumptions underlying the initial decision. Thus, we propose that prevention-framed arguments lead to an increased probability of choosing the upsell compared to promotion messages. Different outcomes are expected when the upsell message is framed with a promotion focus. In case the decision maker invested low cognitive effort in the initial decision task, he or she is more willing to process the information regarding the upsell offer, no matter if this information is framed with a promotion or a prevention focus. Thus, the probability of choosing the upsell will not vary as a function of the message’s regulatory focus.

To test our hypotheses we conducted an experiment with students from a Swiss Business School. In the first part of the experiment the participants were exposed to a decision task inducing either a high or a low amount of cognitive effort by means of information organization (Fennema and Kleinmuntz 1995). In the second part of the
experiment, participants were presented with a role-play scenario describing the service encounter and upsell offer either in a promotion-focused or prevention-focused way. When the amount of cognitive effort invested in the initial decision was high, promoting the upsell with a prevention focus entailed a higher probability that the participants chose the superior option compared to promotion-framed upsell arguments. In contrast, when the initial decision only required a low amount of cognitive effort in processing the information, there was no difference between both persuasion strategies. A similar interaction was also found for willingness to pay. These results do not only contribute to the scarce literature on upselling, they also hold important implications for the daily business in service encounters since both independent variables, i.e., the amount of cognitive effort invested in the initial decision task as well as the selling strategy can be influenced by the service firm itself. References are available upon request.

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WHETHER AND TO WHAT EXTENT CONSUMERS CARE ABOUT FAIR PRICING FOR ITS OWN SAKE

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SUMMARY

The topic of price fairness has received considerable attention. Perceptions of price unfairness may result in loss of customers, negative words of mouth (WOM) and public relation nightmares for a firm. Fairness judgments concern both the outcome (fair price), and the procedure leading to the outcome (fair pricing). Outcome fairness refers to buyer’s perception of the justifiability of the price that she/he receives relative to some comparative other. Procedural fairness refers to buyer’s perception of the justifiability of the criteria the seller uses to set prices, of its pricing policies and pricing practices. Adopting an instrumental perspective on fairness, research on price fairness has traditionally treated procedural fairness as a means to fair outcome. The question of whether and to what extent customers care about price procedural fairness for its own sake has not been adequately answered. This issue is relevant for scholarly understanding of the nature and role of the two components of fairness judgment and has implications for why sellers should manage buyers’ perception of fair pricing.

Conceptual Framework

We build on the relational perspective on fairness to decompose the effects of procedural fairness versus outcome fairness on buyer responses to price differences. Whereas the effects of outcome fairness are governed by instrumental concerns (e.g., perceived value), the effects of procedural fairness are governed by relational concerns (e.g., status). The salience of procedural versus outcome fairness effects is contingent upon the order in which the individual receives, and the ease of interpretation, of information regarding procedural versus outcome fairness. It is hypothesized that,

H1: Price outcome fairness and price procedural fairness have separate direct effects on buyers’ responses to prices (satisfaction, repurchase intention and positive WOM).

H2: When information regarding price procedural fairness and price outcome fairness is available simultaneously, and when information regarding procedural fairness is of high interpretability relative to information regarding outcome fairness; perceived procedural fairness will have stronger effects than perceived outcome fairness on customer responses to prices.

H3: Perceived procedural fairness mediates the effects of pricing practices on buyers’ responses to prices (satisfaction, repurchase intention and positive WOM).

Study 1

Student participants (N = 108) read the following scenario and then responded to questions:

“Please imagine that you are out of town for pleasure. You come to stay at a local hotel for one day, and you pay for your hotel expenses with your own money. This is the first time that you stay at this hotel, and you find the hotel service satisfactory. The next morning, while waiting for the evaluator you run into Ms. Steward, who stays in a room next to you. Upon casual conversation with her, you find that she pays 10 percent [30%] less than you for the same room and length of stay (one day). You ask her how she got a lower price than you and learn that she got a special discount for being a frequent customer [a friend of a sales representative of the hotel].”

The hotel setting was chosen because hotel staffs often have considerable flexibility in setting prices. Procedural fairness was manipulated by varying the type of preferential pricing practice (offering lower price to frequent customer versus to sales representative’s friend). Outcome fairness was manipulated by varying the level of price inequity, that is, the difference in the price paid by the focal customer and the comparative other. This resulted in a 2 × 2 between-subjects experiment in which the type of preferential pricing practice (offering lower price to frequent customer versus to friend) and magnitude of price inequity (low (10%) versus high (30%)) were manipulated. The dependent variables were satisfaction, repurchase intention, and WOM. The mediating variables were perceived price outcome fairness and procedural fairness.

Factor analysis showed that outcome and procedural fairness were distinct empirically. Multiple regression analyses showed significant effects of both outcome and procedural fairness on the three dependent variables, supporting H1. The coefficients of procedural fairness
were both higher and more significant than those of outcome fairness on all three dependent variables, supporting H2. Usefulness analysis showed the component of procedural fairness and outcome fairness to be uniquely associated with all three criterion variables. Compared with outcome fairness, procedural fairness accounted for a larger part of variability in all three criterion variables. These results provided further supports for H1 and H2. Mediation analysis indicated that perceived procedural fairness mediated the effects of type of preferential pricing on all three dependent variables. The mediation was perfect for satisfaction and WOM and significant for repurchase intention. H3 was supported.

Study 2

This study replicated Study 1 with two modifications. First, we used an alternative measure of procedural fairness. Second, we modified the price inequity manipulation to include a 50 percent discount condition. This resulted in a 2×3 between-subjects experiment in which the type of preferential pricing practice (offering lower price to frequent customer versus to friend) and magnitude of price inequality (low (10%), high (30%), very high (50%)) were manipulated. Participants were students (N = 162). The results showed that the findings of Study 1 were not conditional upon how procedural fairness was measured, and that even with a stronger manipulation of outcome fairness, the effects of outcome fairness were still weaker than the effects of procedural fairness.

Discussion

In the legal, management, and customer service domains, it has been shown that apart from their concerns for fair outcome, people care a great deal about the fairness of the decision making process for its own sake. The current research extended these results to the pricing domain. We extended initial efforts in the pricing literature toward a view of price procedural fairness for its own sake in two ways. First, past research showed that pricing practices has a direct effect on consumer responses to prices. We showed that this effect is mediated by perceived procedural fairness. Second, past research provided indirect evidence that under certain circumstances, procedure was more important than outcome. We provided direct evidence for this relationship.

The findings provide added rationale for actively managing buyers’ perception of fair pricing, point to the significance of the relational outcomes of price fairness, and motivate further research on factors that affect the importance of procedural relative to outcome fairness. References are available upon request.

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GREEN BEHAVIOR: CONCERN FOR THE SELF OR OTHERS?

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SUMMARY

Three main motives are discussed in the extant literature for people to engage in pro-environmental behavior: (1) environmental concern perspective, (2) rational economic perspective, and (3) social perspective (Griskevicius et al. 2010). The presence and strength of these main motives, however, depend upon individual and personal characteristics. The first perspective suggests that people are normally motivated to engage in pro-environmental behavior because they inherently care about the environment and its human occupants. Therefore, it is predicted that altruism is positively associated with green behavior. Rational economic perspective (Geller 1989) can also be applied in explaining green behavior. That is, individuals’ tendency to be careful in their use of personal resources leads them to engage in pro-environmental behaviors. Frugality, encompassing the careful use of both financial and physical resources, was examined in this study. It is predicted that frugality is positively associated with green behavior. On the other hand, environmental issues are generally related to the future and pro-environmental actions are expected to have long term effects. Therefore, it is predicted that future-orientation would be a significant predictor of green behavior among Gen Y consumers because they have to live longer with the consequences of current environmental decisions than will elders. Finally, perceptions of environmental risks as one of the determinants of pro-environmental behaviors have widely been investigated in previous research and the results show that the more individuals perceive potential risks in their environment, the more they are motivated to perform environmental behaviors (Seguin et al. 1999). However, individuals differ in their risk attitudes (i.e., risk-averse, risk-neutral, or risk-seeking). Consequently, it is expected that risk-averse individuals are persuaded easier by environmental protection messages and thus, show pro-environmental behavior to a greater extent.

Methodology

The data was collected from a sample of 276 students at a Southwestern public university in the United States. Participants ranged in age from 18 to 30 years ($\mu = 24.44$, $SD = 5.72$), qualifying them as Gen Y consumers. The constructs of interest in this study were measured using seven-point established scales found in the literature (Burton et al. 1998; Lastovicka et al. 1999; Roberts 1996; Rushton et al. 1981; Stren et al. 1999; Zimbardo and Boyd 1999). To validate constructs, first each set of items was examined using item-to-total correlations to segregate items poorly fitted to specific construct domains. Second, the resulting sets of items were analyzed via confirmatory factor analysis using LISREL 8.72 to verify unidimensionality. The goodness of fit indices indicate a good fit (GFI = .82, CFI = .95, NFI = .91, IFI = .95, RMSEA = .057). Next, the reliabilities of the measures were assessed by calculating individual composite reliabilities and average variances extracted using Fornell and Larcker’s (1981) suggested procedures. All of the factor loadings (range .49 to .83) are significant, and composite reliabilities range from .68 to .93. Discriminant validity is first assessed by calculating the shared variance between all possible pairs of constructs, and verifying that for each pair the highest shared variance is lower than the AVE of each individual respective construct. All pairs pass Fornell and Larcker’s (1981) test indicating discriminant validity among the constructs. Discriminant validity is also assessed by estimating a series of two-factor confirmatory models using LISREL 8.72. For each pair the model is estimated first by restricting the factor intercorrelations to unity. Then the model is estimated again with the restriction removed. In each case, the chi-square difference tests are significantly smaller in the unrestricted model, thus demonstrating discriminant validity among the measures.

Results and Discussion

The proposed model is estimated with LISREL 8.72, using the maximum likelihood estimation method. The fit statistics indicate a good model fit (GFI = .82, CFI = .95, NFI = .91, IFI = .95, RMSEA = .057, $\chi^2 = 1049.40$, df = 550). The results of the analysis show that risk averseness is not a significant predictor of the green behavior ($\gamma = – .07$, $t = – .95$). The findings also reveal that frugality is positively associated with green behavior ($\gamma = .34$) and this relationship is significant ($t = 4.11$). In addition, the hypothesized relationship between altruism and green behavior is not significant ($\gamma = – .08$, $t = – 1.00$). Finally, the findings reveal a positive $\eta$ ($\eta = .18$) and significant $\eta$ ($\eta = 2.07$) relationship between futurism and green behavior.

The results of the study show that frugality and futurism, both of which are more rational and self-oriented motives, are significant predictors of green behavior. In contrast, risk averseness has been shown to have no significant effect on green behavior. The final, and perhaps the most interesting, finding of this study is that altruism, as an indicator of helping behavior and caring for others, has no significant effect on environmentally friendly behavior among Gen Y consumers. Therefore, the findings of this study extend the notion of “return to rationality”
suggested by Peattie (2001, p. 194) to younger consumers when subjected to green marketing. The findings of this study have several implications for marketers in developing segmentation and targeting strategies. For example, advertisers may pursue more self-directed communication strategies in promoting their green products. In addition, western culture is mainly future-oriented (Karniol and Ross 1996) and therefore, an emphasis on future outcomes of acting environmentally friendly might be an effective strategy for promoting green product consumption.

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EGOISM AND THE EVERYDAY CONSUMER: DEVELOPING A NEW THEORY ON PROSOCIAL BEHAVIORS IN CONSUMPTION CONTEXTS

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ABSTRACT

The author proposes that egoism, a prosocial trait construct, is comprised of two established constructs – altruism and hedonism – and uses social and moral identity theories to explain the new construct’s relationship with consumption. Developing a prosocial construct that focuses on self-benefit will guide proposed future research on socially responsible consumption.

INTRODUCTION

A gentleman walks into a car dealership. He has a notion of what type of car he would like to purchase, but wants to further discuss his options with the salesman. After taking the buyer on a test drive of a gasoline-powered, top-of-the-line, luxury sports car, the salesman suggests to the buyer to test drive a hybrid-electric car. The salesman lets the buyer know that the hybrid car may cost a little more money upfront, but would also be eligible for a tax break. From several years of advertisements, the buyer is also aware that the hybrid car has more miles per gallon and better gas mileage than the luxury car, however he has already given a few hundred dollars of charitable donations to environmental causes over the past few years. He starts to ponder this new option.

Before the buyer starts getting too carried away with mental calculations, the salesman presents a third option: leasing one of the car company’s premier new, hydrogen cars. This car would not only be environmentally-friendly (assume this buyer is unknowledgeable of the increased environmental impact of the hydrogen car, relative to the hybrid), and not only qualify for the tax break, but would also be in short supply, as the car company could not keep up with its media buzz and celebrity generated at recent international auto shows.

With this third option, the buyer starts to weigh which car he wants to take home. On the one hand, he could drive away in the luxury car; on the other, he could drive away with a car that costs a little more, but is more environmentally-friendly. And yet, he could also drive away with a car that is not only environmentally-friendly, but also extremely trendy. Assuming the buyer has the means of purchasing any of the cars, he starts making mental tradeoffs between the attributes that benefit him (self) and the attributes that benefit society (others). In the realm of prosocial behaviors, this paper examines such simultaneous tradeoffs of self- and other-benefit motivation as the defining characteristic of a new egoism construct.

Although prosocial behaviors have been mildly defined in previous marketing and psychology literatures, more often than not, they have been regarded solely through the lens of altruism (Osterhus 1997). Moreover, much prior research on prosocial behaviors has been confined to philosophical discussion of—and social psychology experiments on—altruism (Cialdini and Kenrick 1976; Cialdini, Kenrick, and Baumann 1982; Batson 1991). As marketing research favors the altruism construct, it thereby tends to focus solely on consumer decision contexts of charitable donations or other philanthropic causes (Reed, Aquino, and Levy 2007). However, in the broader societal consumer context of “everyday” goods and services, there is every reason to give extra consideration to the self (ego)-benefit dimension of prosocial behaviors.

The purpose of this paper is to explore the relationship between egoism – a prosocial behavior that envelops both benefits to self and benefits to others—and consumption with increased emphasis on the benefits to the self. Contemporary consumer society has placed more of this emphasis on the self, making it important for marketers to understand how the motivations of egoistic behaviors can be tied to understanding other marketing issues such as materialism and social responsibility. As marketing efforts tend to stimulate consumption of material goods, experiences, and services, there is imperative for researchers and marketers to understand consumers’ motivational factors. The egoism construct therefore supplements consumer research because it assumes that consumers may purchase normal consumption goods serving both other- and self-benefitting purpose. With respect to the car buyer above, his first choice reflects self-benefit (hedonic motivation), his second choice reflects benefit to others/environment (altruistic motivation), and his final choice reflects a combination of self/other-benefit (egoistic motivation).

DEFINING EGOISM

Prior research in the domain of prosocial behaviors has yielded scant literature on the construct of egoism. The central concept of egoism is the motivation of prosocial
behaviors that enhance self-benefit more than other-benefit. A broad variety of definitions frame egoism in absolute terms of what individuals ought to do (Rand 1964). However, I contend that egoism is about self-interest as a primary motivator; an individual’s moral tradeoffs are often made on a subconscious level, rather than on elaboration of what he ought to do. Therefore, my proposed definition of egoism follows:

_Egoism is a motivational state where individuals make prosocial decisions to maximize their self-happiness. As a result, individuals make moral tradeoffs to engage in prosocial behaviors that are generated by both positive and negative affect. High levels of egoism – while highly correlated with altruism and hedonism – are likely to lead to patterns of reduced volumes of consumption, as well as increased consumption of ethical goods and services._

Given that egoism is the balancing of altruism and hedonism (Slote 1964), I next review these two constructs.

**Altruism**

Altruism can be defined as a motivational factor that focuses on other-benefit. Although definitions of altruism have varied over the centuries, they have typically included attributes such as prosocial behavior, helping of others, a moral imperative to doing “good,” and so forth (Kant 1785 [2002]; Simon 1990; Batson and Shaw 1991; Krebs 1991). Previously, altruism has been assessed in economic literature with regards to the notion that “rational man” is most interested in self-preservation. Therefore, altruism runs contrary to evolutionary principles in that it, de facto, places the needs of others as an individual’s primary motivational factor.

_Social psychology literature – in particular the Negative-State Relief Model (NSRM; Cialdini and Kenrick 1976; Cialdini, Kenrick, and Baumann 1982; Cialdini et al. 1987) and the Empathy-Altruism model (Batson 1991; Batson and Shaw 1991) – has contrasted the motivational factors of other-benefit in behaviors. The NSRM better explains the other-benefit of altruism as a primary motivational factor, but that self-benefit is a byproduct of those actions. Therefore the NSRM is particularly important in light of Festinger’s (1957) dissonance theory. Empathetic appeal cannot necessarily be responsible for eliciting moral obligation; rather, the activation of moral responsibility comes from a desire to reduce one’s own uncomfortable affectations. Furthermore, the NSRM lends itself better to understanding structural extensions of the egoism construct, as they relate to marketing._

In the marketing domain, altruism has largely guided recent literature dealing with non-profit marketing. Of particular interest to marketing researchers has been the impact of altruism and other-benefitting versus self-benefiting behaviors on non-profit, charitable donations (Strahilevitz and Myers 1998; Reed, Aquino, and Levy 2007; White and Peloza 2009). However, most of these studies focus solely on refining and explaining the altruism construct, leaving out the potential explanation that alternate prosocial behaviors may be responsible for different types of consumption patterns. Additional research has looked at some of the motives (Straughan and Roberts 1999; Stern 1999) and effects (Ger and Belk 1999) of altruism in a consumer context. However in recent years, business practice has increasingly emphasized the role of morality and ethics. Both firms and consumers have demonstrated an increased desire to be more socially responsible but thus far, have inadequately been able to do so via consumption.

**Hedonism**

The concept of hedonism has been present in western literature dating back to the ancient Greek civilization, where Democritus and Epicurus posited the notion that the sole goals of existence were cheerfulness and eudemonia (happiness). In this regard, pleasure-seeking activities were thought to maximize the intrinsic rewards received by an individual. The philosophical debates regarding the purpose of hedonism (including merited religious debate over the morality of hedonic indulgence) have left its merits in contemporary society unresolved.

_Incorporating the hedonism construct provides the definition of egoism with a motivational dimension that explains the derivation of self-benefit from prosocial behavior. Hedonism has previously been assessed in the literature, particularly with respect to the benefits provided by goods and services (Holbrook and Hirschman 1982)._ 

_Since hedonism elicits eudemonic affect, there is higher propensity for that affect to continue to drive self-interested behavior (Deci and Ryan 2008). If the locus of utility (pleasure) is the self, there should also be a high probability for a prosocial behavior to continue to drive individual hedonism – regardless of morality. Therefore, in order to compensate for any decreasing hedonic utility, individuals should theoretically continue to engage in hedonic behaviors that maintain a eudemonic state. Interestingly, Cialdini and Kenrick (1976) suggested that altruism may be a specific form of hedonism, as individuals regulate affective states in order to produce pleasure. However this notion is only partially valid if subjective-wellbeing is a direct function of eudemonia (Deci and Ryan 2008)._
One of the primary outcomes of hedonic behavior is consumption, as the literature has traditionally regarded consumption as the ability of a product or service to provide utility and pleasure to the consumer (Holbrook and Hirschman 1982; Batra and Ahtola 1990). The psychosocial interplay of the consumption environment plays a key factor in hedonic utility. Holbrook and Hirschman (1982) posited that a large part of consumption was based on experiences and affect. For example, Arnold and Reynolds (2003) studied the hedonic components of shopping motivations and creating a scale that would predict such motivations of shopping behavioral outcomes. In those instances, experiential dimensions of shopping such as “role shopping” and “social shopping” showed elevated hedonic response.

In line with literature on hedonism via goods and experiences, other studies have assessed the impact of a phenomenon termed the “hedonic treadmill,” which suggests exponential increases in material happiness ultimately lead to quicker adaptation to happiness levels and marginal happiness returns and may even form an inverted U-curve (Nicolao, Irwin, and Goodman 2009). In fact, one form of this inverted U-curve (the Wundt curve; Berlyne 1971) demonstrated that extreme levels of hedonic arousal would ultimately produce unpleasant affect. In order to increase happiness beyond the marginal point (the hedonic treadmill), one must participate in experiences—shared experiences, in particular.

**THEORETICAL MOTIVATIONS OF EGOISTIC CONSUMPTION**

The consumer context provides ample opportunity for various egoistic experiential and fungible consumption to occur. Due to the bi-dimensionality of the egoism construct proposed above, two streams of literature support linking the construct to consumption: the altruism dimension demonstrates the moral tradeoff’s that often occur when an individual performs an other-benefitting action, while the hedonism dimension demonstrates the reinforcement of self-concept through self-benefitting actions. Since the goods and experiences we consume are typically congruent with our identities, I therefore use both moral- and self-identity theories to help conceptualize the relationship between egoism and consumption behaviors.

**A Moral Identity Perspective on Egoism**

The idea that identity and morality are linked has long prevailed in moral motivation literature. Dovetailing off of the identity theories discussed above and incorporating ideas from Kohlberg’s (1969) Cognitive Developmental Theory of Moral Reasoning and Blasi’s (1983; Blasi and Glodis 1995) work on moral identity and moral traits, Aquino and Reed (2002) proposed a theory of the self-importance of moral identity, which established both convergent and divergent validity from other identity constructs. This was one of the first attempts to measure social identity at a (moral) trait level.

Blasi (1983) developed a “Self Model of Moral Functioning,” comprised of three parts: (1) judgment of responsibility; (2) moral identity; and (3) self-consistency. As the nature of one’s identity matures and becomes more stable over time, the incorporation of values and goals into subjective identity increases, leading to greater moral commitment and less moral dissonance (Hardy and Carlo 2005). Moral emotion may also lead to moral motivations, linking empathy as an affective response that stimulates prosocial behavior (Hoffman 1981, 2000). Using Blasi’s assertions both that moral identities vary in content and that being a moral person need not be a necessary part of an individual’s self-concept, Aquino and Reed (2002) posited that an individual’s moral traits may drive the creation of his moral identity. Their work developing a moral identity scale identified nine moral traits (caring, compassionate, fair, friendly, generous, helpful, hardworking, honest, and kind) as salience-inducing stimuli of moral identity. These traits were used to develop a two-factor (Internalization, Symbolization), 11-item scale. In relation to salience-induction stimuli (Abrams and Hogg 1988), moral identities may play a more prevalent role under certain conditions.

It is important to note that although few studies have adequately addressed personality correlates with moral behaviors, none have yet assessed personality correlates with moral identity (subsequently determining moral personality) (Hardy and Carlo 2005). Additionally, recent studies (Hart and Atkins 2004; Hart, Atkins, and Ford 1999) have addressed possible factors that influence moral identity development. Socioeconomic status, religious background, and parenting/family environment may all contribute to the incorporation of morality into self-identity. Krevans and Gibbs (1996) also looked at maturity relating to prosocial orientations; inductive parental discipline was hypothesized as positively related to children’s empathy. This inductive discipline (rather than power assertion) was more likely to foster empathy development in childhood.

As individual backgrounds are comprised of varied sets of norms, the level of prosocial behaviors would also be expected to change as well. For example, cultural sensitivities relating to collectivized societies may place more emphasis on moral obligation, particularly with respect to an evolutionary component of group behaviors (Tajfel and Turner 1979). Individualistic cultures may focus more on self-benefitting behaviors, thereby raising the likelihood of egoism. In this regard, Trommsdorff (1995) compared the development of prosocial motivation in parent-child pairs in both Germany (an individual-
istic society) and Japan (a collectivist society). Her findings suggested not only that empathy is separate from distress, but also that distress has different roles in prosocial behavior.

A Social Identity Perspective on Egoism

Literature in social identity theory (Tajfel and Turner 1979) is largely rooted in the idea that individuals identify with social groups, based on interpersonal interactions and similar social characteristics. However, as these groups assume identities, dominant and subordinate groups subsequently appear, and intergroup conflicts occur. Although an individual may belong to two different groups, his behavioral responses will be the result of discrimination toward the in-group. When groups fail to interact, however, these groups are referred to as “minimal.”

Additionally, self-identification with an in-group and that group’s differentiation from an out-group makes it more likely that any type of reward-based scenario will favor the individual’s in-group. Attitudes toward the dominant in-group will also be more favorable and behaviors should therefore be discriminatory against the subordinate out-group. This process of self-categorization subsequently forms the individual’s self-concept of identity. Abrams and Hogg (1988) commented on self-esteem and intergroup discrimination, also using Oakes and Turner’s (1980) research on the self-esteem hypothesis as a motivator of self-concept. In this hypothesis, self-esteem serves as both the independent and dependent variables of intergroup conflict.

Other identity theories (Stryker and Burke 2000; McCall and Simmons 1978) have taken a more role-based (as opposed to group-based) approach that assesses the individual’s role in interaction-based contexts. Similar to other exchange theories (Bagozzi 1975; Homans 1958), performance in these contexts can only be achieved through role negotiation. However, Stets and Burke (2000) suggest that it is near impossible to disentangle the group, role, and personal identities from each other; activation of the different identities is actually the result of saliency and contextual factors. The conceptual overlap of social identity and identity theory helps to explain differences between who an individual is and what an individual does. In particular, there are facets of social behaviors that heavily rely on this overlap. Behaviors function to bring self-relevant meaning into agreement with identity standards (Stryker and Burke 2000).

EGOISM AND PROPOSITIONS OF CONSUMPTION

Consumption is one of the primary drivers of marketing research. Much attention has been given to a broad variety of consumption patterns and benefits (Holbrooke and Hirschman 1982). Individual (resources, task definition, type of involvement, search activity, and individual differences) and environmental inputs (products, stimulus properties, and communication content) are processed in a response function that accounts for an experiential function of consumption.

The notion that egoism may play a motivating role both in consumption typology and in volumes of consumption has heretofore been overlooked. Elliot (1997) explores five consumption dialectics that seem to fit the notion of egoism. These dialectics—particularly the social versus the self—may play a role in explaining the functional aspect of egoism in consumption. Holt (1995) takes a qualitative approach to identify how individuals relate to the objects that they are consuming. His questions mirror Belk’s (1988) approach to possessions, however, Holt’s typological approach seems to identify only two types of consumption: experiential consumption and play consumption.

The self-preservation aspect of consumption should also be considered when discussing consumption volumes. Fisk (1973) argued for “responsible consumption” including a four-faceted means of managing diminishing resources in the face of high mass consumption. A demarketing communication strategy was also suggested to shrink different types of demand patterns (Kotler and Levy 1971). Ehrlich and Irwin (2005) also found that under certain circumstances, consumers would remain “willfully ignorant” in asking for ethical product attributes. Thus, the egoism construct reflects the dynamism in tradeoffs between altruistic and hedonic motivation.

\[ P_1: \text{In consumption contexts where self-benefit is salient, the dominance of hedonic motivations leads to increased consumption volume without regard.} \]

\[ P_2: \text{In consumption contexts where other-benefit is salient, the dominance of altruistic motivations leads to increased consumption of ethical goods.} \]

Additional moderating variables may affect consumption outcomes of egoistic motivation. First, it is possible slowing down the instantaneousity of information processing, may lead to different types of consumption patterns. Mindfulness—a practice that allows for reflective, rather than reflexive, response to stimuli—is a potentially impactful moderating variable that has previously been studied in psychology (Baer 2003; Bishop et al. 2004), but is starting to make its way into marketing literature. By encouraging practices that heighten the individual’s sense of awareness, mindfulness has the potential to lead to socially responsible consumption by functioning as a moderator of information on impulsive behavior. Greater awareness of both the self and the community may function to dampen the effects of hedonic
behavior, thereby fostering more socially responsible outcomes.

P3: An increase in mindfulness of consumption may reduce consumption volumes without regard, while increasing conservation behavior and consumption of ethical goods and services.

Second, certain incentives may also alter the outcomes of egoistic behavior in favor of more other-benefitting outcomes. Although Caporael et al. (1989) suggested that egoistic incentives were unnecessary motivators, it is possible that a different behavioral pattern will arise with respect to consumption patterns. For instance, prior research by Stern (1999) observes that rebates for energy-efficient home appliances may stimulate consumption patterns for these items. The type/size of incentive may therefore alter egoistic behavior and affect consumption patterns that provide other-benefit.

P4A: Incentives (monetary and non-monetary) may function to stimulate ethical consumption.

P4B: Disincentives (monetary and non-monetary) may function to reduce consumption volume without regard.

Third, it is possible that deconsumption or demarketing information (Kotler and Levy 1971; Grinstein and Nisan 2009) may change the nature of consumption, either as a direct manipulation of impulsiveness or as a moderator of materialism. This type of information would serve as a disincentive of sorts, counteracting the effects of impulsiveness and materialism and leading to different consumption patterns in both typology and in volume.

P5A: The volume and content of information on a consumer good or service may stimulate egoistic consumption.

P5B: Information modality (and therefore, speed of information) may increase the likelihood of egoistic consumption

IMPLICATIONS FOR FURTHER RESEARCH

This initial model of egoism lays the groundwork of a new prosocial construct, the understanding of which is crucial for understanding the antecedents of different types of prosocial consumer behaviors. Understanding the predisposition toward these self-benefitting prosocial consumer behaviors provides marketers with an opportunity to understand both how ethical consumption and conservation can be increased and how consumption without regard and excess consumption can be decreased. Understanding the dynamic interplay and moral tradeoffs between altruism and hedonism may help businesses appeal to egoistic motivations of consumer behaviors and induce prosocial consumer choice.

Future research should continue to build upon this rudimentary theoretical framework, establishing boundaries between altruism and hedonism, particularly with respect to the notion of marketing exchange (Bagozzi 1975; Cialdini and Kenrick 1976). Qualitative work may continue to motivate the framework of egoism by focusing on the goals and values of egoistic individuals; quantitative work may continue to determine the construct’s discriminant, convergent, and nomological validities. Establishing these conditions will enable further research to proceed on tying the egoism construct into the nomo-
logical network of consumption variables, including hypothesis testing.

Additional research on egoism may consider factors such as cross-cultural differences between collectivist and individualist cultures. Social and personal values and norms may affect egoistic consumption. In cultures where conspicuous consumption is shunned, the other-benefit of egoistic consumption may offset the hedonic benefits. Consumers’ ages should also be a consideration of egoistic consumption, as youth may heighten an individual’s propensity to act in self interest while older age may decrease it. Additionally, temporal and geographic distance between the self- and other-benefits may influence consumption patterns. Egoism may also help to contribute to research on happiness and subjective well-being. As well, research may benefit from incorporating additional understandings of selfishness and antisocial behavior and their impacts on consumer behavior issues. The ideas of malignant behaviors are worth addressing with respect to other-benefit actions and the course of marketing.

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LIBERATING STIGMATIZED CONSUMPTION PRACTICES

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SUMMARY

The body of literature in consumer research (especially the area known as consumer culture theory) has documented a variety of stigmatized consumption venues, activities, and practices, such as the mountain man myth, Star Trek fandom, gay community, and Apple Newton brand community (e.g., Belk and Costa 1998; Giesler 2008; Kates 2002; Kozinets 2001). The listed literature contends that the stigma is a consequence of pursuit of idiosyncrasy and imbement of individual meanings upon possessions and experiences as well as disconformity-orientation. Stigmatized consumers recognize/give such an impression to marketers that they do not (want to) belong to the market system as they present their own lifestyles and stylizations of different modes of being as consumers (e.g., Giesler 2008).

Brand managers and cultural marketers have developed a mechanism, called co-optation (a business practice to culturally appropriate consumer-generated cultural products, practices, images, and symbols), to take advantage of stigmatized consumption practices (Thompson and Coskuner-Balli 2007). For example, hip-hop and gangster cultures in fashion industry and mass media are the ones that have been successfully co-opted by brand managers and converted to more or less mainstream in terms of the number of consumers who appreciate such cultural products.

Nevertheless, in the literature (despite its extent) stigma has hardly been discussed with respect to its socio-historical impact on consumer-market dynamics. Rather, it has been generally regarded as a means to achieve individual goals of identity (re)construction, even though a particular stigmatized consumption practice might bring historicity to the relevant domain of consumption. Extant literature focuses on the “acts” of being stigmatized rather than “modes” of being stigmatized in the chosen contexts. The possibility that a stigma can manifest itself in different manners is overlooked.

In response to the theoretical gaps identified from the literature, this study first seeks to explicate different manifestations of stigma in contemporary consumption praxes. Second, the workings of stigmatized consumption in consumer-market dynamics is also subject to a meticulous analysis. In order to better understand how stigmatized consumption takes different forms and contribute to the market system, albeit many marketers’ ignorance and neglect, annual X Games event is chosen as the research context for its engaging and sometimes stimulating environment as well as expectation-free ambience, which well qualify for the purposes of this relativistic, interpretive research (Arnould, Price, and Moisio 2006). Hence, different modes of stigma sought in the context of X Games will help theorize how stigmatized consumers partake in the ever-evolving marketplace. Dependent upon distinct modes of stigma, consumers in the context of X Games may show ramified approaches to the current consumer-market dynamics.

Following grounded theory approach (Glaser and Strauss 1967), phenomenological interviews were conducted in two annual X Games events (Thompson, Locander, and Pollio 1989). Observations were recorded using fieldnotes, videotapes, and photographs in order to easily utilize them for the following analyses and interpretations. Following Thompson (1997), hermeneutics is expected to yield meaningfully interpreted and theoretically contributing modes (themes) of stigma, based on consumers’ transformative ideologies and performances.

Three different themes found in this study of stigma employing the context of X Games evidently indicate that stigmatized consumption is not necessarily generalizable to a uni-faceted phenomenon without considering the respective impacts of each theme on the consumer-market dynamics. First, consumers’ pursuit of balance as a manifestation of stigma provides marketing opportunities for marketers. Dependent upon how a stigma is expressed and practiced, it does have a role in the market system. In this case, it is not to provide some cultural codes that are easily co-optable (e.g., Frank 1997; Heath and Potter 2004), but to suggest a less thinkable group of consumers as a new market segment.

Not only the identification of a new segment, but also a novel branding practice can also be inspired from consumers’ pursuit of balance. There are some exemplary grassroots brands (i.e., Grenade and Rome) that are widespread in the snowboard and outdoor equipment industry. A handful of individual fanatics and supporters of snowboarding have launched their own brands in order not to negotiate with the brand identities and personalities developed by marketers and other consumers.

Marketers have also benefited from consumers’ understanding of the politics of co-optation. On one hand, such consumers resist the system that executes “mass-brainwashing” for the sake of illusionary class stratification through status symbols and trend-setting cultural items, and this is how they become stigmatized. On the other hand, some mechanics of their naïve resistance
inadvertently create a tremendous marketing opportunity. Stigmatized consumers try to stay away from the system without realizing that the attempt is in fact reinforcing the system in terms of its contents and extent.

Consumers’ stylization of their identity crystallizes into inventions of new identity “props” they wear, carry, and ride, and marketers may quickly appropriate them. The extreme sports subculture is becoming factionalized as a result of such stylization, but it is a necessary condition for the sustainable consumer-market dynamics.

Perhaps other cultural contexts, in which certain types of stigma is present, shall be examined to explore more differed modes of stigma and their respective implications for both marketers and researchers. For example, some stigmas, such as tattooing, Botox shots, cosmetic surgery, credit card debt, impulsive buying, anti-recycling, and/or even self-sufficing could be the phenomena that will enrich the area of cultural branding and marketing, as each of such stigmas bear different history, psychological explanations, cultural connotations, and lifestyle claims. References are available upon request.

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I DID IT MY WAY: INDIVIDUAL DIFFERENCES AND THE VALUE OF MASS CUSTOMIZED PRODUCTS

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SUMMARY

Historically, customized products were more expensive and required more time than standardized, mass-produced products. However, advances in manufacturing systems and customer interfaces have enabled firms to offer timely and affordable customized products. For firms, mass customization programs enable the delivery of customized products at efficiency levels approaching those for mass production. For consumers, mass customization programs offer opportunities to actively participate in the design of personalized product solutions. Mass customization programs essentially provide individualized solutions to consumers within the limits that firms can profitably supply. Despite the proliferation of mass customization programs there is a notable absence of empirical research addressing the topic and research that examines consumer responses to mass customization is rare. A few studies do recognize that individual differences may contribute to consumers’ willingness to engage in mass customization and investigate consumers’ perceptions of their design abilities (Chang, Chen, and Huang 2009), abilities to express their preferences (Franke, Schreier, and Kaiser 2010), and levels of product expertise (Bharadwaj, Naylor, and ter Hofstede 2009). However, these studies are rare and the current study intends to advance this stream of research.

For marketers it is important to recognize that not all consumers will find equal value in mass customized products and will vary in their willingness to take on the task of mass-customization. This research examines individual characteristics that drive perceived value of mass customization. Three individual difference variables are investigated: Need for optimization (NFO) characterizes individuals by their relative desire to achieve the best possible outcome when making choice decisions; centrality of visual product aesthetic (CVPA) characterizes individuals according to their proclivity toward aesthetics and the importance they place on product design; and consumer need for uniqueness (CNFU) characterizes individuals by their desire to express unique aspects of their self-concept through products.

A questionnaire was administered to a sample of undergraduates (N = 240) enrolled in two marketing courses at a large Midwestern University. Participants responded to questions for two or four product categories (alarm clocks, book bags, cell phones, desk chairs) which represented a broad range of consumption visibility and were rated as highly relevant to the sample. This was a particularly appropriate sample because the on-line environment, by which most mass customization programs are administered, is an effective channel to reach college-aged adults (Nie 2001) and the sample’s homogeneity with respect to age meant that respondents were more likely to find similar product categories relevant and involving.

Four major findings emerged from this study. First, differences in the perceived value of a customized product can be predicted, in part, from individual differences in NFO, CVPA, and CNFU. Second, those differences were mediated by perceived risk and involvement in functional and symbolic benefits in the product category. Results indicate that high NFO consumers are more highly involved in the functional benefits for a product category than low NFO consumers, because they can align the functional benefits of products with their own specific needs and desires. Third, the results indicate that consumers high in CVPA are more highly involved in the symbolic benefits of the product and perceive a lower risk from mass customization than consumers low in CVPA. High CVPA consumers want to align the aesthetic properties of products with their tastes and preferences. The finding that high CVPA consumers perceive mass customized products as lower in risk than low CVPA consumers suggests that they tend to discount or ignore the potential financial and social risk inherent in mass customized products. Fourth, we found that both functional and symbolic involvement positively mediated the relationships between the individual difference variables and the perceived value of a mass customized product. Our finding that consumers who are highly involved in a product category perceive greater value in a mass customized is consistent with research that suggest that involvement is related to active forms of consumption.

There are a number of managerial implications of these findings. First, managers can draw on these results to more effectively target marketing communications. Individuals highly involved in a product category tend to engage in a great deal of non-purchase search behavior. Involvement offers a meaningful way to identify a target
market that will find more value in mass customization. Further, high levels of involvement result in heightened motivation to process detailed product information in persuasive communications (Petty, Cacioppo, and Scumann 1983). Therefore, marketing communications targeted toward highly involved segments emphasize information rather than images, taking full advantage of the increased likelihood of high cognitive processing of the persuasive messages. Second, consumers’ symbolic needs (e.g., style, color) were found to reduce perceived risk for a customized product. Managers should recognize that consumers highly involved in symbolic benefits are willing to overlook the perceived risk of the product. However, optimization and uniqueness needs do not yield similar risk implications and require firms to more effectively manage risk when customization appeals tend to feature optimization and/or uniqueness in the offering. Finally, in this study, the measure of the perceived value variable incorporated measures of consumers’ willingness to pay a premium price. This suggests that firms able to differentiate their brands through mass customized offerings may realize greater revenues than with mass marketed alternatives. Of course as more firms pursue mass customization strategies and markets for mass customized products become more saturated the premium consumers are willing to pay may dissipate. For current market conditions, however, this study suggests that firms may benefit from being first-movers in offering mass customized product alternatives. References are available upon request.

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THE MITIGATING EFFECT OF PERSONAL AGENCY ON REGRET

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SUMMARY

Regret is an unavoidable, complex emotion that is felt subsequent to a negative outcome resulting from a decision. It is a backward-looking, counterfactual emotion resulting from an unfavorable evaluation of the outcome of a past decision (Zeelenberg and Pieters 2007). It results from a realization that the current situation could have been better if only one had acted differently (Simonson 1992). To that extent, regret is different from related constructs such as disappointment which tend to be related only to the outcome of a decision (Zeelenberg and Pieters 2004). Further, while several negative emotions, such as anger, fear, and disappointment, can result from extrinsic factors, it is suggested that personal agency or individual choice is central to causing or amplifying regret (Zeelenberg, Van Dijk, and Manstead 1998; Ordóñez and Connolly 2000; Zeelenberg and Pieters 2007).

The documented role of personal agency is at least partly inconsistent with some of consequences of regret reported in the literature. For example, regret is found to be negatively correlated with the continuation of the decision that led to it (Zeelenberg and Pieters 2004). By implication, if personal agency were to increase regret then it should also reduce continuation intentions. However, a parallel stream of research that evaluates effect of personal agency on post-failure decisions documents the exact opposite result. Specifically, research on the escalation of commitment to failing projects (e.g., Staw 1976) shows that personal agency often triggers cognitive dissonance (Festinger 1957) and biases subjective perceptions of the extent of failure. Those who are personally responsible for making the decision perceive the received negative outcome as less severe and exhibit greater likelihood of continuing a failing project than those who did not make the decision themselves (Schmidt and Calantone 2002). This pattern of results suggests that, at least under certain circumstances, those who are personally responsible for decisions that result in unfavorable outcomes, should experience less regret than those who were not.

In this paper, we bring together the research on regret and escalation of commitment to explore this conditional, mitigating effect of personal agency on regret. We posit that the relationship between personal agency and regret depends on whether or not information about the superior outcome of a foregone option is known (Sugden 1985). When individuals do not know that the outcome of a foregone option is superior, personal agency may suppress cognitive dissonance as documented in the research on escalation of commitment. As a result, individuals who have personally selected the option may interpret subjectively its intensity of failure as less intense than those for whom the outcome was not the result of a personal choice (Schmidt and Calantone 2002). Therefore, we suggest that personal agency under such circumstances would mitigate the level of regret. On the other hand, individuals who know the superior outcome of a foregone option, experience self-blame or responsibility for the wrong decision, and personal agency under such circumstances may exacerbate regret (Zeelenberg, Van Dijk, and Manstead 1998; Ordóñez and Connolly 2000).

The results from two studies support our theoretical premise regarding the impact of subjective failure perceptions and the availability of information about the outcome of the foregone option on regret. In contrast to previous research that documents its exacerbating role, we show that when outcome of the foregone option is unknown and adverse outcome of a decision is subjectively evaluated, personal responsibility for the decision may attenuate subjective perceptions of the extent of failure and mitigate regret. However, when the superior outcome of the foregone option is known, personal agency may amplify regret. We find that subjective failure perceptions mediate the relationship between personal agency and regret.

In summary, our findings, in conjunction with the literature on regret, suggest that regret may be invoked because of two different processes. When the outcome of the foregone option is unknown, subjects rely on counterfactual thinking (Kahneman and Miller 1985; Kahneman 1995). Our research suggests that, under such circumstances, personal agency may curb counterfactual thinking and suppress cognitive dissonance. On the other hand, when the superior outcome of the foregone option is known, subjects may rely on decision justification (Inman and Zeelenberg 2002) and a comparison of the outcome obtained and the one foregone (Zeelenberg et al. 1998; Ordóñez and Connolly 2000). In this case, personal agency may amplify regret due to a self-attribution for making a wrong decision if the failure of the chosen option is explicit. References are available upon request.
THE CULTIVATION OF HUBS THROUGH THE ACTIVATION OF THE HUB SELF

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SUMMARY

Marketers have long been interested in the roles that influential consumers play in the marketplace. Influential consumers act as “hubs” of information and social influence. Various subtypes of influential individuals, such as opinion leaders, market mavens and social networkers, have been studied extensively. Much of the prior research asserts that influential individuals possess unique inborn traits (such as extroversion) that predispose them to sharing information and exerting influence (Mooradian 1996; Brancaleone and Guntas 2007; Marshall and Gitosudarmo 1995). This suggests that a marketing practitioner’s ability to capitalize on the connections of these influential individuals is first and foremost limited by the marketer’s ability to successfully identify them. This is no simple task (Redman 1998; Ryu, Park, and Park 2006; Peralta 2006). To our knowledge, no efforts have been made to determine whether this behavior can be externally activated. The current research demonstrates that influential individuals can be created rather than just located.

The idea that all consumers, rather than just those possessing certain personality traits, have the potential to become influential individuals is supported by theory from research on dynamic self-concept. Dynamic self-concept theory defines the self-concept as a multidimensional construct consisting of “a shifting array of accessible self-knowledge” that “mediates most significant intrapersonal and interpersonal processes” (Markus and Wurf 1987, p. 300). In other words, people have many self-concepts available to them, and the activated self-concept that is regulating intrapersonal and interpersonal processes. Additionally, dynamic self-concept theory proposes that “an individual’s behavior is regulated according to whatever set of dynamic structures are currently activated in the working self-concept” (Markus and Wurf 1987, p. 314). This suggests that the activated self-concept is the determinant of consumer behavior - in order for a consumer to behave as an influential individual, the corresponding dynamic structures for that self-concept must first be activated. The theory further suggests that contextual and social cues are the key to activating self-concepts. Because context and social cues are external, this implies that a self-concept can be externally activated (Markus and Wurf 1987). The present study provides evidence that a “hub self,” i.e., a self that is has a desire and perceived ability to influence others, can be externally activated.

In the present research, we define influential individuals as those who have the desire to share information with others, the ability to exert influence, and in a position to do both effectively. Borrowing from network theory (Barabasi and Albert 1999) the present study defines influential individuals who exhibit the three focal behaviors (desire, ability, and position) as “hubs.” The ability to externally create influential individuals has powerful implications for the effective use of customer relationship management (CRM) systems which rely on the marketer’s ability to identify and build a relationship with persons who have marketplace influence. By cultivating influential hubs, firms can rely on diffusion mechanics to carry their message to a customer segment. This allows firms to focus marketing resources on the few cultivated influential hubs and reduce the cost of marketing to the entire segment.

The objective of the presented study is to evaluate the proposition that manipulating consumer self-confidence leads to an activated hub self, and that this relationship is moderated by how informed the participants believe themselves to be. Specifically, we evaluated the proposition that increasing participants’ self-confidence through positive feedback and providing them with relevant information on a focal product (athletic shoes) will lead to the greater activation of the hub self than would provision of negative feedback and irrelevant information. The hub self is linked to a higher propensity to connect with others, a higher perceived power to influence others, and a higher desire to share information with others.

The present study employed a 3 (confidence: positive/negative/no feedback) x 2 (information: relevant to the focal product/irrelevant to the focal product) between subjects design. Undergraduate students enrolled in a marketing course at a large university in the southwest United States participated in the study. Athletic shoes were chosen as the focal product because this is a product with which most participants are familiar. One week prior to conducting the experiment, participants participated in an online personality assessment test adapted from the Neo Five-Factor Inventory which allowed us to evaluate extroversion as a potential covariate.
During the study, participants were shown a series of screens with identical pictures and either relevant information regarding the company, the product, and the technology behind the product, or irrelevant information describing marketing terms from their textbook. After reading the material, the participants were presented a series of questions to answer. Participants in the high confidence condition received positive feedback after answering questions. Participants in the low confidence condition received negative feedback about their responses. A control group received no feedback. Manipulation checks indicate that the manipulation was successful. Participants in the informed condition felt more informed than those in the uninformed condition. Participants in the positive feedback condition felt more confident in their knowledge of the athletic shoes than those in the negative condition. After the manipulations, intention to engage in word-of-mouth communication about the product, perceived expert power, and propensity to connect with others were measured employing Likert-type scale items, anchored by “(1) Strongly Disagree” and “(5) Strongly Agree.” These dependent measures represent the three dimensions proposed to indicate and activated hub self. Results of a MANOVA indicate that the interaction effect on the multiple dimensions is significant (Wilks’ Lambda = .925, p < .005).

Univariate analysis indicates significant interaction effects of confidence and information on intention to engage in word-of-mouth intention and for perceived power. However, results indicate the interaction is not significant for propensity to connect with others. The lack of influence on propensity to connect with others may be explained by theory of dynamic self-concept. The theory indicates that social cues are needed for the manifestation of hub behavior, and the fact that connecting with others is a social act, the researchers anticipate that dimension of the hub self cannot be fully accessed without the social context. Planned future studies will provide opportunity for activating this dimension of the hub self. References are available upon request.

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IMPACT OF RELIGIOSITY ON THE CONSUMER BEHAVIOR OF TURKISH IMMIGRANTS IN GERMANY

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SUMMARY

The world has become increasingly flat. Part of this globalization process is the spreading not only of goods and services, but also of different cultures and religions. However, while the impact of national culture on consumer behavior has been extensively researched (e.g., de Mooij and Hofstede 2002; Steenkamp, Ter Hofstede, and Wedel 1999), religiosity has remained “a largely overlooked construct in consumer research” (Cleveland and Chang 2009, p. 969). This is surprising considering that both consumer research as well as research in other disciplines like psychology and sociology has established that religion can be an important factor in shaping human behavior, values and personality (e.g., Cleveland and Chang 2009; Hills et al. 2004; Saroglou, Delpierre, and Deruelle 2004; Schwartz and Huismans 1995).

In addition to the general lack of literature on the relationship between religiosity and consumption, most research published in mainstream marketing journals to date has largely focused on Christian consumers. While this focus was reflective of European and North American societies for a long time, significant religious minorities have emerged in those countries in recent years and decades, particularly in Europe. Apart from the different Christian denominations, Islam is today the second largest religion in Europe. In Germany, France and the Netherlands, Muslims today constitute approximately 5 percent, 6 percent, and 5.7 percent of the overall population; the total number of Muslims worldwide was estimated to be roundabout 1.57 billion in 2009 (Pew Research Center 2009).

Since there are significant differences between Christianity and Islam, it is unclear whether results from previous research on religiosity (with Christians as subjects) are also applicable to Muslims. Research on the role of religion and religiosity in shaping the consumer behavior of Muslims is therefore clearly warranted both from an academic and a practitioner point of view. Using a sample of second and third generation Sunni Muslim Turkish students in Germany, we address this research gap by examining whether religiosity has an influence on three core elements of (Muslim) consumer behavior: innovativeness (Steenkamp and Baumgartner 1995; Steenkamp and Gielens 2003), materialism (Richins 2004; Richins and Dawson 1992), and importance attached to adhering to Islamic religious rules on consumption (e.g., the prohibition of the consumption of pork).

Using the religious importance scale by Putney and Middleton (1961) as a measurement instrument of religiosity (i.e., the importance of religion in the life of the respondent), we find that religiosity is strongly and positively associated with importance attached to adhering to Islamic religious rules on consumption. Considering that 90 percent of Muslims in Germany perceive themselves to be religious (including 41 percent highly religious) (Religion Monitor 2008), product development and marketing strategies that target Muslims need to account for principles and guidelines of the Islamic faith that are relevant for consumption in order to be successful.

We also find that religiosity has a significantly negative impact on one out of three materialism dimensions (Richins and Dawson 1992). This suggests that marketing strategies targeting Muslims should probably focus more on presenting the utility of the product, rather than trying to appeal emotionally to the materialistic benefits associated with the product being marketed. Finally, although religious people typically attach higher priority to conservation values, and lower priority to openness-to-change values (Saroglou et al. 2004), for our sample of second and third generation Turkish students, there is no association whatsoever between religiosity and innovativeness. Thus, when it comes to segmentation strategies based on innovativeness, in the context of our study religiosity is probably not a useful indicator. References are available upon request.
THE IMPACT OF CULTURAL AND RELIGIOUS ANIMOSITY ON PRODUCT EVALUATIONS

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SUMMARY

Research over the last ten years has highlighted the complex interplay of attitudes and evaluations informing product evaluations based on country of origin. Critical among these are consumer ethnocentrism and attitudes of animosity toward specific countries of origin (Shimp and Sharma 1987; Klein, Ettenson, and Morris 1998; Leong et al. 2008). This animosity influences evaluations of products from these countries, which combine with other cultural beliefs and attitudes related to the superiority of the country’s products, to form country of origin effects that influence perceptions of the suitability of these products and intentions to buy them. As shown by Klein and her colleagues (1998), long-held feelings of animosity affect consumers’ buying intentions, even when they are not directly affected by the actions perpetrated by the people or government in the country of product origin. Expanding this, Nijssen and Douglas (2004) found the effect is associated with a specific product/country combination, not only through the level and type of animosity engendered, but through less affective factors, such as the availability of alternatives and general level of imports into the country.

Not only might individuals deem products unacceptable due to their country of origin, a more global reaction is possible. Consider the recent conflict between Denmark and the Muslim world over publication of cartoons considered offensive to Muslims. This precipitated a boycott based on animosity toward the country and desires to retaliate against perceived wrongs by withholding economic resources. This is in sharp contrast to more conventional boycotts based on economic and political discord. In this example, we see not only that several Muslim countries have called for the boycott of Danish products, but have generated violent protests in Syria and Lebanon and several other Muslim countries. This example indicates that religious and cultural animosity may have a much stronger economic impact than the war and economic animosity discussed by Klein et al. (1998), since this type of animosity strikes at the core values of the culture, rather than representing some more generalized feeling of inequity or past mistreatment.

Although Klein’s animosity model has been well received and tested in different countries (Nijssen, Douglas, and Nobel 1999; Shin 2001), the model only evaluated the impact of war and economic animosity. Therefore, there are four main purposes for this study. (1) To extend the animosity model developed by Klein et al. (1998) by adding cultural and religious animosity constructs, (2) To provide a measurement tool with which to measure the cultural and religious constructs, (3) To provide explanations, and thus an understanding, of how cultural and religious differences impact consumer intention to purchase regardless of beliefs regarding the quality of the product, and (4) To determine the impact of cultural and religious animosity on product quality judgments.

Evidence of Cultural and Religious Animosity on Purchase Intentions

Recent events demonstrate the pervasiveness and negative consequences of these country of origin effects on a company’s ability to export products to a given country. For instance, on February 6, 2006, BBC News reported that Iran had cut all trade ties with Denmark in protest of the cartoons. Following suit, many Muslim countries announced similar boycotts. BBC News (2006) announced that Danish companies in many Muslim countries are losing millions of dollars a day as a result of the boycotts and the violence that has erupted in protest to the cartoons. On September 15, 2006, BBC news reported of the Muslim anger across the Arab and Muslim world toward Pope Benedict XVI for his comments about Islam. This also has lead to calls for boycotts of all papal products. More recently (2007), the CBS news reported on the Muslim anger over Britain’s awarding a knighthood to controversial writer Salman Rushdie. This has also lead to the public burning of flags, crosses, and other images representing the West. On October 19, 2009, Al-Arabiya News reported that the Israeli chain of coffee
shops, Elan, has stopped serving Turkish coffee to its customers as a response for the Turkish TV series showing an Israeli soldier firing at a young Palestinian girl. The coffee chain called for a boycott of the Turkish coffee in Israel (Al-Arabiya News 2009).

Conclusion

This paper presents evidence of the existence of cultural and religious animosity between individuals from different cultural and religious backgrounds. The recent conflict between Denmark and the Muslim world and the terrorist attacks of September 11, 2001 are the most recent reminders of these animosities. Some researchers (see Huntington 1993) suggest that cultural and religious animosity are likely to increase in the future due to increase in civilization-consciousness. The purpose of this paper was to extend Klein et al. (1998) animosity model by adding two more constructs (religious and cultural animosity) and to create a scale that would allow us to measure religious and cultural animosity. We collected data for different populations to develop and purify the scales. Discriminant validity showed that cultural and religious animosity scales are distinct and measure different kinds of animosity, which are related to Klein’s et al. war and economic scales. The data collected present empirical evidence that cultural and religious animosity have a negative impact on willingness to purchase foreign products. This result is similar to the effect of war and economic animosity on purchase intention found in Klein et al. study. References are available upon request.

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LIVING IN PARADOX: COMMITTING ROAD RAGE AND ATTENDING CHURCH MOST WEEKS

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Arch G. Woodside, Boston College

ABSTRACT

The paper cross-tabulates seven response levels of attending church or other place of worship by five frequency levels of engaging road-rage behavior. Eighteen contradictory extremists are identified. Most are males (14) and married (12), stay late at work, and feel like they are very busy trying to make everybody else happy that they do not have control of their own lives.

INTRODUCTION

Conjoining frequent church-going with frequent road rage behavior represents living a paradox. People going to church frequently are supposed to be nice, gentle, and polite whereas people engaging in frequent road rages are rude, aggressive, and impolite. Prior studies attempt to use failure of self-control (Vohs and Faber 2007), cognitive dissonance (Stone, Wiegand, Cooper, and Aronson 1997), ambivalence (Otnes, Lowrey, and Shrum 1997), and affection (Waters 2007) to explain the phenomenon of paradoxical behaviors. However, all these theories and concepts may explain temporary or impulsive paradoxical behaviors but fail to provide sufficient reasoning for why people commit such behaviors chronically.

Coupling attending church (or other religious ceremony) with chronic road rage (weekly) represents one form of paradoxical behavior. Although outsiders may see this segment of people as examples of hypocrisy and contradictions, people exhibiting both these chronic behaviors may be able to justify the combination in some way. Testing for the existence of such paradoxical behavior and possible explanations are the focus of the current study. The study helps to fill a vacancy in literature on the topic of chronic paradoxical behavior.

Thus, the current research has three purposes: provide evidence to support that the paradoxical group does exist, profile the lives of this group, and give some possible explanations for the seemingly paradoxical behaviors.

The findings may contribute to the development of theory explaining chronic paradoxical behaviors and provide some suggestions in social de-marketing (Woodside 2008) to reduce anti-social behaviors such as road rage. Possibly persons committing such acts fail to consciously recognize the apparent conflicts between the acts – they mentally compartmentalize the behaviors to prevent perception of conflict; causing these consumers to confront their paradoxical behavior may be a step toward reducing one or both behaviors. Or, in extreme cases the confrontation may result in some sort of mental breakdown, for example, consider “The Changling,” Episode 37, in the original Star Trek TV series:

Captain Kirk convinces Nomad (a damaged, self-repaired, floating robot) that it had mistaken him, Captain James T. Kirk, for Nomad’s creator, Jackson Roykirk, thus making Nomad imperfect and a candidate for “sterilization.” A confused Nomad begins to self-destruct, exploding just after Kirk beams the changeling into space.

LITERATURE REVIEW

Paradoxical Behavior

Freud’s ego theory indicates a person sometimes has conflicts between needs and ethical values. When self-control fails and affection wins (Vohs and Faber 2007) needs overcome ethical values. Examples are impulsive consumption (Hirschman 1992; Vohs and Faber 2007) and may include alcohol drunkenness, addictive gambling (Perfetto and Woodside 2009), adultery, and road rage (Woodside 2008). Impulsive behavior may cause cognitive dissonance and ambivalent emotion (Arnould and Thompson 2005; Otnes, Lowrey, and Shrum 1997) leading to some coping strategies (Arnould and Thompson 2005; Stone, Wiegand, Cooper, and Aronson 1997; Mick and Fournier 1998).

Coping strategies include trying to avoid committing the same paradoxical behavior and to reduce the dissonance and ambivalence. In other words, modes of paradoxical behavior may represent perceived conflicts – making people feel uncomfortable. On the one hand, implicit needs may urge a person to perform a behavior that is difficult to justify ethically; on the other hand, clearly ethical values do not encourage the person to perform the questionable behavior.

For people who go to church frequently, having road rage is one kind of contradictory behavior. However, one or more segments of people may exist that do both
behaviors extremely often – chronically. They may or may not need coping strategies. Possibly they may have already created explanations to themselves that both behaviors are not in conflict. The two behaviors together may be viewable as harmonious or at least individually justifiable. Before performing research for creating effective strategies to controlling paradoxical behavior – at least reduce frequent road rage coupled with frequent church attendance – a useful first step to take may be to learn (1) whether or not such behavior exists and (2) profiling the demographics and attitudes, interests, and opinions (AIOs) describing persons exhibiting this conjunction. The study here focuses on these two objectives.

Property Space Analysis

The present paper proposes and tests property space analysis (Lazarsfeld and Barton 1965; Perfetto and Woodside 2009; Woodside 2008) to identify and describe the group of people with paradoxical behavior in doing both chronic road rage and chronic church going. The focus is on the group chronically and extremely engaging in the two paradoxical modes of behavior, compared with other groups who do not engage in either or engage one or the other behavior but rarely both of them together.

Property space analysis test two propositions: the extreme paradoxical group does exist but is few in number; the group of people tends to have similar lifestyles but not all individuals fit the same profile. Utilizing cross-tabulation tables, property space analysis explicitly considers the theoretical contingency relationships among variables. The tables serve to identify the existence of extreme cases and the possibilities of paradoxical relationships. In terms of demographics, attitudes-interests-opinions (AIO), and media use, this paper profiles the segment of people who report chronically engaging in road-rage (“giving a finger” and “flashing light”) and going church frequently in comparison with other segments infrequently or never engaging in the two paradoxical modes of behavior. Understanding the uniquely different segment contributes to the development of theory explaining the paradox of lives and is a useful step in crafting intervention programs for reducing antisocial behavior. The focus is on the two modes of behavior conjunctively in which people in the unique segment engage in extremely-frequent behavior (EFB) (Perfetto and Woodside 2009) in both of them relative to the behavior of other people.

Extremely-frequent Behavior (EFB)

EFB theory includes building a property-space contingency table (Woodside 2008), for example, from road-rage behavior and church participation and identifying extreme (XX) groups of heavy participants going church AND engaging in road rage and groups of consumers not or infrequently engaging in this conjoined behavior. Figure 1 shows such a property space analysis. The group 7 is the extreme group for both going church and engaging in road-rage behavior.

Figure 1 shows seven groups by the frequency last 12 months of attending church or other place of worship and times of engaging in road-rage behavior annually. The study compares these seven groups and uses subjunctive statements to describe antecedents and consequences of behaviors of particular interest (Ragin 2000; Woodside 2008). For the extreme group, the variable-based data are treated as case-based data in the analysis (Bass, Tigert, and Lonsdale 1968; Woodside 2008). The current study using EFB theory includes three propositions (Woodside 2008).

P1: The XX group (attending places of worship frequently and engaging road-rage behavior frequently) exists in a large population.

Statistical analyses may show outliers or contradictory cases. The cases are possible biases but are not necessarily so. For example, the 9–11 tragedy shows the existence of extremists.

P2: Participating in other activities that likely relates to going church and road-rage behavior provides nomological validity (Peter 1981; Woodside 2008).

Nomological validity indicates that there exist significant relationships among a set of relevant behaviors that fit a priori expectations (Woodside 2008). For example, average participation should be higher for social and beneficent behaviors among going-church groups in comparison to other groups. Social and beneficent behaviors likely include the following activities: send a greeting card in honor of an event in someone’s life and do volunteer work. For frequent church goers, religion should be important. In addition, participating in the following violence-related activities by the road-rage groups should be more frequent versus other segments: renting X-rated movies, advocating death penalty, and fighting.

P3: The XX-behavior group includes some similar characteristics in terms of demographics, lifestyle AIOs, and media use that differ substantially from other groups.

This study examines how demographics and lifestyle patterns relate to XX-behavior. P3 proposes that a confluence of some particular demographic and emotional factors may change an average citizen to a hypocrite in the XX group (Vest, Cohen, and Tharp 1997; Woodside 2008). For example, the XX-behavior informants should report lifestyle AIOs indicating higher stress. However, not all individuals in the XX group are likely to be the
same in their demographics and lifestyles. Case-based data analyses provide contextual nuances to individuals in the XX segment.

METHOD

Data from national (USA) surveys made available from DDB World of Chicago provide the bases for examining paradoxical behavior. The surveys include the activity questions, “Attended church or other place of worship (frequency last 12 months),” “Gave ‘the finger’ to someone while driving my car (frequency last 12 months),” and “Flashed my lights at another motorist when annoyed with his or her behavior (frequency last 12 months).” A composite of the answers to the last two questions is the index of road-rage behavior. The survey provides detailed information about the demographics and lifestyles of respondents living in the USA. The annual mail survey was conducted in 1998 by Market Facts and funded by the DDB Needham advertising agency (Woodside 2008) with 3,350 respondents.

RESULTS

Table 1 shows seven groups after cross-tabulating seven response levels of attending church or other place of worship by five frequency levels of engaging road-rage behavior. The chi-square test (chi-square = 102.41, \( p < .001 \)) indicates that the road-rage behavior relates to frequency of attending church or other place of worship. The focus of data analyses is on identifying X groups with extremely frequent behavior and testing the propositions of EFB theory. The level of statistical significance for mean and proportion comparisons in this results section is set at \( p < 0.001 \). Analysis of variance was used to test the second and third propositions. Comparisons of differences in proportions were used to test the third proposition.

Extreme behavior for attending church every week and engaging in road-rage behavior 30+ annually includes less than one percent of participants. Eighteen paradoxical extremists are in this group. Table 1 represents the details of the seven groups. The group of people not engaging in road rage represents 46% of all respondents while 49% of all informants report engaging in some road rage. Four percent of informants chronically enact heavy road-rage. Among 534 frequent church goers, 3 percent are chronic road-rage givers. These 18 people are contradictory and hypocritical and are the focus of the report. The findings support the first proposition that the XX group exists.

Supporting activities for beneficent and social behaviors – such as sending a greeting card in honor of an event in someone’s life and doing volunteer work –

![FIGURE 1](property_space_configuration.png)

**FIGURE 1**

Property Space Configuration for Attending Church or Other Place of Worship (Frequency Last 12 Months) and Road-rage Behavior (Times Annually)

<table>
<thead>
<tr>
<th>Church \ Road rage</th>
<th>0</th>
<th>3</th>
<th>7.5</th>
<th>15</th>
<th>30+</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Group 1</td>
<td>(X) Group 5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5</td>
<td>Group 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.5</td>
<td>Group 4</td>
<td>(X) Group 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>(X) Group 3</td>
<td>(XX) Group 7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 1
Number of People and Percentage in Each Group

<table>
<thead>
<tr>
<th>Group</th>
<th>People</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1: No Church &amp; No Road Rage</td>
<td>442</td>
<td>13.59</td>
</tr>
<tr>
<td>Group 2: Church Sometimes &amp; No Road Rage</td>
<td>540</td>
<td>16.61</td>
</tr>
<tr>
<td>Group 3: Church Every week &amp; No Road Rage</td>
<td>516</td>
<td>15.87</td>
</tr>
<tr>
<td>Group 4: Some Road Rage</td>
<td>1605</td>
<td>49.35</td>
</tr>
<tr>
<td>Group 5: No Church &amp; Extreme Road Rage</td>
<td>58</td>
<td>1.78</td>
</tr>
<tr>
<td>Group 6: Church Sometimes &amp; Extreme Road Rage</td>
<td>73</td>
<td>2.24</td>
</tr>
<tr>
<td>Group 7: Church Every week &amp; Extreme Road Rage</td>
<td>18</td>
<td>0.55</td>
</tr>
<tr>
<td>Total</td>
<td>3252</td>
<td>100</td>
</tr>
</tbody>
</table>

FIGURE 2
Nomologically Relevant Activities for Church Goers: Sent a Greeting Card in Honor of an Event in Someone’s Life (Top), Religion Is an Important Part of My Life (Middle), Did Volunteer Work (Down)
should find high agreement with groups of frequent church goers in comparison to the other groups. Potentially violent-oriented activities – such as renting an X-rated movie, advocating death penalty and fighting – should occur more frequently with one or more chronic road-rage groups in comparison to the other groups. Figure 2 and 3 show details supporting these hypotheses.

The relationships between each of the nomologically relevant behaviors and the seven church-goers-by-road-rage-givers segments are highly statistically significant (p < .001). Note that high frequencies of sending a greeting card and doing volunteer work are similar across both high frequent church-going segments in Figure 2. Figure 3 shows that all three extreme road-rage segments have substantially higher average frequencies for renting an x-rated movie, advocating death penalty, and doing better in a fist fighting. These findings support second proposition about nomological validity of the property space method in the current study.

The following analyses were completed to test the third proposition. Most of people in the XX segment are males (14 out of 18). The majority are married (12 out of 18), between 25 and 34 years old (7 out of 18), working as sales (6 out of 18). Half of them have annual household income higher than $40,000. Twelve have at least some college education. This group of people tends to have
FIGURE 4
Means of Finger-Plus-Flashlights Between Genders

FIGURE 5
Means of Respondent’s Ages among the Property Space Groups
more males (Figure 4), be younger (Figure 5), and have more family members in the household (Figure 6) than the groups not engaging in road-rage. This group has higher proportions of people working in sales, having annual household income between $30,000 and $34,999 and between $40,000 and $49,999 and college education than expected in the cross table analyses.

For AIOs, this group of people enjoy their jobs, have more self-confidence, and think their greatest achievements are still ahead of, in comparison with groups not engaging in road-rage. However, they stay late at work, feel like they are so busy trying to make everybody else happy that they do not have control of their own life, feel that no matter how fast their income goes up they never seem to get ahead, and they wish they knew how to relax. They like to go to a bar or tavern, prefer to have a drink or two at the end of the day to rewind, gamble in casino, go camping, watch a professional man’s sporting event on TV, go to an auto race, and believe that men are naturally better leaders than women.

Going church frequently does change the behavior of the group of people engaging in heavy road-rage. They become more satisfied with the way things are going in their life these days than the groups of people with chronic road-rage but not going church. They become not so cynical and aggressive and begin to feel content.

DISCUSSION

This study focuses on the XX-behavior segment to learn antecedents behind their contradictory behavior and hypocrisy. However, after we compare the XX-behavior group (group 7) with X-behavior groups with extreme road rage (group 5 and 6), we understand that going church frequently does change the XX group’s behavior. The XX segment of people is active in engaging in events involving other people – they like to attend sporting events and go camping with others. The reason why they engage road-rage maybe because they think it is fun or think they are teaching or directing other drivers or motorists.

One limitation of the current research is that although “giving a finger” and “flashing light” associate positively in a moderate degree, these two behaviors are not completely consistent in the XX-behavior group. The perceived degree of impoliteness may be different for these two modes of behavior. Caution might be needed in interpreting the result derived from the combination of these two modes of behavior.
REFERENCES


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INTEGRATING IDENTITY AND CONSUMPTION: AN IDENTITY INVESTMENT THEORY

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SUMMARY

Marketing research in a variety of areas, from brand communities to word of mouth to product adoption behavior, consistently finds that identity plays an important role in consumption (cf., Belk 1988; Bhattacharya, Rao, and Glynn 1995; Chaplin and John 2005; Muniz and O’Guinn 2001; Thompson and Sinha 2008). As Belk (1988) notes, “That we are what we have is perhaps the most basic and powerful fact of consumer behavior.” While the critical role of identity is widely acknowledged, the use of disparate theoretical frameworks, primarily borrowed from psychology and sociology, has impaired the ability of researchers to generalize between studies and understand important marketing specific phenomena. Limitations inherited from these existing identity theories have restricted the focus in marketing research primarily to the consumption of goods, with little research examining the link between services consumption and identity. In addition, the role of consumers’ identities in influencing not just what is consumed but also the quantity consumed has been largely ignored. These limitations are significant as services account for a majority of many nations’ economies, and issues of consumption, and overconsumption, are increasingly recognized as serious public policy issues.

We propose a marketing oriented Identity Investment Theory (IIT) that incorporates insights from existing psychology and sociology theories while addressing important marketing issues, including the consumption of services as well as goods and variations in consumption between individuals and within individuals across time. Drawing on Kleine et al.’s (1993) conceptualization of identities and self, the theory is based on five key propositions. First, individuals possess not one but many identities. These identities range from social identities based on brand communities to personal identities that are part of the individual’s biography and specific to that individual (Algesheimer et al. 2005; Goffman 1963). Indeed, just as in the case of social identities in brand communities, Muniz and O’Guinn (2001) noted that most consumers possess multiple memberships.

Second, identities vary in their congruence with one another. Specifically, the various identities individuals possess often conflict. Thus, the existence of multiple identities necessitates identity management strategies that can require considerable effort (Goffman 1963). These management strategies, in turn, limit when and where individuals can consume products and services.

Third, individuals develop and invest in identities in order to secure psychological benefits or payoffs. Vignoles et al. (2006) identifies six identity-driven payoffs: enhancing self-esteem, having a consistent sense of self, being distinct, feeling belonging, feeling competent, and finding meaning in one’s existence. Identities may provide one or more of these payoffs to varying degrees, and an individual may derive similar payoffs from different identities.

Fourth, individuals invest in identities through consumption based on these payoffs.

Specifically, individuals engage in consumption in order to enact or bolster their identities (e.g., Belk 1988) and in pursuit of the payoffs noted above. Since consumers have limited time and money, they must make tradeoffs between various identities—based on the comparative advantages of these identities. Individuals will tend to invest in identities that provide higher payoffs at similar costs or similar payoffs at lower costs.

Finally, investment in an identity increases its value relative to other identities and alters subsequent consumption behavior. The more easily and often an identity is enacted, the more it is valued (Goffman 1963). Consumption based investments in an identity thus increase the value of subsequent payoffs for the individual by facilitating the enactment of that identity. This proposition transforms IIT into a dynamic theory that addresses the reciprocal changes in both consumption and identity across time. IIT integrates existing research with a parsimonious set of five propositions which are able to account for a wide range of consumer behavior. As a result, Identity Investment Theory is able to explain phenomena covered by existing theories as well as account for consumer behavior that is not covered by existing theories. Thus, it can be applied to an array of consumer behavior ranging from excessive consumption to love-hate relationships with products and brands. Furthermore, Identity Investment Theory offers a theoretical framework that encompasses both goods and services. Finally, unlike many existing identity theories, IIT is a dynamic theory which has the potential to explain variations in identity consumption between individuals and across time, including the processes that give rise to overconsumption.
EFFECT OF SELF-CONSTRUAL ON CONSUMERS’ ADOPTION PROPENSITY TOWARD INCREMENTALLY NEW AND REALLY NEW PRODUCTS

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Zhiyong Yang, University of Texas at Arlington

SUMMARY

The present study investigates the effect of situationally activated self-view on consumers’ adoption of new products. The self-construal theory argues that two distinct self-views - the independent self-view and the interdependent self-view - coexist in one’s memory and can be activated by situational contexts (Trafimow et al. 1991). Individuals whose independent self-view is activated (the “independents”) define the self as autonomous and differentiated from others; those primed with the interdependent self-view (the “interdependents”) define the self as part of a larger community and connected with others. The two self-views are associated with different regulatory foci. The independents are motivated to seek positive outcomes such as achievements and self-enhancement, whereas the interdependents are motivated to avoid negative outcomes such as risks and mistakes. The motivational orientations associated with different self-views have important implications for innovation adoption, as they may regulate the independents’ and the interdependents’ processing of benefit- and risk-related product attributes and contextual cues.

Although all products are to varying degrees associated with benefits and risks, the salience of benefits and risks often co-vary with the newness of the product. Following prior research, we differentiate new products into really new products (RNPs) and incrementally new products (INPs) (Hoeffler 2003). RNPs provide new benefits typically not available from existing products. RNPs are also associated with high uncertainty because customers usually do not have prior experience to help them evaluate such products (Moreau et al. 2001). In contrast, INPs are associated with moderate new benefits and risks.

When the decision object is a RNP, the independents will show heightened attention to the benefits-related facets of the product than will the interdependents because the unique benefits of RNPs are more congruent with the independents’ promotion orientation. In contrast, the interdependents will be more attentive to the risks of RNPs than will the independents because such aspects are more relevant to the interdependents’ prevention-oriented schemata. The differential processing of benefits and risks associated with RNPs would lead to the independents’ higher purchase intention (PI) relative to that of the interdependents. When the decision object is an INP, the independents would exhibit limited attentiveness to the benefits of such product as the benefits are moderate and not particularly congruent with the self-schemata of the independents. However, the benefits of INPs will be more salient to the interdependents, partly because the relatively low risks associated with INPs would enable the interdependents to shift their attention to the benefits of the product. Thus, the interdependents would exhibit higher PI toward INP than would the independents.

H1: The independents exhibit higher PI toward RNPs than the interdependents, whereas the interdependents exhibit higher PI toward INPs than the independents.

We further posit that the reactions of the interdependents and the interdependents toward risk-relieving cues (product warranty) are also contingent on the newness of the product. Because the interdependents attend more to the risks of RNPs than do the independents, the risk-relieving utility of product warranty associated with RNPs would be more effective for the interdependents than for the independents. Thus, when the product is an RNP, product warranty would be more effective in enhancing the adoption propensity of the interdependents than the independents. However, the effect of risk-relieving cues on the adoption of INP would not differ between the independents and the interdependents because risk processing associated with INPs is unlike to differ between the two groups of consumers in the first place.

H2: The interdependents exhibit higher increase in PI toward RNP than the independents following exposure to product warranty, whereas the increase in PI toward INP does not differ between the independents and the interdependents.

We tested the research hypotheses using two experimental studies. Experiment 1 tested the effect of self-view on the adoption of INPs and RNPs (H1). One hundred sixty-two undergraduate students participated in this experiment. The participants were primed with either the independent or the interdependent self-view via a scenario about a tennis match (Aaker and Lee 2001). Each participant was then presented, in a counter-balanced order, with descriptions of two cars that were pretested to
be an INP and an RNP, respectively. Participants completed a free-response task to report their thoughts and feelings about each car. This was followed by measurement of PI toward each car. Perceived risks and benefits were coded from the free-response data. Repeated-measure ANOVA of PI showed a two-way interaction between self-view and newness. Consistent with H1, the independents reported higher PI than did the interdependents when the product was the RNP, whereas the interdependents reported higher PI than the independents when the product was the INP. Moreover, when the product was an RNP, the independents perceived more benefits than did the interdependents, whereas the interdependents reported more risks than did the independents. When the product was an INP, the interdependents perceived more benefits than did the independents, whereas perceived risks did not differ between the two groups of participants. Mediation analysis showed that the effect of self-view on the adoption of INPs and RNPs was mediated by perceived benefits and risks.

Experiment 2 examined how product warranty affects PI of the independents versus the interdependents toward INPs and RNPs (H2). Participants (80 undergraduate students) were first primed with either the independent or the interdependent self-view, using a life-event narration task (Zhu and Meyers-Levy 2009). They were then presented with a description of a TV that was pretested to be either an INP or an RNP. At this time, participants reported their baseline PI toward the TV. On a separate page of the survey, participants were told that the manufacturer of the new TV is offering an extended money-back warranty of six months, compared with the three-month warranty offered by other manufacturers. Participants then reported their post-exposure PI. The key dependent variable is the increment of PI, calculated as the post-exposure PI less the baseline PI. An ANOVA of the increment of PI showed a two-way interaction between self-view and newness. The interdependents exhibited higher increment of PI than the independents toward RNPs. In contrast, the increment of PI toward INPs did not differ between the two groups of participants. These results supported H2. In addition, a two-way ANOVA of post-exposure PI did not show any effect of self-view and newness, suggesting that the interdependents were no less willing to adopt RNP after exposure to product warranty. References are available upon request.

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IMPACT OF SELF-CONSTRUAL ON CONSIDERATION SET SIZE: THE MODERATING ROLE OF INVOLVEMENT

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SUMMARY

While past research identified a number of factors influencing size of consideration set (e.g., risk, lack of knowledge, and interest in the product category), little is known about how a person’s self-construal (see Markus and Kitayama 1991) influences the consideration set size. Whereas individuals with independent self-construal (IDSC, hereafter) tend to be promotion-focused, individuals with interdependent self-construal (ITSC, hereafter) tend to be prevention-focused (Higgins 1997; Aaker and Lee 2001). Consider two individuals who are similar in many respects, but have drastically different self-construals. Susan and Vicky maintain busy life styles. However, they have adopted quite different search behaviors and subsequently considered different numbers of brands when they were in the market for a minivan. Having a predominantly ITSC (PITSC, hereafter), Susan was motivated to avoid the negative consequences of a wrong choice. Thus, she started paying attention to the minivans that other people owned, asked her friends about their experiences with minivans, and went to a popular product review website to assess the level of consensus people may have about the different minivan brands. Having a predominantly IDSC (PIDSC, hereafter), by contrast, Vicky was motivated to buy a car that fulfills her desires and enables her to fully enjoy its use. Thus, she started investigating different brands, scouring their features to determine whether or not each met her needs. She also visited the manufacturers’ websites to evaluate the brands based on their attributes. Which of them would consider a greater number of brands? The answer to this question may depend on the existence of a well-established consensus on the popular brand for the product category, as well as on consumers’ level of involvement with the product category (e.g., Divine 1995; Herrmann et al. 2004). That is, given the significance of the purchase decision involved in the highly involving car category, Susan would want to avoid the risks associated with buying a minivan and would thus consider a greater number of brands if there were a weak consensus on the most popular brand for minivan product category, while Vicky would want to start enjoying the new minivan of her liking as early as she can and would thus consider fewer brands. Therefore, when there is a weak consensus in a product category, the impact of the self-construals on the consideration set size will be more pronounced when individuals consider buying a high involvement product, while the impact will be attenuated when individuals consider buying a low involvement product (H2).

A pretest was conducted to choose low consensus product categories that are either high or low on involvement. One hundred and two undergraduate students taking business classes at a public California university were given a list of 32 product categories and were asked to classify the products into high vs. low on consensus as well as on involvement, which resulted in identifying flash drives and laptop computers as low and high involvement product categories, respectively; both product categories were also low on consensus. A main study was conducted with 260 students from the same population in which the pretest sample was recruited. To eliminate potential confounding effects, only U.S. citizens who identified with the American culture were included in the analysis (n = 160; mean age = 22.84; female = 53%; Asians (33%), White (28%), Hispanics/Latinos (26%), and African Americans (5%)). A 2 (self-construal: PIDSCs vs. PITSCs) x 2 (product category involvement: low vs. high) between-subjects design was used with self-construals measured and involvement manipulated. Individuals with PIDSC (PITSC) are operationalized as those who scored high (low) on IDSC (α = .69) but low (high) on ITSC (α = .71) (Singelis 1994). Consideration set size was measured by the number of brands provided by the respondents to the following question: “List the names of all the brands that you would consider when choosing a laptop computer (or a flash drive) to purchase.” All the manipulation and confounding checks were successful. A 2 x 2 ANCOVA on consideration set size with product knowledge as a covariate was conducted. Results showed a significant main effect of involvement and self-construal. Consistent with H1, individuals with ITSC had more brands in their consideration set (M = 3.42) than those with IDSC (M = 2.41; F(1, 43) = 4.62, p < .05). Further, there was a significant interaction effect (F(1, 43) = 5.36, p < .05), which is consistent with H2. Planned contrasts showed that for laptop computers, individuals with ITSC considered significantly more brands (M = 4.64) than individuals with IDSC (M = 2.62; F(1, 25) = 7.67, p = .01), but that for flash drives, there was no difference (M = 2.00 vs. M = 2.11; p = NS). Additionally, there was significant interaction effect on response latency measured in milliseconds.
When considering buying laptop computers, individuals with PITSC took more time ($M = 63,428$) than those with PIDSC ($M = 32,998$); however, when considering buying flash drives, the two groups did not differ ($M = 52,511$ vs. $M = 58,373$; $p = NS$).

To the best of our knowledge, this is the first study that investigates the impact of self-construal on the consideration set’s size. This research implies that marketing managers need to heed to the impact of subculture on consumer behavior even within the same country, and that unknown brands may have a better chance of getting noticed among consumers with PIDSC than among those with PINSC when the market lacks a well-established brand leader of a high-involvement product category. We expect the pattern of differences reported in this study to be reversed when there is a strong consensus among consumers on a product category’s leading brand(s) because consensus information provides ITSCs with a salient cue in the process of product evaluation (Aaker and Maheswaran1997), enabling them to eliminate the less popular brands early in the purchase decision making process. Hence, we suggest that consensus information is a moderator; future studies should test this proposition with high consensus product categories. Further, this research should be replicated using individualist and collectivist cultures as a way of manipulating self-construals. More replication studies should also be conducted with different involvement manipulation (e.g., holding a product category constant).

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REGULATORY FOCUS, CHRONIC REACTANCE, AND CONSUMER REWARD CHOICES IN LOYALTY PROGRAMS

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SUMMARY

Loyalty programs have become one of the most widely used customer relationship management (CRM) tools over the past decade (Kivetz and Simonson 2003). While such programs aim to ensure customer loyalty by rewarding consumers for repeat purchases with a firm, the debate on their effectiveness still persists (Bolton, Kannan, and Bramlett 2000; Liu 2007). As such, there is a greater need to investigate the various factors that may influence the success of loyalty programs. Although the impact of different program-related variables such as effort requirements (e.g., Kivetz and Simonson 2002) and rewards (e.g., Kivetz 2005) has been analyzed broadly, research investigating the effect of consumer characteristics on loyalty program success remains scarce (Liu and Yang 2009). Nevertheless, as this research posits, the effectiveness of loyalty reward programs may also depend on the subtle individual differences in motivational orientation that shape consumer reactance toward such programs.

The purpose of the current research is to provide a regulatory focus and reactance interpretation of the specific choice and loyalty behavior exhibited by consumers involved in loyalty reward programs. Building on the motivational hierarchy perspective of the 3M Model (Mowen 2000), the study introduces a conceptual framework that examines the hierarchical interrelationships among consumer regulatory focus, chronic and situational reactance, reward choice, and loyalty behavior in a loyalty program context. In particular, the framework proposes that the different levels of reactance experienced by promotion- and prevention-focused consumers may determine their reward choices (effort-congruent vs. effort-incongruent) in a loyalty program. The regulatory fit state arising from these choices is, in turn, predicted to enhance subsequent loyalty behavior.

Individuals experience psychological reactance when there is a threat to their freedom of choice (Brehm 1966). Marketing appeals such as loyalty programs are known to trigger situational reactance among consumers since individuals perceive them as an external attempt to control their future consumption choices. The magnitude of situational reactance experienced by individuals is in part driven by their level of chronic reactance (Dillard and Shen 2007). Chronic reactance is a personality trait that refers to an individual’s stable predisposition toward reactance across all situations (Hong and Faedda 1996). The present research suggests that individuals’ chronic reactance levels may be influenced by their regulatory focus.

According to cognitive tuning theory (Friedman and Forster 2002), promotion-focused individuals’ sensitivity toward positive outcomes leads them to behave in an exploratory fashion and utilize eagerness means to approach gains. These individuals often seek variety by trying different choice alternatives. As such, their variety-seeking nature makes promotion-focused people exhibit higher levels of chronic reactance. In contrast, prevention-focused individuals’ sensitivity toward negative outcomes leads them to act in a cautious manner and employ vigilance means to avoid mistakes. These individuals shun variety and are more reluctant to try different choice alternatives. Hence, prevention-focused people are expected to display lower levels of chronic reactance as a result of their variety-avoiding tendency. Moreover, consistent with their higher chronic reactance levels, promotion-focused consumers are also predicted to express stronger situational reactance toward loyalty programs compared to prevention-focused consumers.

We expect promotion-focused consumers to choose loyalty programs that offer effort-congruent (vs. effort-incongruent) rewards in order to alleviate their situational reactance toward such incentives. This is because effort-congruent rewards do not provide a salient extrinsic reason for consumers to exhibit specific consumption behaviors. Therefore, consumers believe that their behavior is not influenced by effort-congruent rewards and do not perceive them as a threat to their freedom of choice. On the other hand, we expect prevention-focused consumers to select loyalty programs that offer effort-incongruent (vs. effort-congruent) rewards. Unlike promotion-focused consumers, these individuals do not face the need to reduce their situational reactance by choosing effort-congruent rewards. Furthermore, consumers are proposed to experience regulatory fit when they join loyalty programs that offer rewards that match their regulatory focus. The “value from fit” is then predicted to translate into more favorable evaluations of the loyalty program and stronger loyalty behavior by consumers.

From a theoretical perspective, this research contributes to the loyalty program literature by introducing
consumer regulatory focus as another intrinsic determinant of program success. In addition, the present study also has practical implications regarding the successful design and promotion of loyalty programs. As loyalty programs are an important CRM tool, they should be tailored to the unique psychological characteristics of individual customers (Kivetz and Simonson 2002). Hence, loyalty program marketers should obtain information on the specific psychographics of their target customers and utilize these valuable insights as bases for segmentation. Through such segmentation initiatives, marketers are more likely to offer loyalty rewards that fit the particular goal focus of their core customers. References are available upon request.

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ABSTRACT

Behavioral intentions represent a significant part of consumer loyalty research, however, little attention has been paid to the distinction in loyalty behavioral statements. Drawing on discussions in psychology on volition control, this paper explores difference between behavioral intentions (BI) and behavioral expectations (BE). Using structural equation modeling the two constructs are found to be different both in terms of measurement model as well as the predictability of their common antecedents. Satisfaction and attitude toward switching are found better predictors of BI, while trust and switching costs are better predictors of BE. This study puts forward implications for researchers and practitioners.

INTRODUCTION

A significant amount of research on customer loyalty and switching behavior is focused on understanding the antecedents of loyalty (see Morgan and Hunt 1994; Keaveney 1995; Jones and Sasser 1996; Garbarino and Johnson 1999; Burnham, Frels, and Mahajan 2003). A standard approach for modeling loyalty behavior includes loyalty intentions and hypothesized antecedents of loyalty. Many solid predictors were uncovered and justified both theoretically and empirically. Among the most common central antecedents are customer satisfaction (Szymanski and Henard 2001), trust (Morgan and Hunt 1994) and customer switching costs (Burnham, Frels, and Mahajan 2003). However there has been little effort to distinguish between different behavioral statements (Soderlund 2003; Sheppard, Hartwick, and Warshaw 1988). This study is contributing to the field of literature that emphasizes understanding the distinction among the different behavioral statements and its implications for marketing theory.

THEORETICAL BACKGROUND AND PREVIOUS STUDIES

Already Ajzen and Madden (1985) stated that between every intention and behavior there is a certain degree of uncertainty, due to various external factors. The criticism of not accounting for volition control resulted in extending the theory of reasoned action into the theory of planned behavior (Ajzen 1991), where the perceived behavioral control was included as an additional antecedent. Warshaw and Davis (1985) on the other hand proposed two dimensions of behavioral statements: behavioral intentions (BI) and behavioral expectations (BE). They have defined BI as a statement of conscious intention, while BE is a self-prediction (expectation, subjective estimation) of one’s own behavior. The distinction between BI and BE has received little attention in marketing literature (Soderlund and Ohman 2005). Both constructs are frequently used independently in consumer research studies. Soderlund and Ohman (2005) showed that satisfaction better predicts BI than BE, which was aligned with Sheppard et al. (1988) meta-analysis. However it remained unclear if antecedents only predict BI less than BE or there exist a difference between antecedents which are better predictors of BI and antecedents which are better predictors of BE.

The contribution of this study is to explore whether the coefficients of antecedents differ between the two constructs as hypothesized by the difference in their nature of volition control. Antecedents with a higher nature of volition control are hypothesized to be more strongly correlated with BI, while the ones accounting for other factors influencing behavior are more strongly correlated with BE compared to BI. Marketing research on customer loyalty has primarily been focused on antecedents of loyalty (intentions) as both theorists and practitioners were eager to find out how to influence customer loyalty (Brady et al. 2005).

HYPOTHESES

Warshaw and Davis (1985) have proposed the distinction between behavioral intention (BI) and behavioral expectation (BE), based on the volition control, which
refers to how much control the respondent perceives regarding future behavior. As formulated by Fishbein and Ajzen (1975), behavioral intention is the immediate psychological determinant of purely volitional behavior and is expressed as a statement of conscious intention. Behavioral expectations on the other hand represent the perceived likelihood of performing a behavior (Blackwell, Miniard, and Engel 2001). Therefore, when asking a respondent about these two types of statements, different cognitive processes are evoked in consumer minds, taking into account different sources of information (Sheppard et al. 1988). Soderlund (2003) and Soderlund and Ohman (2005) showed by using exploratory factor analysis that the two constructs are different and that they also reach different means. It is hypothesized that this distinction holds even when using stronger tests:

H1: Behavioral intentions and behavioral expectations are different constructs.

When making statements about intentions, consumers base their perceptions more on the current quality of the relationship with the service provider and their attitude toward switching (Ajzen 1991). However when asked to provide an expectation of switching they need to take into account additional factors, such as trust in companies’ future performance or switching costs, as they influence their expectations greatly (Sheppard et al. 1988). Bansal and Taylor (1999) in accordance with theory of planned behavior indicated that satisfaction and attitude toward the switching behavior are conceptually different from perceived behavioral control and thus have higher level of volition control. Overall customer satisfaction is defined as a post-purchase evaluation indicating the degree of fulfillment of some need, desire, goal, or other pleasurable end state that results from a specific exchange transaction (Oliver 1997). Attitude toward the (switching) behavior refers to the degree to which a person has a favorable or unfavorable evaluation or appraisal of the behavior in question. As satisfaction and attitude toward switching can be considered entities with high volition control, they are hypothesized to be better predictors of BI compared to BE.

H2a: Overall Customer Satisfaction predicts BI better than BE.

H2b: Attitude toward switching predicts BI better than BE.

Trust is defined as a generalized expectancy held by the customer about the service provider’s future behavior (Morgan and Hunt 1994). Satisfaction is about past experience with the service and/or products, while trust is about expectations about future performance. Trust therefore represents an evaluation which explicitly includes factors that go beyond the control of the respondent and thus it can be considered an entity with lower volition control. Trust was shown to be an important antecedent of loyalty and is positively related with it (e.g., Morgan and Hunt 1994). Switching costs are related to the act of switching and were shown to positively influence loyalty. They are proposed to exist in various forms: procedural, psychological, financial, relational, etc. (Burnham, Frels, and Mahajan 2003). Even though the concept of switching cost can be applied broadly, in this study it was used from its financial perspective. Bansal and Taylor (1999) use perceived financial switching costs as perceived be-

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**FIGURE 1**

Proposed Model of Antecedents and Two Dependent Variables (BI and BE)
behavioral control within the theory of planned behavior and therefore switching could be considered as an entity with low volition control. Based on this, it is hypothesized that trust and perceived switching costs will be better predictors of BE than BI.

H2c: Trust predicts BE better than BI.

H2d: Perceived financial switching costs predict BE better than BI.

**ANALYSIS AND RESULTS**

**Research Design**

The data was collected with convenience sampling distributed questionnaire to undergraduate students at a university in northern European metropolitan area. There were 187 questionnaires distributed and the final dataset had 114 observations. The dependent and explanatory constructs were measured using multiple items developed in previous studies. The BI and BE were measured on a ten-point scale. Satisfaction, trust, perceived financial switching costs and attitude toward switching were measured on a seven-point scale.

**Measurement Model**

The following measurement tests were performed: test for the convergent validity, the dimensionality test, and the discriminant validity test. Confirmatory factor analysis was done with all constructs used in study in order to test for convergent validity. A common method factor was included with all the constructs as a means of accounting for random and systematic errors (Podsakoff et al. 2003). A scaling correction to improve the chi-square approximation of the goodness-of-fit test statistics was used (Satorra and Bentler 1988). The proposed model had satisfactory fit: Satorra-Bentler scaled chi-square = 161.17 (103 df); NFI = .88; NNFI = .93; CFI = .95; RMSEA = .071 (.048 – .091). The single-factor model produced the following fit: Satorra-Bentler scaled chi-square = 313.34 (138 df); NFI = .88; NNFI = .83; CFI = .87; RMSEA = .11 (.090 – .125). Therefore when comparing the chi-squares we can conclude that the two-factor model is significantly better.

**Structural Model of Antecedents**

A structural equation model was tested with two dependent variables, BI and BE, and four explanatory variables (satisfaction, trust, perceived switching cost, attitude toward the switching). In order to account for heterogeneity (Mittal and Kamakura 2001), two control variables were included in the analysis: total time using the service and average daily usage. The model fitted data well as all indices were within proper boundaries. Satorra-Bentler scaled chi-square = 313.34 (138 df); NFI = .88; NNFI = .90; CFI = .93; RMSEA = .077 (.061 – .091).

When testing for a one-factor model (where BI and BE were treated as one factor) the following indices were obtained: Satorra-Bentler scaled chi-square = 433.86 (136 df); NFI = .72; NNFI = .76; CFI = .81; RMSEA = .11 (.096 – .122). The difference of chi-squares divided by the difference in degrees of freedom indicates that the single-factor model (joining items for BI and BE into single factor) is the inferior one. For all constructs the sign of coefficients was aligned with findings in marketing literature, i.e., Negative effects pm switching statements. In order to test for the hypothesis H2a – H2d, beta coefficients were held equal across both BI and BE in different structural equation models. It was found that all the coefficients had to be unconstrained as otherwise models were shown not to be fitting well. Therefore, the beta coefficients differ between the BI and BE constructs and thus all hypotheses were confirmed.

**DISCUSSION AND IMPLICATIONS**

It is shown that there exist at least two different behavioral statements in terms of measurement model. This study goes further than any previous by theoretically proposing and empirically showing that typical loyalty antecedents have different effects on the two loyalty statements: intentions (BI) and expectations (BE). It is important to distinguish between BI and BE as otherwise
### TABLE 1
CFA, Test for Convergent and Discriminant Validity for Two-factor Model (BI, BE)

<table>
<thead>
<tr>
<th>Loading</th>
<th>Error</th>
<th>C</th>
<th>α</th>
<th>VE</th>
<th>VS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intentions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I plan to change my mobile service provider.</td>
<td>.81</td>
<td>.24</td>
<td>.77</td>
<td>.88</td>
<td>.73</td>
</tr>
<tr>
<td>I intend to start using another provider.</td>
<td>.69</td>
<td>.35</td>
<td>.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I will change my provider within the next year.</td>
<td>.80</td>
<td>.23</td>
<td>.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expectations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I might change my provider in the future.</td>
<td>.78</td>
<td>.22</td>
<td>.77</td>
<td>.90</td>
<td>.73</td>
</tr>
<tr>
<td>How likely is that you will stay with your current mobile phone service provider?</td>
<td>.76</td>
<td>.24</td>
<td>.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How likely is that you will change it in the future?</td>
<td>.76</td>
<td>.28</td>
<td>.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Satisfaction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How satisfied or dissatisfied are you with your current mobile phone service provider?</td>
<td>.83</td>
<td>.16</td>
<td>.84</td>
<td>.93</td>
<td>.80</td>
</tr>
<tr>
<td>Overall, how do you feel about it?</td>
<td>.86</td>
<td>.11</td>
<td>.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How well does it meet your needs at this time?</td>
<td>.80</td>
<td>.29</td>
<td>.70</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I feel can trust my mobile phone service provider.</td>
<td>.82</td>
<td>.23</td>
<td>.77</td>
<td>.88</td>
<td>.71</td>
</tr>
<tr>
<td>My provider is responsive to customers’ problems.</td>
<td>.70</td>
<td>.34</td>
<td>.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I feel my service provider is reliable</td>
<td>.75</td>
<td>.26</td>
<td>.75</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Attitude Toward Switching**

<table>
<thead>
<tr>
<th>Intention to Switch</th>
<th>Expectation to Switch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>-.57 (.23)</td>
</tr>
<tr>
<td>Attitude toward switching</td>
<td>-.52 (.19)</td>
</tr>
<tr>
<td>Trust</td>
<td>-.44 (.21)</td>
</tr>
<tr>
<td>Perceived switching cost</td>
<td>-.24 (.09)</td>
</tr>
<tr>
<td>Time using</td>
<td>n.s.</td>
</tr>
<tr>
<td>Average daily usage</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

R² | .51 | .32 |

Robust test. Satorra-Bentler scaled chi-square = 161.17 (103 df); NFI = .88; NNFI = .93; CFI = .95; RMSEA = .07 (90% interval: .048 – .091) C = Communality; α = Cronbach Reliability; VE = Variance Extracted; VS = Maximum Variance Shared

### TABLE 2
Direct Effects on BI and BE – Structural Equation Model Coefficients and Errors

<table>
<thead>
<tr>
<th>Intention to Switch</th>
<th>Expectation to Switch</th>
</tr>
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<tr>
<td>Satisfaction</td>
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<td>Average daily usage</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

Overall fit indices: Satorra-Bentler scaled chi-square = 313.34 (138 df); NFI = .88; NNFI = .90; CFI = .93; RMSEA = .077 (.061 – .091). Significance p < 0.05
conclusions about predictability of antecedents can differ significantly (as it was the case in this study). This could be a potential source of the discrepancy in marketing research about the centrality of different antecedents due to the different dimensions of loyalty statements.

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NOT ALL REPEAT PURCHASES ARE THE SAME: ATTITUINAL LOYALTY AND HABIT

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Leona Tam, Old Dominion University, Norfolk

SUMMARY

As marketing shifts to a relationship-oriented paradigm in the last 20 years, consumer loyalty has become one of the frontiers in marketing. In managing consumer loyalty, marketers often identify repeat customers based on their purchase frequency or spending level and draw the conclusion that all repeat customers are loyal. Academic research, however, suggests a much richer picture of consumer loyalty that encompasses things such as beliefs of product superiority, brand knowledge, and positive and accessible brand reactions (Kim, Morris, and Swait 2008). This divergence in approach highlights one of the oldest theoretical debates in the consumer loyalty literature – the issue of how attitudinal and behavioral loyalty are related and which of the two is more suitable for understanding and managing brand and consumer relationships.

It has been pointed out since more than 30 years ago that behavioral loyalty as reflected by repeat purchases does not adequately capture consumer loyalty (Jacoby and Kyner 1973). In particular, a consumer can repeat purchase either as a choice based on positive evaluations of a brand, or as an automatic process that is driven by contextual factors that have little if any to do with the brand/company per se (Huang and Yu 1999). As a result, using repeat purchases to define loyalty may contain noises that have little if anything to do with true loyalty. Realizing these issues with repeat purchase data, researchers have taken measures to account for the different drivers of behavioral loyalty. In modeling brand loyalty, for instance, mechanisms have been devised to take into account inertia and habit (Roy, Chintagunta, and Haldar 1996; Seetharaman and Chintagunta 1998). While incorporating such effects generally improves the explanatory power of a model, the theoretical origin of these effects is unclear.

Recent advances in habit research, however, suggest an opportunity to bridge this gap and to integrate sound psychology theory into analyzing repeat purchase behavior. The purpose of this paper, therefore, is to draw upon the habit literature to identify habit and attitudinal loyalty as two distinct drivers of behavioral loyalty as manifested by repeat purchases. More specifically, we argue that observed repatronage behavior can be driven by attitudinal loyalty as well as by habitual forces that are characterized by an automatic process. On surface, such habitual forces can result in repeat purchases even in the presence of competitive marketing actions, therefore, making it appear very similar to loyalty. However, when considering the effect of situational factors, habitual repeat purchase falls short of the loyalty test.

To demonstrate the separate effects of loyalty and habit and the value of such an analysis, we conducted two empirical studies in the convenience store and the newspaper industries. In study 1, we analyzed actual purchase history of 198 consumers in a convenience store chain over the course of 12 months. Drawing from past research, we derived the habit strength based on these consumers’ purchase behavior, and we further supplemented the data with these same consumers’ self-reported attitudinal loyalty collected through a survey. Using a hierarchical linear model to take into account consumer heterogeneity, our results show that both attitudinal loyalty and habit had a significant positive impact on repeat purchase behavior. Furthermore, attitudinal loyalty and habit were only weakly correlated, suggesting that the behavioral manifestation of habit-driven repatronage is indeed distinctive and as a result can be separated from repeat purchases driven by attitudinal loyalty.

In study 2, we conducted a field experiment to demonstrate the differential effects attitudinal loyalty and habit can have on consumer responses to marketing stimuli. We argue that, among high-repeat customers, consumers with strong habits and weak attitudinal loyalty will respond differently from consumers with weak habits but strong attitudinal loyalty. While existing studies have separately shown the effect of attitudinal loyalty and habit on behavioral loyalty, to our best knowledge, there has been no study that explicitly compares responses from attitudinally loyal versus habitual consumers. Using a market research study in the newspaper industry as the backdrop, we show that cost-effective incentive using brand-related rewards are more likely to be successful among attitudinally loyal customers than habitual customers. By showing that habitual vs. attitudinally loyal customers respond differently to marketing stimuli, our results confirm the practical value of differentiating between these two different drivers of repeat purchase and of segmenting and targeting consumers based on these drivers.
Taken together, our research suggests that marketers can manage customer relationships more efficiently by identifying habitual vs. loyal customers using existing company data and by developing targeted marketing programs for these two different kinds of repeat customers. Currently we are planning a third study, which will examine the types of marketing stimuli that may be particularly effective for habitual consumers relative to attitudinally loyal consumers. Through these studies, we hope that we will provide theoretical richness to the action inertia phenomenon, and that combining the insights from consumer psychology and the modeling literature will yield a more complete understanding of consumer loyalty and consumer repatronage decisions.

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CONSUMER PATH DEPENDENCE IN HIGH-TECH MARKETS: AN ANALYSIS OF THE SELF-REINFORCING MECHANISMS LEADING TO CONSUMER LOCK-IN

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SUMMARY

This research investigates on how consumers can get locked to a certain product, when self-reinforcing mechanisms are at play. Self-reinforcing mechanisms can have negative outcomes, by narrowing and restricting future choices. As lock-in situations can have far-reaching consequences for both consumers and marketing practitioners, the projects focuses on identifying the mechanisms which are responsible for path dependent processes in high-tech markets. In order to analyze such situations I draw on path dependence theory.

Self-reinforcing mechanisms lie at the heart of path dependence theory, as the continuation of a path can be explained by one or a combination of several self-reinforcing mechanisms. Therefore this paper tries to identify the mechanisms that contribute to consumer path dependence. For the purpose of studying consumer decision paths, the mechanisms known from path dependence research have been translated onto the individual level.

Three hypotheses concerning learning effects, complementarity effects and adaptive expectations were generated.

In order to answer the research hypotheses, a computer-aided experimental study has been conducted, with consumer decisions for smartphones as research object. The experiment was based on a three-factorial between-subjects design, manipulating the experience with the product (high vs. low learning effect), the number of applications available for the smartphone (high vs. low complementarity effect) and the percentage of other users choosing the same smartphone (high vs. low adaptive expectation effect). Two hundred twenty-eight university students (52.6% female, mean age = 23.6) participated in the study and were randomly assigned to one of the experimental groups.

The main effects were analyzed using logistic regression method. The learning effect ($\beta = 0.971; p < 0.01$), the complementarity effect ($\beta = 2.733; p < 0.001$) and the adaptive expectation effect ($\beta = 1.442; p < 0.001$) all proved to have a significant influence on consumer choice. The significance of the mediation effects was analyzed using both the Sobel test and bootstrapping method. As an additional analysis the switching rate of participants was measured by counting total incidents of switching from one smartphone choice to the other per decision round. Switching strongly decreases over time, with a high switching rate in the first round, medium rates of switching in the middle and very low switching rates in the last three rounds. This nicely reflects the 3-phase model of path dependent processes, were the range of decision possibilities decreases over time with a lock-in situation at the end of the process.

The findings of this research are a contribution to the understanding of consumer decision-making in situations where decisions generate positive feedback. They are both helpful for the development of path dependence theory and for a better understanding of consumer choice behavior. As lock-in situations can have far-reaching consequences for both consumers and marketing practitioners, the projects contributes to explain the driving mechanisms of consumer path dependence and lock-in situations in high-tech markets. The study helps to understand why decision-makers continue to chose the same option and moreover, how they can get stuck to a certain brand choice. Learning effects, complementarity effects and adaptive expectations effects proved to be crucial drivers of consumer path dependence. Since previous research on path dependence has mainly applied qualitative case-study research and simulations, this paper makes a further contribution by establishing experimental research for research questions concerning path dependent processes in consumer research. References are available upon request.

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SUMMARY

It is increasingly common for firms to employ online distribution channels alongside its offline distribution channels and marketing channels to rely on these complex combinations as a source of competitive advantage and better serve their customers (Geykens et al. 2002). In such environments, many customers have become multi-channel users. They realized contacts between the firm and themselves at different contact points, e.g., store, homepage across the purchase process (Rangaswamy and van Bruggen 2005). These customer contacts are a fundamental element for the attainment of customer knowledge for a supplier. Not only are the kind and number of the customer contacts in a specific process phase relevant to this, but also their functions and importance, not to mention the sequence of these three dimensions during the purchase process. It can be assumed that such multidimensional sequences are of great relevance to marketing: e.g., it can be expected that different contact sequences are accompanied by different product purchases and that different customers have different sequences according to their individual behavior.

In general, customer behavior can be viewed as a sequence of interdependent actions over time (Hägerstrand 1970). However, customer behavior in marketing research is mostly treated as a chain of independent activities. Thus, the sequential order and obvious relations of the activities are often neglected. Therefore, Abbott’s (1995, p. 94) statement “We assume intercase independence even while our theories focus on interaction” is largely true for marketing research concerning the segmentation of the customers regarding their individual behavior through across the purchase process. In most approaches these important aspects reflecting the customers’ behavior are not addressed. Hence, an analysis of the multidimensional sequence of the customer contacts (dimension (1)), their functions (dimension (2)) and their importance (dimension (3)) could provide crucial insights into customer behavior, as well as the needs and preferences of the customers over time. Therefore, this study will demonstrate how multidimensional customer contact sequences can be measured and form the basis for multidimensional customer segmentation. For this, customer contact sequences of \( N = 304 \) customers with a retailer for consumer electronics were surveyed in across the different phases of the purchase process (pre-purchase, purchase, and post-purchase phase) using a structured questionnaire.

In this study, customer behavior is not represented as the customer contacts by a single attribute. To gain deeper insights in the differences of customer behavior and powerful clusters, the multidimensional contact sequences were characterized by three dimensions: the customer contact sequence, the sequence of the functions related to the customer contacts, and the sequence of the contact importance. Based on the assumption that all attributes are independent, the easy way to compare such sequences is to calculate the Levenshtein distance for each dimension separately and then sum up the measured distances of the dimensions. In our case, there are obviously dependencies between the contacts, their functions and importance. Therefore, the calculation of measured attributes for each dimension would distort the result. To avoid such distortions we used a multidimensional approach which identifies elements that can be aligned simultaneously without calculating the costs twice, called “Optimal Trajectory Multidimensional Sequence Alignment Method” (Joh et al. 2002). In doing so, the differentiation into four clusters proved to be the best solution.

The centroid of the first cluster has realized the lowest number of customer contacts across the purchase process. After two very important contacts with newspaper and TV-advertising in the pre-purchase phase which were used for price comparison and selective information, the desired product was bought in the store. The first contact in the centroid of cluster 2 was realized with the store and was used to obtain general information about the retailer’s offers. This contact was followed by a contact with other websites which was used for selective information. These two customer contacts were both realized during the pre-purchase phase and were rated as important contacts. During the purchase phase the product was bought after a
consultation of the sales staff. Such contacts were of specific relevance and were therefore rated as very important contacts. The centroid of cluster 3 shows that these customers realized the highest number of contacts in the purchase phase. They sought contact with TV- and newspaper advertising in the pre-purchase phase to obtain general information. These contacts with different kinds of the retailer’s advertising were both evaluated as important contacts. During the purchase phase customers’ of the third cluster often realized contacts with advertising at the Point-of-Sale which were used for selective information. Such contacts were also rated as important. The following consultation of the sales staff and the purchase of the product in the store were of highest importance to the customers of cluster 3 and evaluated as very important contacts. The centroid of the fourth cluster shows that these customers realized the highest number of customer contacts across the whole purchase process as well as in the pre-purchase phase. Furthermore, the customer contacts in this multidimensional centroid sequence cover all phases of the purchase process. It is noticeable that all contacts prior to the purchase were realized in the store. After two contacts with different kinds of advertising at the Point-of-Sale for obtaining general information, these customers sought contact with the sales staff followed by two customer contacts in the store for advisory functions. With regard to these findings one may conclude that the opportunity of direct product contacts in the store are of specific relevance to the customers in cluster 4. In the post-purchase phase a contact with the sales staff was used for advisory functions as well. This contact was evaluated as a very important by this customer.

The results demonstrate that customers can be classified with regard to their multidimensional sequences. These indicate differences in the purchasing process, as our results on differences in the customers’ behavior concerning the usage and functions of the different contact across the purchase process suggest between the clusters identified. In addition, we also obtained differences between segments in possible determinates and final variables.

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Knowledge of one’s customers is a strategic success factor for any supplier. The fundamental element for the attainment of customer knowledge is the contact between the retailer or service provider and her/his customers in different channels. Not only are the kind and number of the customer contacts in a specific process phase relevant to this, but also their functions and importance to the customer, not to mention the sequence of these three dimensions during the purchase process. Such multidimensional sequences have practically been ignored in previous marketing research, especially the problem of collecting and analyzing the relevant data from the different marketing and distribution channels in all phases of the purchase process to present a single, unified view of the customers which also allows the prediction of future customer behavior regarding the usage of different marketing and distribution channels in a multichannel system across the purchase process (Peterson et al. 1997). Therefore, it can be assumed that multidimensional customer contact sequences (MCCS) are of great relevance to marketing: for example, it can be expected that different contact sequences are accompanied by different product purchases (Kumar and Venkatesan 2005).

However, customer behavior in marketing research is mostly treated as a chain of independent activities. Thus, the sequential order and obvious relations of the activities are often neglected. Therefore, Abbott’s (1995, p. 94) statement “We assume intercase independence even while our theories focus on interaction” is largely true for marketing research concerning the analysis of customer behavior across the purchase process. But, knowledge of these connections as well as the horizontal effects of the sequencing of successive customer contacts and the vertical effects of the contact functions and their importance to the customer in the MCCS will provide crucial insights into customer behavior and could facilitate the purposeful control of the customers throughout the purchase process by the retailer, extending the commercial possibilities to interact with customers within the bounds of marketing (Verhoef et al. 2007). Hence, an analysis of the multidimensional sequence of the customer contacts (dimension 1), their functions (dimension 2) and their importance (dimension 3) could provide crucial insights into customer behavior, as well as the needs and preferences of the customers over time, as it has become routine to use different channels in the purchase process. Therefore, this study contributes to the marketing literature by addressing how the MCCS can be measured and analysed with a Multi-State Markov-Model, a stochastic process which takes the effects of the sequencing of the customer contacts into account (Cox and Miller 1965). This model enables a valid estimation of transition probabilities even if a multitude of possible events – the different customer contacts – have to be processed. Moreover, we assume vertical effects of the contact functions (dimension 2) as well as the contact importance (dimension 3) on the transitions of successive customer contacts. In this context, we consider these contact dimensions as covariates in our model for the estimation of the transition probabilities. Summing up, special attention is paid to the horizontal and vertical effects of the sequencing of the dimensions on the transition probabilities between successive customer contacts in the MCCS. Besides this, we are also interested in evaluating possible determinants (e.g., product category, price and socio-demographic variables) and effects of the different transitions in the multidimensional customer contact sequences on final variables (e.g., customer satisfaction, customer loyalty).

For this, multidimensional customer contact sequences of \( N=304 \) customers of a retailer for consumer electronics were surveyed in three different phases of the purchase process (pre-purchase, purchase, and post-purchase phase) using a structured questionnaire.

The results show especially, a high probability of repeated contacts with different kinds of the supplier’s advertising is remarkable. Other contact points with high probabilities for their repeated usage are the store as well as the service staff at the point-of-sale. Furthermore, the findings show relatively high probabilities of transitions between different contact points – especially the homepage and other websites – of the supplier’s multi channel.
marketing and distribution system followed by a contact in the store. With regard to the influence of different contact functions on the horizontal interdependencies between successive customer contacts, the results show vertical effects of the contact functions general and specific information as well as advisory and complaining functions. The acquisition of general information has a negative effect on the probability of the transition from a contact with other websites followed by a contact with the store. In contrast to that result, acquiring general information increases the probability of two successive customer contacts with different kinds of advertising. Furthermore, obtaining specific information increases the probability of the transition from a contact with the supplier’s advertising also followed by a contact with the store. We find a similar effect of this contact function for complementary contacts with the store and the sales staff. The contact function advisory and complaining also has a positive effect on the transition between a contact with the supplier’s advertising followed by a contact with the sales staff. Concerning the vertical effects of the importance of the customer contacts, we only find evidence for our assumption if a contact was evaluated as very important. Such an evaluation increases the probability of a transition from a contact with the sales staff to a contact with the service staff.

These results demonstrate that there are strong horizontal and vertical effects of the sequencing of customer contacts across the purchase process. In addition, we also obtained an impact of possible determinates (e.g., product price, product category) on the transitions as well as an effect of different transitions on final variables (e.g., customer satisfaction, customer loyalty).

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CONCEPTUALIZING FEAR OF ONLINE IDENTITY THEFT: A QUALITATIVE STUDY AND MODEL DEVELOPMENT

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SUMMARY

The growing commercialization of the Internet is accompanied with a rise of e-commerce-related cybercrime. For carrying out online business transactions, consumers have to transfer their personal and financial data to companies or third parties (Forsythe et al. 2006; Morton 2006; Rust, Kannan, and Peng 2002). However, personal and financial data such as name, user name of an online account, address or credit card number can be illegally intercepted and used in an unauthorized way. Consumers who are affected by data misuse are increasingly victimized by online identity theft, which is a cybercrime.

Being one of the fastest growing crimes of the 21st century in highly industrialized countries, identity theft involves another person acquiring and using personal information of a natural or legal person for fraudulent purposes (Acoca 2007; Gonzales and Majores 2007; van der Meulen 2006). Online identity theft can be carried out by using criminal computer technology-based methods such as page jacking, phishing or “pharming” which simplifies the theft of consumers’ personal and financial data (Katyal 2001; Milne, Rohm, and Bahl 2004; UNODC 2010). With online identity theft becoming a growing problem many consumers fear being personally affected (Amato-McCoy 2007; Angelopoulou et al. 2007) and begin adjusting their Internet-related behavior; for example they reduce their use of Internet shopping or become reluctant to share information online and to shop online (Grau 2006; Leyden 2005; Princeton Survey Research Associates International 2005). All behavior-related outcomes have a negative impact on the growth of companies’ online sales. Consumers’ fear of online identity theft (FOIT) therefore poses a challenge for e-business. This is why scholars and practitioners need to gain a better understanding of FOIT as well as its potential antecedents and consequences.

Consumers’ reluctance to transfer personal data online to e-businesses due to privacy and security concerns has been discussed widely in relation to a conceptually related area of FOIT, namely online privacy concerns (e.g., Bandyopadhyay 2009; Wirtz et al. 2007). However, since identity theft leads to illegal appropriation and misuse of personal data that is accompanied with an intrusion into consumers’ online privacy as well, the authors argue that online privacy concern with a focus on fear of losing one’s online privacy should be seen as a dimension of FOIT. Furthermore, FOIT is also likely to include a person’s fear of experiencing serious negative consequences such as financial losses and reputation damage (e.g., Mitchison et al. 2004; Sproule and Archer 2006). Financial losses emerge when a cyber criminal uses a victim’s personal and financial data for buying products at the victim’s expense or for accessing a victim’s bank account for withdrawing money whereas reputation damage might result in an innocent person being accused of a crime committed through the misuse of the person’s personal data (e.g., Acoca 2007; Consumer Measures Committee 2005). Therefore, the authors argue that it is likely that consumers’ FOIT encompasses three dimensions – fear of suffering from financial losses, fear of suffering from reputation damage, and fear of losing one’s online privacy. However, given the lack of empirical insights into the dimensions of FOIT and the lack of a comprehensive understanding of behavior-related consequences, a qualitative approach has been chosen to shed light on this neglected phenomenon.

Forty-three face-to-face in-depth semi-structured interviews with consumers have been conducted, lasting for 30 minutes on average. Informants were asked about their reasons for using, and not using the Internet for online shopping and online-banking. Furthermore, informants were probed about online identity theft, and the feelings that a potential loss of personal and financial data would evoke as well as concomitant behavior-related consequences. Interviews were analyzed by content analysis. The qualitative study provided useful insights into consumers’ fear of online identity theft. Passages and wordings with the same or similar interpretations were summarized in the same categories. While analyzing and categorizing responses of all interviews, most responses with regard to “fear” could be related to the three postulated FOIT dimensions—fear of suffering from financial losses, fear of suffering from reputation damage, and fear of losing one’s online privacy. Therefore, all dimensions are considered to be relevant for the FOIT construct. Furthermore, all three FOIT dimensions are assumed to be related to antecedents as well as behavior-related consequences. Antecedents such as an individual’s age and personality are likely to influence FOIT because they are...
linked to the consumer’s experience framework and value system. More than ten behavior-related consequences were revealed during the interviews. FOIT mainly leads to behavior-related consequences because consumers will engage in behavior that helps them to reduce their fear (Rachman 2004). These consequences can be differentiated into approach and avoidance behavior following the two-dimensional approach/avoidance coping structure by Krohne et al. (1993).

Based on the literature-based findings and the qualitative study, the authors propose a three-dimensional conceptualization of FOIT. The qualitative study contributes to theory by developing and explaining a model of FOIT which suggests some interesting implications for e-business research and practice, mainly in developing a robust measurement instrument. References are available upon request.

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TOWARD A RICHER UNDERSTANDING OF WORD-OF-MOUTH CONTENT: THEORETICAL ANALYSIS AND RESEARCH PROPOSITIONS

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SUMMARY

This paper addresses a gap in the word-of-mouth (WOM) literature by highlighting three aspects of WOM content that have been ignored in prior research: (1) elaborateness, (2) two-sidedness, and (3) conclusion explicitness. In a series of propositions, we specify the conditions under which changes in these content variables lead to enhanced or suppressed WOM effects. Our theoretical analysis suggests that the power of WOM lies not only in its valence, but also in its substantive content. Overall, our research contributes to a richer theoretical understanding of WOM content and offers practical insights for buzz marketing campaigns.

Message Elaborateness

A cursory review of consumer-generated media indicates that consumers may go to great lengths to share their opinions and experiences. On the other hand, brief messages are becoming more popular with the phenomenal growth of text messaging and microblogging. Nevertheless, empirical research has almost invariably focused on brief WOM messages. Intuitively, an elaborate message should be more effective than a brief message, other things being equal. As we argue in five propositions, however, this intuitive belief may be valid under some conditions, but not others.

Message Two-Sidedness

Unlike advertising messages (which are marketer-generated and are expected to be one-sided in favor of the advertised brand), WOM messages are consumer-generated and are often expected to provide a more balanced view. Interestingly, many previous WOM studies have featured one-sided messages, although two-sided messages are also well-represented. Do WOM receivers perceive two-sided message as more informative (or one-sided messages as biased)? Do they use different processing strategies for the two types of WOM messages? When do they prefer one over the other? To answer these questions, we adapt a framework for one-sided versus two-sided persuasion to the WOM context. Our analysis culminates in four propositions regarding the effects of one-sided and two-sided WOM messages under different conditions.

Conclusion Explicitness

Some WOM messages provide clear-cut conclusions about specific products or services (e.g., “It’s the best computer I’ve had.”), whereas others are open-ended and require WOM receivers to form opinions on their own (e.g., “It has a top-notch CPU but is kind of pricey.”). Although the WOM literature is silent on the issue of conclusion explicitness, useful insights are readily available from pertinent advertising research on explicit versus implicit conclusions. In general, when processing motivation is high, an implicit conclusion affects consumer attitudes to a larger extent than does an explicit conclusion. But when consumers are not motivated to infer the implicit conclusion, an explicit conclusion is more effective. The implications for WOM effectiveness are summarized in five propositions.

Propositions

Our propositions on WOM effectiveness are structured around five moderators that interact with message elaborateness, message two-sidedness, and conclusion explicitness. The following is a representative sample of the propositions.

Message Elaborateness

P1: An elaborate message is more influential when the WOM receiver is at an early (vs. late) stage of decision making, but the decision-stage effect is reversed for a brief message.

P2: An elaborate message is more influential when the WOM receiver is female (vs. male), but the gender effect is mitigated for a brief message.

P3: An elaborate message is more influential when the WOM receiver is a younger (vs. older) adult consumer, but the age effect is mitigated for a brief message.

Message Two-Sidedness

P4: A two-sided message is more influential when the WOM receiver is high (vs. low) in product knowledge, but the knowledge effect is reversed for a one-sided message.
P5: A two-sided message is more influential when the WOM receiver is a younger (vs. older) consumer, but the age effect is reversed for a one-sided message.

Conclusion Explicitness

P6: A WOM message with an explicit negative (vs. equally extreme positive) conclusion is more influential, but the valence effect is mitigated for a WOM message with an implicit conclusion.

P7: A WOM message with an explicit conclusion is more influential when the WOM receiver is at a late (vs. early) stage of decision making, but the decision-stage effect is reversed for a WOM message with an implicit conclusion.

P8: A WOM message with an explicit conclusion is more influential when the WOM receiver is female (vs. male), but the gender effect is mitigated for a WOM message with an implicit conclusion.

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CONVERSATIONS TO CAUSE CHANGE: A PROPOSED TYPOLOGY OF CONSUMERS UTILIZING FACEBOOK TO ENACT CONSUMER BOYCOTTS

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SUMMARY

Social media can be a useful tool for companies to reach new consumers and maintain contact with current ones. At any given moment however, individuals can become displeased with a target corporation’s actions and utilize social media to communicate to others this dissatisfaction. If a company fails to meet consumer expectations, consumers may organize to form a collective power to let the company know their wrongdoings have angered them. Social media offers an open platform in which the ‘joining together’ of consumers is easily facilitated through groups and pages. Recent activist movements targeted against British Petroleum (BP) and Nestle have included consumers facilitating boycotts through social media. For example, more than 850,000 Facebook users have liked a “Boycott BP” page, a page not created or maintained by the BP Corporation. This provides a prime example of two-way communication or even possibly shifting toward one-way communication by the consumer in which the company is losing control over the content created. Considering this important shift, this conceptual paper seeks to understand the motivations and types of behaviors behind a boycott that is facilitated through the social media tool, Facebook.

Drawing on the rich body of literature on motivations found in related online fields such as consumer creativity, open source software, and co-creation (Fuller 2010), in addition to previous literature on boycotting, eleven motives – (1) ego gratification, (2) need for uniqueness, (3) curiosity, (4) playful task, (5) information-seeking, (6) cleanse guilt, (7) express anger at the target, (8) seeking change, (9) altruism, (10) make friends, and (11) community support – have been defined that may help explain why consumers engage in social change in online environments. Using these motivations from previous literature, a conceptual typology is proposed. Defining a typology utilizing online behaviors in virtual communities is a common method approach further highlighted in his recent book, Netnography (Kozinets 2010). The current research builds on Kozinets (1999) by proposing a typology of consumer types amongst participants of boycotts enacted through Facebook.

The first dimension is constructed upon social value orientations in which the activity is focused on others (i.e., prosocial) or on individual self interests (i.e., proself). Within the boycotting literature, Sen, Gurhan-Canli and Morwitz (2001) used social value orientations as a theoretical framework and found that proself and prosocial motivations occur concurrently during a consumer boycott.

The second dimension consists of the target of the task whether it is focused on the outcome or the process. Some people engage in a task in online environments for goal-oriented (i.e., outcome) behaviors while others may engage in a task with experiential-oriented (i.e., process) behaviors (Hoffman and Novak 2004). Experiential-oriented behaviors are characterized by hedonic benefits, interest in the medium and non-directed engagement (Hoffman and Novak 2009). These behaviors may be seen through “liking” the page or group and also “liking” specific wall postings. In contrast, goal-oriented behaviors are characterized through utilitarian benefits, interest in content, directed and intentional engagement (Hoffman and Novak 2009). The goal-oriented behavior may be demonstrated on the social media tool Facebook by creating the content (e.g., posting on the wall or commenting on others’ postings).

The proposed two-dimensional matrix yields a typology of four types of consumers’ behaviors (Lurkers, Dissenters, Devotees, and Affiliates) enacted through an online consumer boycott. Thus, the following propositions of consumer types are offered:

Proposition 1: Consumers with an experiential-orientation and proself orientation will not engage in direct posting but they will engage with the medium through Lurking to satisfy intrinsic motivations.

Proposition 2: Consumers with a goal-orientation and proself orientation will engage in the conversation and typically display Dissension by creating conversation against the overall collective.

Proposition 3: Consumers with a goal-orientation and prosocial orientation will engage and create the conversation (in support of the movement) to demonstrate their identity and Devotion to the social movement.

Proposition 4: Consumers with an experiential-orientation and prosocial orientation will engage in the
conversation by “liking” content because of their strong Affiliation.

Until now, little was known about consumers’ engagement in social media boycotts. To address the popularity and adoption of social media to facilitate consumer boycotts, this typology proposes that people may have different motives for participating in boycotts and thus engage with the medium in varying ways. This research extends the work of Kozinets (1999) by highlighting that all virtual communities do not have highly supportive consumers interacting. Having the presence of individuals who do not necessarily agree with the consensus of the group is what makes an online consumer boycott especially interesting. Social media, being an open platform, allows adversaries of the movement to opportunity to “like” the page and also contribute to the content. Thus, by addressing Facebook engagement in consumer boycotts, we find that consumer interactions in a boycott may be more complex than simply asking people to refrain from purchase (Freidman 1985). References are available upon request.

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AN EXPLORATION OF THE EFFECTS OF MOTIVATIONAL PRIMING ON CONSUMERS’ FOOD PORTION SIZE CHANGE INTENTIONS

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SUMMARY

Nearly 25 percent of the world’s population is overweight. Although such factors as genetics (Comuzzie and Allison 1998), food and beverage type (McFerran et al. 2009), and sedentary lifestyles (Blair and Brodney 1999) are well-acknowledged causes of obesity, research shows that the key cause of obesity is the amount of food consumed on a regular basis (Chandon and Wansink 2007; Wansink 2006). The current research seeks to understand more fully the processes underlying consumers’ food portion size decisions. Specifically, this research draws upon regulatory focus theory to explore whether the priming of a consumer’s goals or motivation toward promotion or prevention significantly affects change in their food portion size intentions as per their consumption norm.

Very recently, consumer behavior researchers have begun analyzing the nature of the relationship between regulatory orientation and food consumption. A study by Sengupta and Zhou (2007) found that impulsive eaters (as opposed to nonimpulsive eaters) become promotion focused when their orientation is primed by a hedonically tempting food and that this type of priming guides subsequent hedonic food consumption. The authors propose that because a promotion focus involves a disproportionate reliance on the hedonic benefits associated with eating the food, impulsive eaters tend to exhibit unhealthy eating behavior by eating a great amount of hedonic, but unhealthy food.

Regulatory focus theory suggests that, on the one hand, a promotion-oriented consumer, as opposed to a prevention-oriented consumer, is naturally eagerness-oriented, motivated to avoid missing an opportunity, and likely to emphasize the presence of positive outcomes. With regard to food consumption, this type of orientation may logically lead to obtaining more of something deemed to be satisfying or appetizing. On the other hand, a prevention-oriented consumer is relatively careful and vigilant, motivated to avoid engaging in a behavior that may turn out to be a mistake, and likely to emphasize the absence of negative outcomes. Regarding food consumption, a consumer with this type of natural orientation may have the propensity to avoid obtaining more of something considered as appetizing.

Considerable past research has determined that priming can either induce a different regulatory focus or enhance a currently-held regulatory focus, both of which can lead to a change in behavior ( Förster, Higgins, and Taylor 2003; Higgins, Shah, and Friedman 1997; Sengupta and Zhou 2007). The promotion-oriented consumer already has a ‘get what I want’ tendency and thus after being promotion primed, this tendency should increase or become stronger (i.e., increase food portion size intention). However, the induction of a prevention prime is likely to prompt this once eager consumer to consider the negative consequences of his or her behavior (H1a–c).

With respect to the prevention-oriented consumer, she or he naturally possesses a careful, vigilant tendency. But after being subjected to a promotion prime, this tendency should reverse or at least fade, resulting in increased behavior geared toward a gain (i.e., an increased portion size intention). On the other hand, a prevention-oriented consumer’s tendency toward emphasizing the negative should even increase toward the negative after being prevention primed (H2a–c).

As previously mentioned, the inducement of a promotion prime should lead to increased behavioral intentions and the inducement of a prevention prime should lead to decreased behavioral intentions for both promotion- and prevention-focused consumers. However, there is no reason to expect that there will be a significant difference in behavioral intentions between these two types of consumers when the same type of prime, including a stimulus in which there is no motivational prime, is introduced to the consumer (H3a–c).

Attendants at a large gathering in a southeastern U.S. community were approached and asked to participate in a study. Of the 256 attendants, 240 agree to participate. The procedure used in this study consisted of three major steps. First, after agreeing to participate in the study, each participant was asked to complete a scale designed to determine his or her self-regulatory orientation. To measure self-regulatory orientation, Higgins’ et al. (2001) valid and internally consistent scale was used. The objective of the second step of the procedure was to aid the participants in considering their consumption norm. This objective was met by administering a photograph of a popular entrée (spaghetti with sauce) to each participant.
along with a scaled drawing of a place setting (plate and flatware). The participants were asked to draw the approximate amount of the entrée they would typically serve themselves. Next, a randomized posttest-only with control group experimental design was instigated. Specifically, the participants were randomly allocated to one of three groups. Group 1 received the promotion focus treatment; Group 2 received the prevention focus treatment; and Group 3 received a benign treatment that was neither promotion nor prevention in nature (no prime).

For promotion-oriented consumers, the findings of the current research revealed that promotion priming significantly increased PSC intentions compared to situations in which consumers were either prevention primed or not primed at all. Moreover, for these consumers, a prevention prime yielded a significantly smaller PSC intention than in situations in which no prime was given. Essentially, an individual’s regulatory state via priming was either enhanced in the case of promotion primes, or muted in the case of no prime, or counteracted in the case of prevention primes.

In the case of prevention-oriented consumers, this research yielded surprising findings which were counterintuitive to predictions based on regulatory focus theory and previous research, and also to the aforementioned conclusions regarding promotion-oriented consumers. Although it was predicted that a prevention prime would encourage prevention-oriented consumers to decrease their portion size relative to a promotion prime, the results reported here showed that the opposite was true. In fact, prevention-oriented consumers increased their portion sizes significantly when introduced to a prevention prime rather than to a promotion prime or to no prime at all. These results suggest that a point of diminishing returns is reached by prevention-oriented consumers when a prevention focus is primed.

When the PSC intentions were compared between the two groups of consumers (promotion- and prevention-oriented) for all prime situations, only the prevention prime results were inconsistent with predictions. When given a promotion prime or a benign prime, there were no significant differences in PSC intentions between the two groups of consumers. However, when the two groups were given a prevention prime, the intention to increase portion size was significantly greater for prevention-oriented consumers than for the promotion-oriented consumers. While this finding did not support the initial prediction, it is not surprising in light of the findings for the prevention-oriented consumers.

Based on past research on regulatory fit and congruity theory (Osgood and Tannenbaum 1955), the current research predicted that for promotion-oriented consumers, a promotion prime would exert a greater pull toward an increase in PSC than the pull toward a decrease in PSC as a result of an induced prevention prime and vice versa. However, the findings did not support this prediction. Thus, future research needs to focus on determining the underlying reasons for these interesting, but surprising, results. References are available upon request.

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MENTAL BUDGETS AND MENTAL CONSTRUALS: DO MENTAL BUDGETS WORK OVER THE LONG HAUL?

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SUMMARY

A recent diet industry study showed that although half of the women in the US set losing weight as their New Year’s resolution, over 95 percent of dieters fail to lose weight in the long run (Cummings 2003). As a matter of fact, one out of three women and one out of four men are on a diet at any given time, but two thirds of dieters regain weight within one year and virtually all regain it within five years (http://www.colorado.edu/StudentGroups/wellness/NewSite/BdyImgShockingStats.html). Thus, learning how to better self-regulate one’s behavior in the long run is a necessary step toward healthier life and overall well-being.

One of the recently examined strategies for self-control that has been shown to be successful is mental budgeting. Previous research shows that mental budgets are effective self-regulatory tools because they are set around active goals and allow a person to monitor their choices against these goals (Krishnamurthy and Prokopec 2010). However, previous studies have only looked at the immediate efficacy of mental budgets. Given that self-control is an ongoing process, it is important to understand how mental budgets work in the long haul. In this research we (1) compare the effectiveness of mental budgets for current versus future consumption decisions, and, (2) implicate mental construals in enhancing the efficacy of mental budgets as self-control devices in decisions made for present versus future consumption.

Any action can be construed at varying levels of abstraction, from low levels (present-oriented; physically or psychologically close; concrete) to high levels (future-oriented; physically or psychologically distant; abstract) (Vallacher and Wegner 1987). Present and future decisions can be seen as representations of construal levels. Previous research supports the notion that high-level construals (subjective mental representations that capture the future, distant, and/or abstract features of events) lead to greater self-control than low-level construals (representations that capture present, close, and/or concrete features) (Fujita and Han 2009; Fujita, Liberman, Trope, and Levin-Sagi 2006). Recent findings show that temporal distance leads to inhibition of currently active information, in turn resulting in activation of competing information and influencing choices (Laran and Janiszewski 2009). Thus, when self-control information is currently active, people’s choices for the present will signal self-control, whereas decisions for the future tend to be oriented toward indulgence (Laran 2010) and vice-versa.

Given that mental budgets are set around avoiding temptations, the currently active goal is a self-regulatory goal, which should lead people to exert more self-control in the present. Thus, we argue that mental budgets are a present-oriented self-regulatory strategy. If mental budgets are a present-oriented self-control strategy, mental budgets should be more effective when consumers make decisions under a low-level mental construal or, in other words, when consumers make decisions for present consumption (close in terms of time perception) or when they make decisions under a concrete mindset. Furthermore, mental budget may be more effective when consumers are in a concrete mindset because mental budget renders the decision in more quantitative terms. If mental budgets provide a simple numerosity-based (quantifiable) decision criterion, then people with pre-specified mental budgets and in a concrete mindset should be able to exert more self-control regardless of time frame compared to those who do not have such budgets or those in an abstract mindset. We test the above proposition in two studies described below.

The goal of study 1 was to examine the efficacy of mental budgets for present versus future decisions. The study employed a 2 (no mental budget vs. mental budget) x 2 (present vs. future decision) between-subjects design (N =179). A pre-test revealed that European students struggle with over-consumption of wine, as opposed to their American counterparts who most often struggle with over-consumption of food. Participants were asked to imagine that they were visiting a gourmet store that was conducting a wine tasting event. Those in the mental budget condition were asked to type in the number of small wine glasses they planned to consume during the wine tasting event. The participants in the control condition only entered their demographic information. All participants saw pictures of ten different wines and were asked to indicate how many small glasses of each type of wine they would like to drink given that the event was happening at that moment (present condition) or would happen a week later (future condition). A two-way ANOVA with the total number of glasses of wine partici-
pants decided to drink as the dependent measure revealed a significant interaction between mental budget and decision time frame ($F(1,175) = 6.16, \ p < .02$). Planned contrasts suggest that mental budgets help self-control for present decisions ($M_{\text{no mental budget}} = 6.77, M_{\text{mental budget}} = 5.12, F(1,175) = 3.79, p < .05$), but not for future decisions ($M_{\text{no mental budget}} = 5.88, M_{\text{mental budget}} = 7.26, F(1,175) = 2.46, p = .12$).

The goal of study 2 was to investigate the role of concrete versus abstract mental construal as a moderator. The study employed a 2 (no mental budget vs. mental budget) x 2 (future vs. present decision) x 2 (concrete vs. abstract) mixed design ($N = 63$). Mental budget was a between-subjects factor, decision time frame was a within-subjects factor, and mental construal was measured with the behavioral identification form (Vallacher and Wegner 1989). In a similar procedure employed in study 1, all participants first were asked to decide on the number of glasses of wine that they would like to try during the event that would happen a week later. One week later, the same participants were asked to decide on the number of samples that they would like to try during the event that was happening at that moment. It is important to note that here their first decision was regarding their future consumption, whereas their second decision referred to their present consumption. A repeated-measures ANOVA with mental budget, decision time and the median split on the mental construal measure as independent variables, and the number of wine samples as dependent variable revealed a 3-way interaction ($F(1,59) = 5.55, p < .03$). This interaction suggests that when consumers operate under a concrete mindset, mental budgets help self-control for present ($M_{\text{no mental budget}} = 6.39, M_{\text{mental budget}} = 4.87, F(1,59) = 7.69, p < .01$) and for future decisions ($M_{\text{no mental budget}} = 7.25, M_{\text{mental budget}} = 4.37, F(1,59) = 27.65, p < .01$). In contrast, when consumers operate under an abstract mindset, mental budgets do not affect present decision ($M_{\text{no mental budget}} = 7.25, M_{\text{mental budget}} = 7.20, F < 1$) and, though not expected, seem to hurt self-control for future decisions ($M_{\text{no mental budget}} = 6.37, M_{\text{mental budget}} = 7.85, F(1,59) = 4.82, p < .04$).

Importantly, results of study 2 replicate the efficacy of mental budgets for present self-control decisions and advance this view by showing that mental budgets can also be effective for future self-control decisions when consumers operate under a concrete mindset.

Taken together, the two studies support our proposition that mental budgeting is a present-oriented self-regulatory strategy. Results of the two studies show that mental budgets are more effective for self-control (i.e., help reduce alcohol consumption) when decisions about consumption are made for the present time. When making decisions for the future, mental budgeting does not seem to be an effective self-control tool, at least at first sight. Furthermore, while the existing research shows that high-level construals (e.g., an abstract mindset) are better for self-regulation (Fujita and Han 2009; Labroo and Patrick 2009) we demonstrate that low-level construals (e.g., a concrete mindset) can also enhance self-control. When consumers have a concrete mindset, mental budgets are effective self-control devices when implementing self-control decisions both immediately or over the long haul. Implicating a low-level or concrete construal in enhancing self-control implementation is an important theoretical contribution given that prior research has consistently shown that high-level or abstract construals enhance self-control decisions (Fujita and Han 2009; Fujita et al. 2006; Labroo and Patrick 2009). Our research differs from the extant research supporting the importance of high-level construals in making better long-term choices in that we argue that a low-level construal is needed to implement a self-control strategy. References are available upon request.

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GOAL-THEORETIC PERSPECTIVES OF CONSUMER SUSPICION IN VALUE CO-CREATION

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SUMMARY

Value co-creation interactions are gaining in importance in today’s marketplace (Chan, Yim, and Lam 2010; Vargo and Lusch 2004). Co-creation typically refers to consumers participating in the design, delivery and creation of the customer experience. Presumably cooperative in nature, co-creation interactions are likely to differ from traditional sales interactions in the extent to which they arouse suspicion of persuasive intent.

Thus far there has been limited research on the degree to which suspicion of persuasive intent becomes activated in such situations. The present research builds on the theory of goal-related mind-sets (Gollwitzer 1987; Heckhausen and Gollwitzer 1987) to investigate whether a consumer’s process versus outcome focus may affect the degree of suspicion of ulterior motives, which in turn may impact purchase intent and anticipated satisfaction in the co-creation context.

According to goal-related mind-set theory, when individuals are faced with a choice decision, they first deliberate whether or not to act. Once a decision to act has been made, individuals then think about where, when, and how to act. The first of these phases is referred to as the deliberative mind-set, whereas the second phase is the implemental mind-set (Gollwitzer, 1990).

In line with related research on participative pricing (Chandran and Morwitz 2005) it is expected that a consumer with an implemental mind-set will direct his or her focus on the process rather than the outcome of the co-creation interaction. The consumer is expected to seek information that will further goal attainment and ignore information that might be detrimental to goal attainment. Consequently, a consumer in an implemental mind-set would be less likely to question the motives of the co-creation agent (e.g., a salesperson, designer, or consultant) and therefore suspicion levels are expected to be lower.

An additional factor in this context is the availability of cognitive resources. Research on goal-related mind-sets frequently examines process versus outcome goals under consideration of cognitive capacity. The effect of cognitive load tends to be mitigated when an individual has an implemental mind-set and process focus (Brandstätter, Lengfelder, and Gollwitzer 2001). Therefore, in the context of the present research, it is expected that suspicion levels will be lower for consumers with high (versus low) cognitive load.

The research used a 2 x 2 between-subjects experimental design with manipulations for goal-related mind-set (deliberative versus implemental) and cognitive load (low versus high). Goal-related mind-set was primed using a seemingly unrelated thought exercise that was presented to participants (n = 80) before the main study (Freitas, Gollwitzer, and Trope 2004). Cognitive load was manipulated using a recall task (adapted from Campbell and Kirmani 2000). Additional scales for purchase intent and anticipated satisfaction as well as demographic measures were included in the study.

For the purpose of this research a scenario-based co-creation context was developed. Participants were asked to image an interaction with a travel agent for the purpose of developing a customized travel itinerary for a honeymoon. Participants were presented with incremental pieces of information during the scenario; their thoughts were elicited after each new piece of information was presented. Cognitive responses were then coded for level of suspicion, following an established coding scheme for assessing the process of suspicion (Marchand and Vonk 2005).

A significant main effect was observed for the impact of goal-related mind-set on suspicion. As predicted, participants in the implemental mind-set condition showed significantly lower levels of suspicion as compared to those in the deliberative mind-set condition. In addition, cognitive load was found to impact suspicion levels as predicted. Participants with high cognitive load showed lower levels of suspicion than those in the low cognitive load condition. There were no significant differences in the low and high cognitive load conditions in an implemental mind-set, but the differences were significant when comparing low versus high cognitive load in the deliberative mind-set. Suspicion was highest in the deliberative mind-set/low cognitive load condition. The research also found that participants with lower (versus higher) levels of suspicion had higher purchase intent and higher anticipated satisfaction.

Overall, the research provides support for the idea that goal-related factors may have an impact on suspicion in co-creation interactions. A consumer’s focus on the
process versus the outcome of the co-creation interaction is likely to decrease suspicion. In turn, purchase intent and anticipated satisfaction may increase. The findings have potentially important implications. From a managerial point of view it is important to understand consumers’ goals in co-creation interactions. The type of goal that is activated might impact how consumers perceive agents’ motives in co-creation interactions. Recognizing such goal pursuits may help a co-creation agent direct the consumer’s focus towards the process rather than the outcome of the interaction in order to reduce potential suspicion of ulterior motives. References are available upon request.

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EFFECTS OF VISUAL AND VERBAL PROCESSING STRATEGIES ON OMISSION NEGLECT

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SUMMARY

Consumers are exposed to so many marketing messages daily that marketers are forced to compete for consumers’ attention. In doing so, marketers make use of visual images to reinforce their verbal claims. When mixed modalities (visual and verbal) are utilized, consumers must transform information into a single modality; visual information can be recoded verbally to integrate with other verbal information, or verbal information and be recoded visually to integrate with other visual information. The type of transformation performed depends on situational, dispositional, and informational factors.

How does mixed modality marketing messages impact the judgment of products (or services) when there is missing product information? Consumers frequently exhibit omission neglect (the insensitivity to missing information) which leads to overconfidence and extreme judgments, regardless of how little is known about a product. Research shows that visual processing encourages a holistic perceptive, decreasing sensitivity to omissions. However, judgment context may vary the likelihood of visual processing, leading to some circumstances in which cross-modality processing increases the difficulty of information processing. Further, when visual-verbal information comparability is low, modality interference increases as the likelihood of performing visual processing increases. The increased modality interference may increase sensitivity to missing information, leading to moderated judgment.

Three experiments were conducted to investigate the influence of the compatibility of visual and verbal information as a function of the likelihood of visual processing on omission detection.

Experiment 1 investigated the likelihood of omission detection when using a color picture to market a product; it also investigated the likelihood of adopting a holistic processing strategy. We predicted that the presence of a color picture reduces sensitivity to omissions, leading to more extreme judgments. Participants were asked to imagine seeking a one bedroom apartment due to job location. Half the participants received a description of an apartment along with a colorful picture containing nine snapshots of the apartment; the other half of the participants received just a list of the apartment attributes with no picture. Some of the apartment attributes were missing in each condition. Results indicated participants in the color picture condition evaluated the apartment more favorably. As predicted, participants in the color picture condition reported using a more holistic processing strategy.

Experiment 2 investigated the likelihood of omission detection when using a color (vs. a black and white) picture with low visual-verbal information compatibility to market a product. We predicted that when visual-verbal information compatibility is low, visual processing induced by the color (vs. black and white) picture would increase sensitivity to omission. Participants were asked to consider planning a trip to Hawaii. Half the participants received a color picture with a list of unrelated feature activities; the other half of the participants received a black and white picture with a list of unrelated feature activities. Some of the feature activities were missing in each condition. Results indicated that although participants found the colorful picture more attractive than the black and white one, they evaluated the trip significantly lower in the color condition. In addition, omitted attributes were rated less favorably for the color picture than the black and white one. As predicted, participants in the black and white picture condition reported using a more holistic processing strategy.

Experiment 3 investigated the likelihood of omission detection when using a color (vs. black and white) picture with varied visual-verbal information compatibility; it also investigated the likelihood of adopting a visual processing strategy when the presentation order of the picture was varied. We predicted that increasing compatibility of visual-verbal information would reduce the sensitivity to omissions found in the condition when a visual processing strategy was more likely. The activation of a visual processing strategy was induced by presenting a color picture (vs. black and white) picture prior to (vs. together with) verbal product attributes. Participants were asked to imagine they were taking a vacation and wanted to go out for dinner one night at a European restaurant in town. Half the participants saw a single picture or four pictures (color or black-and-white) of the restaurant on the front page prior to reading the description of the attributes of the restaurant; the other half of the participants saw a single...
picture (or four pictures) of the restaurant presented on the same page as the attributes. Some of the restaurant attributes were missing in each condition. Results indicated participants in the color condition with the picture presented prior to the attributes rated the restaurant more favorably when the number of pictures was increased, but the impact of increased number of pictures was not found when the picture was in black-and-white. Additionally, in the same condition, participants rated the presented information more sufficient, made less negative inferences about unmentioned negative attributes, and experienced more intense feeling about the restaurant. Again, results provided additional evidence to the use of a holistic processing strategy when visual-compatibility is high and when a color picture was presented prior to verbal attributes.

Three experiments using different products show that the effect of a visual processing strategy on omission detection is dependent upon the extent of compatibility between the visual and verbal information. Visual processing was encouraged by the presence of a color picture presented prior to verbal information and visual-verbal information compatibility was varied by the number of pictures representing the verbal attributes of a product. Because the visual processing strategy is more holistic, it tends to encourage low sensitivity to omissions, resulting in extreme judgments. Hence, the presence of a picture in a mixed-modality marketing message renders the role played by verbal information critically important on judgment.

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THE ROLE OF DUAL-SYSTEMS OF PROCESSING IN ANALYZING PRODUCTS’ ATTRIBUTE MODIFICATIONS

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SUMMARY

Consumer-goods producers often increase their product package sizes in economic expansions to increase their revenue and shrink their package sizes in economic recessions to offset the rising costs of ingredients. Since most people notice these changes, one would wonder how consumers would react to these changes in size while the price is kept constant or vice versa. Imagine John, who buys Kellogg’s Special-K from the local grocery store. The store sells Special-K in two package sizes: 10 oz. for $2.50 and 15 oz. for $3.75. Since the unit price for each pack is the same, John is indifferent to the packs. He sometimes buys a bigger pack and sometimes a smaller pack depending upon storage space at home, frequency of shopping, and availability of money. Now consider two situations that might happen for John: (1) In his most recent shopping trip he noticed that Kellogg’s is offering bonus packs with the purchase of Special-K – a 10 oz. pack plus 4 oz. for $2.50, and a 15 oz. pack plus 6 oz. for $3.75. Since the unit price for each pack is the same, John is indifferent to the packs. He sometimes buys a bigger pack and sometimes a smaller pack depending upon storage space at home, frequency of shopping, and availability of money. Now consider two situations that might happen for John: (2) Kellogg’s reduced the sizes of both packs and now it is offering an 8 oz. pack for $2.50, and a 12 oz. pack for $3.75. Which package would John prefer now? Based on his past preference, one could predict intuitively that he would be indifferent between both packages as the unit price is still the same across both of them; his decision to buy one pack over the other would again be based on storage space, shopping frequency, and money availability. However, we predict that he would be no longer indifferent between the two options and prefers the bigger option in the first situation and the smaller one in the second situation. More specifically, we believe that in an attribute change situation, people rely on the absolute magnitudes of change to decide among the altered options and they prefer the option with highest (lowest) absolute amount of desirable (undesirable) change. We call this phenomenon the detection-of-change effect.

We posit that when people are faced with an attribute-change situation, they first use the deliberative system 2 to judge the original and changed options. At this point, the intuitive system 1 picks up the initial output of the deliberative system that one option has higher quantity increase (reduction) than the other and applies the bigger-is-better heuristic (bigger-is-worse for an undesirable change) to form a preference toward the option with the highest (lowest) absolute magnitude of change.

If the option with better absolute change (i.e., higher for a desirable and lower for an undesirable) has a worse proportional change (i.e., lower for a desirable and higher for an undesirable), this option will be considered as an inferior option from a normative standpoint because it has a higher unit price than the other option. However, we expect that people still rely on the absolute magnitudes of change and select the option with better absolute change even when this option is normatively inferior. Study 1 provided empirical support for this proposition and showed that people only rely on absolute magnitudes of change and not the proportional changes to decide between two altered options.

However the results of Study 1 could also be explained by the general law of demand which predicts an inverse relationship between quantity demanded and the price of a product (Marshall 1895). Considering the scenario mentioned earlier, this account argues that changing the weight of cereal boxes, while keeping the price constant, reduced (in a positive change) or increased (in a negative change) the unit price of the cereal and, therefore, changed its demanded quantity.

The alternate account based on the general law of demand predicts that focusing on unit price should increase the effect since it helps people to notice the unit price changes. However, according to our proposed account, focusing on the difference between the original and changed options should increase the effect since the detection-of-change effect emerges because of looking for the differences between the original and changed options. Contrary to the prediction of the general law of demand, study 2 showed that focusing on unit price eliminated the effect since the equal unit price across two options prevents system 1 from applying the bigger-is-better (-worse) heuristic. On the other hand, focusing on the difference between the original and changed options increased the effect since the difference between the original and changed options helps system 1 to apply the bigger-is-better (-worse) heuristic and prefer the option with the highest (lowest) absolute change.

Study 3 provided further support for the role of intuitive and deliberative systems in the detection-of-change effect. We utilized a process dissociation task (Ferreira et al. 2006; Jacoby 1991) to measure System 1
and System 2’s contribution to the detection-of-change effect and to explore how goals affect both systems’ contributions. In line with past research, we found a higher contribution of System 2 to the detection-of-change effect when participants were asked to deal with the decision in a rational way compared to an intuitive way. However, having a rational or an intuitive goal did not change the contribution of System 1 to the detection-of-change effect.

This research has several practical implications. Our findings help producers to find out which products are in greater demand in economic recessions and expansions. Also, this research helps marketers and retailers to predict which products and package sizes require more promotional resources and better shelf placement to be able to compete with the options with better absolute magnitudes of change. References are available upon request.

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BILINGUALS’ PERSPECTIVE ON POLYSEMOUS AND SINGLE MEANING SLOGANS

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SUMMARY

Multiculturalism, bilingualism, consumer diversity and the increased use of polysemous brand slogans has increased the complexity of the consumer and advertiser interactions. Ad research has neglected the subjective feelings of ease-of-processing in ad evaluations. This study provides evidence that the neglect of processing fluency in ad evaluations may have biased prior studies. Fluency is identified as the main driver of $A_{ad}$ or $A_{brand}$ regardless of cultural background and type of slogan differences. Monolingual consumers, distinctly to bilinguals, relied on comprehension to a greater extent during the formation of $A_{ad}$ or $A_{brand}$. This research builds on and expands the Revised Hierarchical Model (RHM, Luna and Peracchio 2001). While RHM has proved its merits to psycholinguistic research, it is also limited by an assumption that a message needs to be comprehended before attitude formation takes place. However, this need not be the case if the individual chooses to take a mental shortcut, and use, for example, its subjective perceptions of ease-of-processing feelings (i.e., processing fluency) to form attitudes toward ads/brands.

We find that fluency is the main driver of $A_{ad}$ or $A_{brand}$ indifferent of the cultural background of the respondents or the type of slogan they have been exposed to. Most often, it is the only driver of $A_{ad}$ or $A_{brand}$ as well. For example, bilinguals and monolinguals show similar patterns of response when shown single meaning slogans; i.e., they used only ease-of-processing feelings to form attitudes toward ads/brands. Results suggest that comprehension played little to no role in developing attitudes toward ads/brands in this case. The response patterns are different for polysemous slogans. When presented with multiple meaning slogans, monolingual consumers used comprehension to a much higher extent than bilingual consumers in forming $A_{ad}$/$A_{brand}$. Hence, unlike fluency, comprehension seems to successfully work under a limited set of conditions, i.e., with respondents that speak English as a primary language and have been exposed to multiple meanings slogans. Since the majority of the U.S. population falls under this category, it is not surprising that the impact of comprehension has been found significant and has been overestimated. However, such effect was non-existent in the other conditions we covered. References are available upon request.

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THE BEST VS. THE BRIGHTEST: LOW-LEVEL VISUAL FEATURES INFLUENCE EVERY-DAY CONSUMER CHOICES

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SUMMARY

Consumers often deviate from optimal information processing and decision making, as is evidenced by a number of identified biases (Gilovich, Griffin, and Kahneman 2002; Kahneman and Tversky 2000; Bettman 1979). Most of these biases are due to a limited capacity for processing relevant information. Recent work in visual neuroscience suggests that the way in which the brain processes low-level visual information (i.e., color, brightness) might also bias the decision making process (Krajbich, Armel, and Rangel 2010; Rangel, Camerer, and Montague 2008; Shimojo, Simion, Shimojo, and Scheier 2003).

It is well known in visual neuroscience that the visual attributes of stimuli (such as brightness or color) determine their visual saliency or prominence, and thus affect the location and duration of eye fixations when individuals approach complex displays such as a vending machine or supermarket shelf (Itti and Koch 2001; Mannan, Kennard, and Husain 2009). This visual effect has been shown to persist for several fixations (Henderson, Weeks, and Hollingworth 1999; Parkhurst, Law, and Niebur 2002). As a result, more salient stimuli are fixated on (i.e., looked at) longer than less salient stimuli. Further, a recent series of neuroeconomic studies have shown that the values assigned to stimuli at the time of choice depend on the amount of attention the stimuli receive during the decision making process (Krajbich et al. 2010; Armel, Beaumel, and Rangel 2008; Shimojo et al. 2003). In particular, appetitive items receive higher liking ratings and are more likely to be chosen when attention focuses on them longer. Thus, we hypothesize that every-day consumer choices should be subject to a visual saliency bias, where independently of their reward value, more salient or visually prominent options are more likely to be chosen.

We present the results of three real food choice experiments (two utilize eye-tracking) that were designed to resemble every-day supermarket choices. First, we tested for the presence of a visual saliency bias. The results of Experiment 1 confirm the existence a significant and sizable visual bias in choices, which is dominant at very short exposure times, but persists even at longer exposure times. For example, at the shortest exposure times the brightness of food items had over 200% more impact on choices than a 1-point increase in the liking ranking of the food items, and the effect was still around 25% for the longest exposures. Second, we sought to investigate how the bias is affected by conditions of cognitive load (e.g., talking on a cell-phone), which are pervasive in everyday life. The results of Experiment 2 show that the visual saliency bias is longer-lasting, and relatively stronger, in the presence of cognitive load. One concern with the previous two experiments is that subjects make their choices by eye-movements, as recorded by the eye-tracker. Experiment 3 extends the results to the case of hand movements, which are representative of every-day behavior (e.g., a button press during vending-machine purchases). The results of this final task show that the visual saliency bias is still significant and sizable.

The current research supports the hypothesis that values are constructed at the time of choice based on how attention is deployed, and that visual features (here, the brightness of the food items) which affect the deployment of attention can affect choices, too (Krajbich et al. 2010; Armel et al. 2008; Shimojo et al. 2003). The current research further shows that consumers’ reliance on task-irrelevant extrinsic cues may be as significant as their reliance on task-relevant cues. Finally, we identify a novel mechanism through which marketing practices, such as changing the color of packaging or how a store shelf is lit, could have a sizable impact on consumer choices.

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SUMMARY

Counterfeiting is growing quickly, becoming a large business, and developing into a problem of international significance. In general it appears as either deceptive or non-deceptive. Non-deceptive counterfeiting refers to purchases and uses in which consumers are aware that they are buying and using counterfeits.

Although there has been some progress in understanding the non-deceptive counterfeiting, viz., consumers’ deliberate counterfeit-consumption behavior, several critical gaps remain (for details, see Wu 2010). To a large extent, past studies on consumers’ deliberate purchase and use of counterfeits are descriptive but lack theoretical approaches. For the very few studies using theoretical approaches, there are limited managerial implications. The proposed framework in this conceptual paper considers self-regulation input and conceives consumers’ deliberate consumption behavior of counterfeits as a process and one constituted by goal striving. It provides a comprehensive and integrated explanation for such behavior, rather than other theoretical approaches such as attitude theory (e.g., the theory of planned behavior).

Much consumer behavior is goal-directed, and as such, consumers set goals and behave in ways that help them meet those goals (Bagozzi and Dholakia 1999). Goal-directed behavior can be thought of as beginning with goal setting (Bagozzi and Dholakia 1999). Bagozzi and Edwards (2000) define goal setting as “the deliberate processes one goes through in weighing reasons for acting, which culminates in a goal intention” (p. 255). A goal intention provides the bridge between goal setting and goal striving with the latter defined as “the implementation and self-regulation of one’s end-state intentions and instrumental acts linked to goal attainment” (Bagozzi and Edwards 2000, p. 255).

An emerging body of work suggests that desire is an essential antecedent to intentions (e.g., goal intentions and action intentions) in models of effortful, goal-directed behavior (Bagozzi, Dholakia, and Basuroy 2003). In this paper desire is defined as a particular set of feelings that have motivational force and exist in appetitive and volitive forms (Bagozzi 2010). In addition to motivating goal intentions and action intentions, desires are proposed to perform an integrative function (e.g., Bagozzi 2010).

Attitudes, Subjective Norms, and Perceived Behavioral Control

In the context of deliberate counterfeit consumption, we identify and examine the theory of planned behavior as a candidate theory that meets the criteria of initiating action desires via the operation of action-focused mental events (for details, see Wu 2010). However, different from the theory of planned behavior, in this paper’s goal-striving model both attitudes and subjective norms toward deliberate purchase of counterfeits are proposed to positively determine action desire to deliberately purchase counterfeits, rather than action intention to deliberately purchase counterfeits. In contrast, perceived behavioral control in the model is proposed to directly and positively influence action intentions.

Consumers’ Perceived Likelihood of Counterfeit-Detection by Important Others (PLCD).

Aiming at developing a strong and parsimonious model, in the context of deliberate counterfeit consumption we submit that PLCD surfaces and should be considered as an important construct. PLCD’s integrative function derives from its primary antecedents, such as a counterfeit item’s product characteristics, consumption situation of counterfeits, perceived product quality of counterfeits, and important others’ ability to detect the counterfeits. Past studies have directly or indirectly identified some of these primary antecedents (for details, see review papers by Eisend and Schuchert-Güler 2006; Staake, Thiesse, and Fleisch 2009). However, they are mostly exploratory in nature, and more importantly, the relationships among these factors have not been focused on. Separately, these antecedents may be perceived and interpreted differently by different consumers. Together, through counterfeit-brand consumers’ perceptions and the perceptions’ meaning to these consumers, these antecedents are reconciled and transformed into the proposed construct, to perform an integrative function, such as negatively influencing consumers’ action intentions.

In addition, we propose that subjective norms moderate the relationship between PLCD and action intentions. The more favorable the subjective norms are, the weaker the relation between PLCD and action intentions; the less favorable the subjective norms are, the stronger the relation between PLCD and action intentions.
Goal Types

One premise of this paper is that different goals, such as social-adjustive and value-expressive ones, guide people’s propensities, including the choice of products or brands. This differs from traditional models, such as the model of effortful decision-making and enactment (Bagozzi, Dholakia, and Basuroy 2003) and the theory of planned behavior (Ajzen 1991) which imply that the impact of a decision-maker’s goals on behavior is mediated by more proximal determinants. Specifically, we propose that goal types can moderate the relationship between subjective norms and action desire; and the relationship between consumers’ PLCD and their action intentions.

This conceptual paper theoretically integrates and extends both the theory of planned behavior (Ajzen 1991) and the model of effortful decision-making and enactment (Bagozzi, Dholakia, and Basuroy 2003) by (1) showing that goals, particularly the goal types in this paper, can have an even broader and more dynamic impact on behavior in the goal-striving stage, in addition to their impact in the goal-setting stage identified in the literature; and (2) by re-conceptualizing the relationships of key constructs in the theory of planned behavior with action desire, goal types, and this paper’s newly introduced construct of consumers’ perceived likelihood of counterfeit-detection by important others. This paper provides a clearer understanding of the role of goal types in goal-directed behavior in general and the motivations and decision-making processes underlying consumers’ deliberate counterfeit consumption in particular. It theoretically and will empirically demonstrate that complete eradication of counterfeiting is unlikely. However, its results can still aid in the development of effective strategies to decrease consumer consumption of counterfeits. References are available upon request.

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ALL THAT GLITTERS IS NOT GOLD: PACKAGING AESTHETICS, CENTRALITY OF PRODUCT VISUAL AESTHETICS, AND CONSUMER RESPONSES

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SUMMARY

The role and importance of packaging relative to other communication tools is increasing in nowadays business environment. Packaging takes on particular importance because of its: increased significance in buying decisions in-store; its presence at the critical moment of purchase decision; and its extensive reach to most purchasers of the product. Given this, and growing management recognition of the ability to create differentiation through packaging, packaging can provide a source of competitive advantage in today’s global market place. Capitalizing on the commercial potential of packaging is widely used in the fast-moving consumer goods industry.

An important element of packaging decision is its aesthetics. Most businesses wish their products to be attractive on the shelves, and they spend millions of dollar designing visually attractive product packaging. Although the practitioner’s wisdom and academic research have documented that product packaging aesthetics (PPA) has tremendous influences on consumer attention, purchase intention, and price willing to pay, its impact on consumer sensory responses are still unclear. The current research tries to contribute to the retailing and consumer psychology field by arguing that PPA has positive influences on not only consumer intentional responses, but also sensory evaluation. However, the presumed effects of PPA may not be identical among consumers. Consumers have different preference on aesthetics. Bloch, Brunel, and Arnold (2003) developed a scale to measure an individual’s centrality of product visual aesthetics (CVPA), which is a stable and measurable personal trait a continuum from indifferent to highly interested. Empirical results of Bloch et al. (2003) have clearly indicated that consumer CVPA level moderates the impacts of product aesthetics on consumer responses. Our empirical studies try to examine the same moderating effect in the packaging field.

The primary purpose of this study is to examine the positive effects of PPA on consumer’s responses (including sensory evaluation) and the moderating effects of consumer CVPA level. One hundred and twenty-three undergraduate students from a local university participated the experiment. Based on the perspective of top-down processing, the authors argued that different PPA level will lead to different consumer responses. However, the influences of PPA on these responses will depend on consumer’s CVPA level. Empirical findings from Study1 provide strong support to our conjectures. For low-CVPA consumers, product aesthetics doesn’t play a critical role in their PI and PWP judging process. They are not willing to purchase or pay more for a beautiful box.

The primary purpose of Study 2 is to replicate the findings of Lee et al. (2006) in the taste evaluation task. Moreover, Study 2 also tries to demonstrate that consumer expectations will affect consumer responses only for high-CVPA consumers. The reason behind this conjecture is that recent research has clearly indicated that only high-CVPA consumers will form higher expectation based on the attractiveness and quality judgment of product packaging aesthetics. The last study of current research inquires an interesting but unexplored question: Will PPA cause a placebo-like effect? The author argues that for high-CVPA consumers, PPA will possess a place-like effect and in turn lead to higher self-reported happiness after tasting the stimuli and this effect will be weaker for low-CVPA consumers. Using chocolate as the stimuli, a lab-based experiment comprising of 80 undergraduate students reports that high-PPA chocolate makes participants happier than low-PPA ones. As expected, this effect is much stronger for high-CVPA participants.

Based on the empirical evidences, the authors also provide theoretical and managerial implications. Limitations and future research directions are also mentioned. References are available upon request.
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WHY IS LUXURY APPEALING? EXPLORING CONSUMER’S BRAND RESPONSE WITH A SPECIAL FOCUS ON GENDER

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SUMMARY

In a majority of markets and product categories, there is a price premium for female luxury brands compared to their male counterparts. These differences might result from a higher perceived value of luxury for women than for men. Generally, luxury goods are defined as goods that are primarily used to show prestige and status while the difference in functional utility over other goods is largely negligible (Grossman and Shapiro 1988). Prices for luxury brands are therefore significantly higher than those for non-luxury brands. While some research has shed light into luxury brand consumption, the role of gender in this context has been largely neglected. Traditionally, studying antecedents to purchasing luxury goods have been the focus of research. Among these, researchers investigated demographics (e.g., Dubois and Duquesne 1993), attitudes (e.g., Dubois, Czellar, and Laurent 2005), perceived exclusivity (e.g., Catry 2003), conspicuousness and status (e.g., Han, Nunes, and Drèze 2010), prestige (e.g., Vigneron and Johnson 1999), and values (e.g., Wiedmann, Hennigs, and Siebels 2009) as factors influencing luxury brand consumption. Little is known, however, about the role of gender in luxury brand consumption. This research thus investigates the influence of gender and a consumer’s need for uniqueness (CNFU) on luxury brand response (i.e., attitude toward and purchase intention of the luxury brand). We conducted two studies in three product categories (clothing, perfumes, and wristwatches) in the Western culture. We found evidence for our proposition that women’s attitude toward luxury brands is more positive than the attitude of men. As previous literature has shown, women are described as more interdependent and more concerned with the opinion of others than men (Meyers-Levy 1988). Thus, women on average apply more value to their physical appearance than men and might use luxury brands more as a means of communicating their self to the environment. Taking two different product categories into consideration, results are somewhat inconsistent. For perfumes, we found that consumers have a significantly more positive attitude toward luxury brands than toward non-luxury brands. This difference, however, was not found for wristwatches. In addition, our study revealed that consumers respond differently when considering the role of gender and need for uniqueness as moderating effects for the relationship between brand exclusivity and purchase intention. While attitude toward the ad and the interaction between brand exclusivity and need for uniqueness show a consistent pattern in terms of their influence on purchase intention, the findings for gender and exclusiveness are less straightforward for both product categories. If the suggested effects are stronger for female products should, however, be tested in future research. Prior studies showed that luxury brands are associated with superior hedonic and symbolic value (e.g., Vigneron and Johnson 2004). The findings of this paper in a gender-neutral product category (i.e., clothing), however, reveal that luxury brands do not deliver more value to consumers than non-luxury brands when considering the luxury aspect alone. Only for female consumers, luxury brands provide more uniqueness, status and hedonic value than non-luxury brands. Brand exclusivity alone, however, does not automatically turn brands into more favored ones. Overall, women have more positive attitudes toward luxury brands and are thus a valuable target segment for luxury brand marketers. Therefore, marketers are well advised to take our results with regard to gender and CNFU into consideration, and, additionally use uniqueness, status and hedonic claims in their marketing communications. Finally, however, marketers need to be aware that the product category is of paramount importance for how consumers respond to brands. References are available upon request.
THE ROLE OF SITUATED LEARNING IN COPING WITH PROFESSIONAL SERVICE EXPERIENCES: A CROSS-CULTURAL PERSPECTIVE

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SUMMARY

As consumers, we experience various stressful situations that are essentially demanding. From dealing with product failures to experiencing unsatisfactory or unexpected retail services, coping with consumption experiences is an everyday phenomenon (Pavia and Mason 2004). Consumers tend to cope in many different ways; learning during service episodes is one of them. Extant research has alluded to learning from experiences as a way of dealing with stressful consumption episodes (Duhachek 2005; Endler and Parker 1990). However, little research exists regarding the relationship between situated learning and coping strategy; it is especially important to understand how an active and vital mechanism like situated learning can lead to effective coping.

Situated learning or “learning on the go,” takes into consideration the context as well as existing consumer knowledge in shaping an individual’s ability to cope with stressful service experiences. A highly decontextualized and simplified learning promotes understanding that is static, rigid and incomplete (Spiro, Feltovich, Jacobson, and Coulson 1991). It does not take into consideration the constant transformations of a dynamic environment. Situated learning, in contrast, is inextricably related to developing a knowledge base built on an individual’s own schematic understanding and the contexts in which it occurs (Bransford, Sherwood, Hasselbring, Kinzer, and Williams 1992). Such learning is considered to be a dynamic by-product of the unique relationships between an individual and the context or environment (Choi and Hannafin 1995). Using theories of situated cognition, social learning and mental models, the study examines the topic of situated or situ learning and establish its link in effective coping. Besides, we explore the differences in situated learning across two cultural contexts: the U.S. and China. Previous literature has suggested that novel contexts provide individuals with different learning environments resulting in insightful learning experiences (Houde 2007). As such, the two cultural contexts might provide different environments leading to different processes in learning.

Exploratory research using semi-structured, in-depth interviews was conducted in the U.S. and China using snowballing technique (Moriarty and Bateson 1982). Individuals facing stressful professional service experiences were interviewed by the authors resulting in twenty and sixteen interviews from the U.S. and China, respectively. Participants ranged from 22 to 70 years, with a fairly equal representation of males and females; occupations were quite varied (e.g., copywriter, executive, and housewife). Most U.S. and Chinese interviewees were from middle or upper-middle-class backgrounds. The information from the interviews was analyzed by a modified constant comparison technique (Strauss and Corbin 1990). Preliminary analysis of the interview data took place during and after each interview to allow for follow-ups with the participants. Line-by-line analysis was conducted to understand emergent themes, followed by focused coding (Charmaz 2006).

Findings from the exploratory research suggest that learning should not be considered a static transmission of knowledge but a process where knowledge is dynamic and embedded in the context (Lave and Wenger 1991). Such a situated view of learning was elaborated upon by both U.S. and Chinese participants while discussing coping with stressful service processes or failures. Specifically, both groups highlighted the role that need for closure, psychological closeness to the problem, and consumer expertise played in enhancing their learning and coping. Unlike their U.S. counterparts, Chinese consumers initiated the process of learning long before experiencing the actual service with thorough evaluation of the service provider, the process, and any anticipated obstacles that might arise. This situated learning continued throughout service episodes, which makes intuitive sense as earlier research has suggested the propensity of Asians to avoid uncertainty (e.g., Hofstede 1981). By being cognitively and emotionally better prepared for any eventuality in terms of the service experience, they were better prepared to cope effectively with unfavorable service experiences. The Chinese participants also differed in possessing a greater zone of tolerance toward stressful service episodes with attempts to even ‘save the face’ of service providers, hoping that doing so may lead to better service from the providers. In addition, Chinese participants trusted their own ability to cope with stressful service experiences by learning about the service provider and process rather than depending on the service provider

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for much information. Interestingly, the U.S. participants discussed the importance of positive reappraisal as a way to learn and cope with the situation better.

This study not only contributes to extant literature by addressing an important but often ignored research area: the role of consumers as an active learner and player in dealing with dissatisfied or difficult service offerings, but also offers substantial managerial implications. In the heterogeneous world of services where the process and outcomes are often inconsistent, managers need to understand the importance of situated learning. By frequently informing consumers of their service processes and even allowing consumers to co-create or be a part of the process, managers may help their consumers better cope with the process when failures arise. A few industries practice such co-learning as a way to help reduce consumer stress. However, a majority of businesses offering services may not consider consumer stress and in situ learning as a mechanism leading to better coping. Service providers should take cognizance of constant consumer effort to learn and should willingly provide consumers with relevant information. Helping consumers learn better can go a long way in signaling the seriousness of the service provider in better serving its customers. By alleviating their stress levels, companies can aspire to enhance their customer service experience as an effective method toward greater customer satisfaction. References are available upon request.

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UNDERSTANDING OLDER CONSUMERS THROUGH COGNITIVE AGE AND PERSONAL VALUES: AN INTERNATIONAL PERSPECTIVE

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SUMMARY

Conceptualization

Despite the growing importance of the 50+ age group in the population, older consumers are still under-researched and still often not included in a range of marketing practices. Besides, the vast majority of the research on older consumers published so far has been conducted in North America, while Europe and Asia have been relatively neglected. Sudbury and Simcock (2009) have so far been the only ones to look into the relationship between personal values and cognitive age for mature consumers in the U.K. This empirical study is the first one to employ their approach in a cross-national survey of older consumers in the U.K., Germany, Hungary, and Japan.

Method

The study comprised part of a major piece of international research into older consumers across several culturally disparate nations, and utilized questionnaires. The lower age parameter of 50 was selected on the basis that this is the starting point for many age-related services offered to older consumers. Besides, previous research has called for including middle-aged respondents in order to better understand aging mechanisms and their impact on consumer behavior (e.g., Cole et al. 2008). To measure subjective age, Barak and Schiffman’s (1981) cognitive age scale was used. The scale comprises of four items, measuring the self-perception of how old a person looks (look age), feels (feel age), behaves (do age), and shares interests (interest age). As for personal values, the LOV scale developed by Kahle (1983) was employed.

The four nations selected are Japan, Germany, U.K., and Hungary. The questionnaire was translated and back translated by teams in Japan, Germany, and Hungary before being piloted across all four countries. Several changes were made on the basis of the pilot study. Three lists were purchased, one German (n = 6000), one British (n = 5000), and one Japanese (n = 1044) that contained randomly selected names and addresses of people aged 50+, and a questionnaire and pre-paid envelope was posted to them all. Piloting in Hungary demonstrated the difficulties of self-completion among many older Hungarian adults, thus the distribution strategy was adapted in that country, where a team of trained researchers administered the questionnaire face-to-face to 200 adults aged 50+. A total of 1368 usable questionnaires were received.

Major Findings

In terms of cognitive age, the results for the mature markets in our sample countries reveal an average difference between actual age and cognitive age of seven years in the U.K. and Germany and 5.5 years in Japan and 6.5 years in Hungary, i.e., in all countries studied, respondents felt younger than their actual biological by at least five years.

A tentative interpretation of the ranking similarities and differences between older respondents in the four countries seems to point to a strong importance of “Security” but to a substantial ranking difference of the importance of “Self-respect,” ranked first by British and German respondents, but sixth by Japanese and fourth by Hungarian respondents. In addition, Japanese respondents give top ranking to “Warm relationships with others” while it comes third for Hungarians and fourth for both British and German respondents. This finding suggests the overall importance of this value for older consumers. “Fun and enjoyment” seems to be fairly important to Germans and Japanese (ranked second and third respectively), but not so important for British (ranked fifth) and rather unimportant for Hungarians (ranked last). Finally, while British, German and Japanese older consumers do not perceive “Sense of belonging” as particularly important (ranked eighth, sixth, eighth respectively), it is the second most important value for Hungarians.

Breaking the value rankings up by cognitive age groups for the four countries shows some fluctuations in the importance of certain values within countries as well as differences between countries, e.g., while “Sense of belonging” and partially also “Warm relationships” become more important with cognitive age the reverse is true of “Fun and enjoyment” in the U.K. While the cognitively very young (< 50) rank it forth, the cognitively oldest rank it last. In Germany, “Security” is obviously becoming more important with cognitive age while other
values either show a rather stable or not so clear pattern. The Japanese rankings seem to be fairly stable across cognitive age groups, and so do those in Hungary.

We further checked if there was an overall significant statistical rank difference between cognitive age groups for each value. A significant difference was found for “Warm relationships” in Germany, “Self-fulfillment” in the U.K., in Germany, and Japan, “Being well respected” in Germany and Japan, “Fun and enjoyment” in the U.K. and Germany, “Security” in the UK, and finally “Self-respect” in Germany. Bivariate correlations between cognitive age groups and “Self-fulfillment,” “Being well respected,” and “Fun and enjoyment” were computed and found negative and significant in the U.K. In Germany, significances were only found for “Self-fulfillment” and “Fun and enjoyment,” while in Japan all three were significant. This confirms the lower importance of the above three personal values with higher cognitive age. In Hungary, a significant correlation was only found for security, with a positive relationship between cognitive age and this value.

Our results indicate that Sudbury and Simcock’s (2009) approach of combining cognitive age and personal values to better understand older consumers is a viable one and also applicable to other countries such as Germany, Japan, and Hungary. Using subjective age measures and personal values will help to change the traditional way of viewing the mature market as a monolith and to open the path for breaking it up into different segments. References are available upon request.

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DOES CORPORATE SOCIAL RESPONSIBILITY FOSTER MARKETING CAPABILITIES? AN INTERNATIONAL PERSPECTIVE

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SUMMARY

While extant research has examined the effect of marketing capabilities on firm performance, there is only little evidence on how to implement these capabilities. This dearth is problematic for several reasons: First, literature on organizational capabilities indicates that capabilities do not exist per se in a firm but need to be implemented by various mechanisms (Day 1994). Second, since differentiating capabilities are, by definition, difficult to imitate, a concise understanding of the mechanisms that underlie organizational marketing capabilities is necessary (Vorhies and Morgan 2005). Third, from a practical point of view, the message that marketing capabilities are performance drivers is helpful for marketing practitioners only when marketing science can identify the levers required to implement these marketing capabilities.

Therefore, the present research examines to what extent corporate social responsibility (CSR) – that is, the relationship between a firm and larger society, with organizational activities ranging from the support of local communities via donating money to charitable purposes to reducing the carbon footprint – fosters a firm’s marketing capabilities (Sen and Bhattacharya 2001). CSR, as a major construct of marketing literature during recent years, can be expected to be a driver of marketing capabilities: First, extant literature indicates that CSR positively influences stakeholders’ opinions of the firm (e.g., Sen and Bhattacharya 2001), and this influence may facilitate the development of marketing capabilities. Second, Orlitzky, Schmidt, and Rynes 2003 point out that implementing CSR requires changes which “may help firms develop new competencies, resources, and capabilities, which are manifested in a firm’s culture, technology, structure, and human resources” (p. 406).

Overall, three research questions guide the present research:

1. To what extent is a high degree of CSR positively related to marketing capabilities?

2. To what extent is the relationship between CSR and marketing capabilities influenced by the national culture in which the firm operates?

3. To what extent is the relationship between CSR and marketing capabilities influenced by the socioeconomic development stage of the nation in which the firm operates?

To answer those questions we gathered key informant and archival data on firms headquartered in the United States, Germany, China, and Hong Kong. Overall, 891 firms participated in our study: 292 from the United States, 280 from Germany, 185 from China, and 134 from Hong Kong. To analyze our data we conducted a confirmatory factor analyses with AMOS 16.0. Regarding our first research question, we examined the structural model that relates CSR to the marketing capabilities, incorporating all four samples, and found that the goodness of fit measures have satisfactory values. The structural relationship between CSR and the marketing capabilities shows that CSR is positively and significantly related to the four marketing capabilities.

To answer our second research question, we have performed a regression analyses with interaction terms and could affirm the moderating effect of collectivism/individualism. Moreover, the effect of CSR on the marketing capabilities is stronger when individualism is low (i.e., collectivism is high). Only communication capabilities show no moderating effect by CSR. These findings illustrate that national culture, represented by the degree of individualism, influences the effect of CSR on pricing, product development and distribution capabilities.

To answer our third research question, we have performed a regression analyses with interaction terms and could affirm the moderating effect of collectivism/individualism. Moreover, the effect of CSR on the marketing capabilities is stronger when individualism is low (i.e., collectivism is high). Only communication capabilities show no moderating effect by CSR. These findings illustrate that national culture, represented by the degree of individualism, influences the effect of CSR on pricing, product development and distribution capabilities.

The examination of the moderating relationship in research question three is again based on a regression analysis with interaction terms. Our findings indicate that while the socioeconomic development stage (measured by HDI and GDP per) negatively moderates the relationships between CSR and product development capabilities and distribution capabilities, it has no moderating effect
on pricing or communication capabilities. These findings hold for both measures of the socioeconomic development stage (i.e., HDI and GDP<sub>pc</sub>).

While the core model focuses on how CSR can foster marketing capabilities, we conducted a post-hoc analysis to determine the degree to which marketing capabilities are related to firm performance across the four nations and found that, in line with previous research, all four marketing capabilities are positively related to firm performance (Pricing capabilities → firm performance: .25, p < .01; Product development capabilities → firm performance: .10, p < .01; Distribution capabilities → firm performance: .13, p < .01; Communication capabilities → firm performance: .21, p < .01). After introducing an additional path from CSR directly to firm performance, we found that none of the relationships changed in terms of direction or significance, but that the direct relationship between CSR and firm performance is not significant. Therefore, marketing capabilities mediate the relationship between CSR and firm performance (Baron and Kenny 1986). References are available upon request.

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AN EXAMINATION OF PRODUCT IMITATIONS AND CONTINGENCY FACTORS

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SUMMARY

Despite the prevailing phenomenon of product imitation in transition countries, theoretical development of product imitation strategies still lags behind anecdotal evidence (Levitt 1966; Schnaars 1994; Shenkar 2010). The authors distinguish pure imitation from creative imitation. Firms that use pure product imitation clone products so their offerings essentially are identical to those of competitors; firms that adopt creative product imitation instead modify or add new features to their versions of competitors’ products. Therefore, to better understand the role of imitation strategy, it is important to examine different types of imitation, such as pure versus creative (Ofek and Turut 2008).

Another objective of this research is to study internal and external contingencies that shape the imitation strategies on firm performance. Building on dynamic capabilities perspective (Eisenhardt and Martin 2000; Teece et al. 1997), which argues that firm performance is the result of the configuration between capabilities and strategy; whereas institutional theory (DiMaggio and Powell 1983; DiMaggio and Powell 1991) contends that the firm’s socially constructed identity may influence the efficacy of its strategy on firm performance, this research examines marketing capability as an internal contingency factor and ownership type as an external contingency factor on the relationship between imitation strategy and firm performance.

The authors test their hypotheses with data collected from multiple sources including top and middle managers of each firm and archival financial data from 192 firms in China. The results largely confirm their premise and yet some are counterintuitive. In particular, they find that imitation remains a viable strategy to increase market performance when coupled with strong marketing capabilities. More promotions among other marketing tactics can reduce customers’ perceived risks of using imitable products. Thus, strong marketing capabilities allow a firm to yell out loud for their imitable products, removing the stigma associated with imitation, making imitation probably the fastest mode to boost a short-term performance goal such as market share (Schnaars 1994). However, the results indicate that marketing capabilities only support pure imitation and not creative imitation to generate positive financial outcomes.

While marketing capabilities set a boundary to explain the efficacy of imitation on market performance, ownership type relates to the socially constructed identity of one type of organization over another, serves as an external factor to constrain the performance implications of imitation. The authors confirm the recent literature (Jonsson and Regner 2009) and find that to which an ownership type a firm belongs plays an important role to legitimize the adoption of imitation strategy. The results indicate that pure imitation is bad for Chinese firms to garner market share but is good for them when it comes to long term financial performance. References are available upon request.

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ANTECEDENTS AND RELATIONSHIP CONSEQUENCES OF FOREIGN SUPPLIER UNETHICAL MARKETING BEHAVIOR: AN IMPORTER’S PERSPECTIVE

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SUMMARY

A large part of the phenomenal growth in international business comes from import-export operations, where success relies heavily on building sound working relationships between the interacting parties (Holm et al. 1996; Leonidou and Kaleka 1998). Despite the numerous benefits of such relationships, their harmonious development is hindered by many problems, mainly caused by the high geographic and cultural distance separating the parties involved. One source of problems is rooted in differences in the values held by the interacting parties, which are identified at the national, corporate, or personal level (Lee et al. 2007). This is because sharing dissimilar values is responsible for understanding and interpreting issues concerning the working relationship in a different way.

One key issue that warrants particular attention is that of marketing ethics, which refers to the extent to which the firm’s marketing policies and practices are characterized by transparency, trustworthiness, and responsibility, thus creating a feeling of fairness and rightness by other parties (Murphy et al. 2005; Piercy and Lane 2007). The adoption of unethical practices can endanger business relationships, because it can: create suspicion and reduce openness between the interacting parties; raise moral dilemmas and erode honesty in the exchange process; violate respect and increase uncertainty and instability in the working relationship; give rise to friction, frustration, and conflict between sellers and buyers; cultivate short-term thinking and create opportunistic behavior; reduce the quality of business decisions; and increase uncertainty around the relationship (Gundlach and Murphy 1993; Oliver 1999). Despite the underpinning role of unethical marketing behavior in developing buyer–seller relationships, empirical research on the subject from an international marketing perspective is lacking, especially regarding the harmful effects on relationship quality and outcomes.

Our study aims to fill this gap by developing and testing a comprehensive model that focuses on the antecedents of importers’ perceptions of exporters’ unethical behavior and how this affects the quality and performance of the working relationship. Our conceptual model theorizes that the existence of differences in the national, corporate, and personal values between importers and their foreign suppliers are responsible for the generation of unethical marketing practices from the part of the exporter. This, in turn, will negatively influence the quality of their working relationship, as expressed in terms of cooperation, communication, trust, and commitment. This low relationship quality will have harmful effects on the performance of the importer-exporter venture. Altogether, five hypothesized associations between the constructs of the model were developed.

From a random sample of 400 Cypriot importers/distributors drawn from the Directory of Chamber of Commerce and Industry, 189 firms agreed to take part in the study. A structured questionnaire was used as the research tool, with construct scales derived from multiple established literature sources. Data were systematically collected from respondents based on a telephone survey, using the services of a professional call center, while in some cases, personal interviews or drop-in questionnaires were also employed. The survey was conducted on a daily basis over a period of four weeks. The initial analysis of the measures revealed high validity and reliability for all the scales used. To test the proposed conceptual model, structural equation modeling (SEM) was employed using the EQS statistical package.

Interestingly, all hypotheses were found to be significant and in the anticipated direction, while the specified model fitted the data well. Specifically, this study confirmed that dissimilarities in national, corporate, and personal values increase the level of perceived unethicability of marketing practices, and vice versa. The findings also show that the unethicality of marketing practices can have a deleterious effect on the quality of the working relationship between exporter and importers. Finally, the proposed positive outcome of relationship quality on relationship performance was also verified.

Overall, our study has clearly demonstrated that differences in values between importers and exporters are indeed responsible for increasing the unethicability in the
marketing behavior of the latter as perceived by the former; exporters’ unethical marketing practices can seriously harm the quality of their working relationship with importers; and the lower the relationship quality, the lower its level of performance. Hence, prior to embarking on a purchasing venture with a foreign supplier, it is important for an importer to closely examine his/her value profile (at the national, corporate, and personal level) and determine how compatible it is with his/her own. In addition, importers should carefully monitor the marketing practices of their foreign suppliers and be ready to take immediate corrective action should any unethical issue arise in the relationship. The positive association between the quality of the working relationship and its performance outcomes stresses the delegate role of properly initiating and handling the behavioral interactions between importers and exporters. It is important therefore to invest the necessary amount of time, effort, and resources in these relationships, and appoint specialized people to be directly responsible for them. References are available upon request.

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EXPLORING CONSUMER BEHAVIORS IN CHINA: THE MODERATING ROLE OF SOCIAL CONFORMITY

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ABSTRACT

The low consumption habits of the Chinese people may be rooted in their cultural and social values. Results of this study indicate that while long-term orientation and consumer ethnocentrism may hamper consumption of imports, the effects are, however, moderated by social conformity toward foreign values.

INTRODUCTION

A recent report reveals that China’s GDP is growing at around 8% (Barton 2009). However, the country’s consumption-to-GDP ratio stays at around 36% (or half that of the U.S. and two-thirds that of Europe and Japan), which ranks the country the lowest in the major market economy (Barton 2009). The low consumption habits of the Chinese people may be rooted in their culture and social norms. The seminal work of Hofstede and colleagues reveals that the Chinese are generally regarded as long-term oriented who firmly adhere to Confucian beliefs. As a result, Chinese appreciate future rewards from thrift and perseverance (Hofstede 1994; Hofstede and Bond 1988).

In addition, the literature suggests that Chinese consumption of foreign products may be hampered by the level of consumer ethnocentrism toward foreign brands and products (Leong et al. 2008; Wang and Chen 2004). While these findings are insightful, it is unclear whether the negative impact is consistent across the nation, as different regions of China have been influenced by social conformity of foreign value to a different extent. We develop an empirical model to examine the role of long-term orientation, consumer ethnocentrism, and social conformity on Chinese consumers’ willingness to purchase foreign products. Based on a sample that represents the entire nation, we show evidence that supports the proposed direct effects of long-term orientation and consumer ethnocentrism as well as the moderating effect of social conformity.

LONG-TERM ORIENTATION

Long-term orientation (LTO or Confucian belief) is a measure of the extent to which a culture focuses on the virtues of future rewards (Hofstede and Bond 1988). Hofstede and colleagues’ seminal work indicates that people who are persistent and practice thrift are long-term oriented, as they strive to save money and be prepared for the future (Hofstede 1994; Hofstede and Bond 1988). It follows that consumers who value saving money for the future would spend less, especially on products that charge a premium, such as imported designer clothes and upscale brand items (Devan et al. 2009; Makin 2006; Powell 2009). Hence, we believe that LOT has a negative impact on willingness to buy foreign products.

CONSUMER ETHNOCENTRISM

Consumer ethnocentrism represents consumers’ beliefs about and proclivities toward purchasing foreign brands and products (Shimp 1984; Shimp and Sharma 1987). The literature has acknowledged that ethnocentric consumers are more likely to acquire domestically made products over foreign-produced goods (Rosenbaum and Wong 2009); by contrast, less ethnocentric individuals place more attention on objective measures and are more willing to accept imported items (Watson and Wright 2000). Therefore, it is reasonable to believe that consumer ethnocentrism has a negative impact on willingness to buy foreign products.

SOCIAL CONFORMITY

Conformity is the process in which an individual’s beliefs, attitudes, and behaviors are influenced by external forces such as social values and norms (Jugert et al. 2009; Khoury 1985). The literature has acknowledged the role of social conformity in consumers’ purchase decisions (Tasaki et al. 1988). The strong appetite of the Japanese for western designer clothing and handbags is a typical example of social conformity in the marketplace (Hirakubo et al. 2002). Hence, with a high degree of exposure to foreign media and values, especially when foreign consumer goods go into the mainstream, consumers are likely to comply with the social norm and are therefore likely to acquire imported goods (Schiffman and Lazar 2006). Hence, a society that is saturated with foreign values would compel individuals to adopt such values as a social norm. We expect that social conformity would moderate the effect of LTO and consumer ethnocentrism.
METHODS

To examine the proposed framework, we collected data through a self-reported questionnaire that gathered information on the aforementioned variables and respondents' demographics. First, we divided China into three regions: Macau and Hong Kong, Beijing and Shanghai, and other mainland locales. These three regions represent three different levels of foreign influence (i.e., high, medium, and low social conformity of foreign values). We then recruited a group of students, who were studying at a large university in China, as interviewers to collect data in these regions by means of convenience sampling. We received more than 1,700 questionnaires. After careful examination of the dataset, 118 responses were removed from the study.

We adopted a four-item measure of Confucian belief from Hofstede (1994). We used seven items from Shimp and Sharma’s (1987) CETSCALE as a measure of consumer ethnocentrism. We defined consumers’ willingness to purchase imported clothes based upon seven items adopted from Dodds, Monroe, and Grewal (1991) and Grewal, Monroe, and Kirshnan (1998). We defined social conformity as the extent to which a society conforms to foreign-imposed values. We operationalized the variable at the regional level and divided data into three groups as mentioned above. Based on the work from prior literature, we classified Hong Kong and Macau as high-foreign-value-conformity society, Beijing and Shanghai as medium-foreign-value-conformity society, and the rest of China as low-foreign-value-conformity society.

RESULTS

To examine the hypothesized relationships, we performed a series of additive structural models. We controlled for respondents’ socio-demographics such gender, age, income, and education level. The results indicate adequate model fit with comparative fit index (CFI) = .93, root mean square error of approximation (RMSEA) = .07, standardized root mean square residual (SRMR) = .06. The results also show that the postulated effects are supported: the LTO effect is significant at the .05 level and consumer ethnocentrism effect is significant at the .001 level.

We investigated the moderating role of foreign influence through a group-invariance test of the proposed structural model. The results reveal significant attenuation on the Confucian belief effect in that the impact on the criterion variable of the low-conformity group remains negative, non-significant for the medium-conformity group, and positive for the high-conformity group. The results are consistent with our proposal. In addition, the consumer ethnocentrism effect magnifies as the level of foreign value conformity increases. The results suggest that the impact of consumer ethnocentrism is the least within the low-conformity society, whereas the impact of the construct is the highest within the high-conformity society.

CONCLUSIONS

The objective of this article is to respond to the call from the literature and to assist scholars and managers to better understand cultural and social attributes in consumer purchase decisions. Based on a sizable sample that represents all provinces and special regions in Greater China, we illustrate why and to what extent consumers avoid consumption of foreign goods. The results show significant direct effects of Confucian belief and consumer ethnocentrism on consumers’ willingness to obtain import goods. In addition, the postulated effects are moderated by social conformity of foreign values.

The overall belief of the Chinese in thrift and in looking ahead will hardly be changed, as these virtues have been ingrained in their culture for thousands of years (Hofstede and Bond 1988). However, findings from the current research suggest that LTO could be an indispensable advantage for international brands. As our results illustrate, conformity of foreign influence could alleviate the negative impact of LTO on people’s consumption habits and encourage spending on imports, probably due to superior brand equity and product quality (Atsmon and Dixit 2009) as well as social conformity. Our findings also explicate the importance of intra-socio-cultural differences and highlight future research opportunities in a international marketing studies.

The literature has also indicated that mainstream Chinese consumers avoid foreign brands because they cannot afford a premium, even though the offerings are superior in quality and brand image. These consumers prefer products that are “good-enough”: moderately priced with reasonable product reliability (Gadiesh et al. 2007). Thus, to seize a share in the Chinese middle market, multinational players must find ways to lower their cost bottom line and target this “good-enough” segment through effective marketing programs. Indeed, as Gadiesh et al. (2007) contend, “the good-enough space is where multinationals and Chinese firms are going head-to-head – and it’s the market segment from which the world’s leading companies will emerge” (p. 83). Although ethnocentric consumers may still prefer the local alternatives, multinational firms that successfully penetrate their offerings into the mainstream will find the LTO of the Chinese a strategic asset rather than a business constraint.
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REVISITING COUNTRY-OF-ORIGIN EFFECT: A STUDY OF CONSUMER REACTIONS TO CROSS-BORDER BRAND ACQUISITION

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SUMMARY

More and more companies have recognized the increased importance of cross-border mergers and acquisitions (M&A). As an intangible asset of a business, brands are routinely involved in the M&A process. However, unlike the traditionally held view that firms that have a comparative advantage are most likely to engage in cross-border mergers and acquisitions, a striking aspect of recent cross-border M&A is characterized by firms in emerging economies acquiring brands from developed countries (e.g., China’s computer company Lenovo acquired IBM personal computer business in 2004).

Extensive research on country-of-origin (COO) effects suggests that consumers use country-of-origin information to evaluate products (Han 1989; Johansson 1989). However, little attention has been devoted to the impact of the cross-border M&A behaviors on the consumers’ evaluation of the newly acquired brand. This study thus fills the gap through investigating the impact of the cross-border M&A on the acquired brand from a consumers’ perspective and the factors that may moderate such effect in consumers’ brand evaluation.

Drawing on social identity theory (Tajfel and Turner 1979, 1986) and association theory (Anderson 1983), this study offers a contingent view of country of origin effect. In general, this study examined the moderating role of consumers’ social identity and brand symbolism in the relationship between acquiring countries and consumers’ brand evaluation and purchase intention under cross-border mergers and acquisitions context. Previous research shows that a dissociative group predicts more negative evaluation of the brand associated with that group than the brand associated with out-group or in-group (White and Dahl 2007). Therefore, we speculate that when consumers are primed for their national identity, they will identify themselves more strongly with the activated social identity, and feel and behave on the basis of a social group member rather than an individual self. Through manipulating acquiring countries (China vs. European country), it is expected that the COO effect of acquiring country will be more pronounced when the consumers’ national identity is primed.

Brand symbolism represents what a brand means to consumers and the emotions or feelings they attach to when purchasing and using it (O’Cass and Frost 2002). Iconic brands are most frequently, if not always, perceived to have rich symbolic images attached to them. According to Holt (2003), iconic brands are successful because “they forged a deep connection with the culture” (p. 43). When such an iconic brand is acquired, its unique symbolic connections with American ideology may be replaced by new associations with different culture and ideology. Therefore, we predict that the iconic nature of a brand will moderate the COO effect such that consumers’ evaluation of the acquired brand by a Chinese company will be more negative when the brand is an iconic brand.

To test these hypotheses, this study used a 2 (group label: Chinese acquisition vs. European acquisition) X 2 (priming: identity prime vs. no identity prime) X 2 (brand symbolism: iconic vs. non-iconic) between subjects experimental design. A pretest using twenty-five participants ensured that iconic focal brands were identified. One hundred and forty-three undergraduate students were randomly assigned to different conditions and were asked to make evaluations of the acquired brand and indicate their purchase intentions. Manipulation checks were done to ensure that the focal brands were perceived differently in terms of their iconic nature in the main study.

ANOVA analysis results indicated that there was no significant country of origin effect on consumers’ brand evaluations and purchase intentions. A further analysis of moderating effects revealed the expected interaction effect on consumers’ brand evaluation ($F(1, 142) = 6.83, p < .01$) and purchase intentions ($F(1, 142) = 3.98, p < .05$). Participants in the social identity prime condition reported more negative evaluations (1.42 vs. 3.23) and lower purchase intentions (2.33 vs. 3.51) on the acquired brand by China than the no identity prime group, whereas no significant difference was found on the evaluations and purchase intentions of the acquired brand by European countries between the two conditions ($p > .05$).

Similar patterns of interaction effect between the acquiring country and brand symbolism was found on consumers’ brand evaluations ($F(1, 142) = 5.27, p < .05$) and purchase intentions ($F(1, 142) = 3.92, p < .05$). Participants in the iconic brand condition reported more negative evaluations (1.79 vs. 3.15) and lower purchase
intention (2.58 vs. 3.73) on the acquired brand by China than those in the non-iconic brand condition, whereas no significant difference was found on the evaluations or purchase intention of the brand acquired by European countries (p > .05).

The findings show that country of origin effect is contingent on consumers’ social identity and brand symbolism on the relationship between acquiring countries and consumers’ reactions. This article contributes to the current research on country or origin effect in three ways. First, it examines consumers’ reactions to an acquired brand under a cross-border M&A context rather than a brand or product originating from other countries. Second, the study extends COO research using social identity and reference group perspectives. Finally, it reveals the moderating role of brand symbolism in consumers’ reactions to an acquired brand. As companies are increasingly using brand acquisition as a strategy to enter a foreign/international market and create value, they have to understand how consumers view the cross-border M&A and react to brand acquisition.

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DISCOVERING IN-GROUP REACTIONS TO OUT-GROUP FOCUSED ENDORSEMENTS

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SUMMARY

In multi-cultural environments, product endorsements addressing minority groups may not be appreciated by the majority of consumers. This renders such endorsements potentially controversial should there be animosity between the majority (in-group) and minority (out-group). Our paper attempts to identify drivers of animosity against minorities and, subsequently, relates such animosity with intention to buy products carrying endorsements associated with the focal minorities. Our research is based on social psychological literature. Specifically, we draw on Social Identity Theory and Social Dominance Theory to explain routes of potential consumer animosity. Next, the Theory of Planned Behavior is employed to link in-groups animosity directed toward religious minorities to purchase intent of products carrying out-group specific endorsements (e.g., Halal or Kosher). Based on the extant literature, we develop a research model and derive seven empirically testable propositions. Empirical verification of the propositions consists of a large scale survey. The results of our scale empirical study indicates that distinctiveness, ethnocentrism and racism are the major drivers of animosity toward minorities, and this animosity negatively impacts the intent of the “in-group” to purchase products with minority related endorsements. We discuss the theoretical and practical implications of our findings and provide suggestions for future research in this area. Our research contributes to the extant literature on consumer animosity in three important ways. First, we offer a theory driven perspective in a field dominated by empiricism. Second, we focus on the interactions of different ethnic subgroups within a country, whereas the majority of literature investigates the role of consumer animosity between countries. Third, we develop a coherent set of propositions and test them empirically. References are available upon request.

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COGNITIVE, AFFECTIVE, AND SYMBOLIC COUNTRY CONNOTATIONS: CONCEPTUAL UNDERPINNINGS, INTERRELATIONSHIPS, AND IMPACT ON CONSUMERS’ BEHAVIORAL INTENTIONS

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SUMMARY

Conventional representations of country image in country-of-origin (COO) research has been criticized for focusing exclusively on cognitive aspects, while symbolic and affective representations have been rather neglected. This study provides a holistic picture of country image perceptions by focusing on all three aspects at the same time in predicting consumer behavior. We allow for variations in consumers’ perceptions of nations by looking at a home (i.e., self-image of that country), and foreign country context (i.e., image of a foreign country). We seek to uncover the multiple facets of consumers’ country image perceptions and provide a macro level view of how COO works in the globalized marketplace. We explore these issues in the context of Europe, as there is a diversity of levels of development (e.g., East versus West) and cultural influence within the region.

We link symbolic (country personality), cognitive (country cognitions), and affective (country affect) country connotations to each other as well as to behavioral intentions by means of a conceptual model. This model is based on attitude theory (Ajzen and Fishbein 1980) as well as emotions theory (e.g., Izard, Libero, Putnam, and Haynes, 1993). Country personality is conceptualized based on D’Astous and Boujbel (2007) and captures both positive (i.e., assiduousness, conformity and agreeableness) and negative (i.e., unobtrusiveness, wickedness and snobbism) traits of a nation. Three dimensions are more related to cognitive factors (i.e., assiduousness, conformity and unobtrusiveness), whereas the others capture affective country connotations (i.e., agreeableness, wickedness and snobbism). Three hypotheses are developed and tested: (1) Country cognitions positively mediate the relationship between assiduousness and conformity and negatively mediate the relationship between unobtrusiveness and consumers’ intentions to behavioral intentions; (2) Country affect positively mediates the relationship between agreeableness and negatively mediates the relationship between wickedness and snobbism and consumers’ intentions to behavioral intentions; and (3) Country affect positively mediates the relationship between country cognitions and consumers’ intentions to behavioral intentions.

Accounting for criticisms in COO research that document supremacy of Western samples, an Eastern European country, Slovenia, served as a survey country, and Austria as a foreign country stimulus. Both share a certain amount of culture and economic development, yet are different enough to make comparisons meaningful. In total, a representative sample of 405 respondents was obtained through an on-line panel. We extensively screened relevant literature and selected established scales to measure our constructs: country personality was measured with the 24 items scale from d’Astous and Boujbel (2007). Country cognitions were measured with 5 items taken from Parameswaran and Pisharodi (1994). Country affect was drawn from Schmitt, Pan, and Tavassoli (1994). Finally, behavioral intentions were measured with items taken from Putrevu and Lord (1994).

In order to evaluate the measurement properties of the operationalizations of our focal constructs and subsequently test the research hypotheses, structural equation modeling (SEM) was used (with LISREL 8.72). The measurement models for the other constructs in our study showed acceptable fit requiring no adjustments in their original specification. Consistent with our research hypotheses, which expected country cognitions and country affect to mediate the relationship between country personality and the two outcomes in our model, two models were estimated, one for the home and one for the foreign country context. The fit of both structural models was satisfactory. Both models were able to explain significant amounts of the variance of the dependent constructs. Findings reveal that, overall, country personality and country affect complement the well-established impact of country cognitions on behavioral intentions. Furthermore, in many instances, the relationship between country personality and behavioral intentions was mediated by country cognitions and country affect.

Our study offers a response to the often expressed criticism that COO studies lack a solid theoretical foundation (e.g., Verlegh and Steenkamp 1999) and also provides a holistic treatment of three alternative specifications of country image perceptions (i.e., cognitive, affective, and symbolic) from different perspectives. Importantly, our study is the first to embed the newly-developed
country personality construct within a network of theoretically relevant constructs and to examine its relationships to extant country image constructs. Based on uncovered relevant dimensions we are able to recommend brand building strategies in the global market. However, we also have to point out some limitations. Since the study design was located at a general country level, a more detailed approach that breaks our outcomes down to particular product categories and/or brands would be a valuable area for future research. Replication efforts in this direction are also needed to test the cross-national invariance of the country personality scale. References are available upon request.

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PERFORMANCE IMPLICATIONS OF GLOBAL BRANDS AND THE MODERATING ROLE OF CULTURE VALUES

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SUMMARY

Strategically managing portfolios of brands and products in a global environment is among the most challenging activities for executives of companies of all sizes. Firms often employ a range of options in their branding strategies, from local domestic branding, to those with regional, multi-regional, or global brand orientations (Douglas, Craig, and Nijssen 2001; Townsend, Yeniyurt, and Talay 2009). L’Oréal, has experienced remarkable growth by concentrating strategic activities on 12 global brands (Kapferer 2002). Yet, the company still maintains many brands, like INNEOV (a brand of nutritional supplements for skin and hair) and SoftSheen Carson (hair products) which are regional or multi-regional in scope. Developing the right balance to the portfolio of brands and products goes beyond features and attributes, but also includes strategic geographic scope considerations. In the resulting hierarchy, brands that are global in scope have most notably captured the interest of academics and executives.

Global brands offer a range of key advantages such as efficiencies of scale and scope, responsiveness to global customers, leverage across supply chains. While it appears many companies attempt to exploit such advantages, empirical evidence supporting these benefits, nonetheless, is surprisingly scarce (Steenkamp, Batra, and Alden 2003). Keller and Lehmann (2005) propose a global brand may be perceived to have higher quality due to its global acceptance. This is supported by findings from Steenkamp, Batra, and Alden (2003) that suggests purchase likelihood is higher for brands with a greater degree of perceived globalness due to higher perceptions of quality. Yet, the empirical evidence related specifically to the performance of global brands is for the most part limited to cross-cultural cultural studies employing perceptual measures related to esteem, perceptions of quality and purchase likelihood (Ozsomer and Altaras 2008; Steenkamp, Batra, and Alden 2003).

A number of extrinsic brand cues and environmental factors potentially impact the relationship between strategic signals sent to the market and market receptivity associated with market-based performance. In this instance, we investigate the role of concepts which potentially change the way people of a country may process the signal, and impact sales of vehicles in the market. These include the extrinsic cue of country-of-origin of the brand, and cultural values of the host market. Culture is widely viewed as being a precursor to the acceptance of global brands in a country, as evidenced by emerging concepts such of a global consumer culture (Alden, Steenkamp, and Batra 2006), and global brand communities (Cova, Pace, and Park 2007). Erdem et al. (2006) found that cultural dimensions are significant moderators of the relationship between brand credibility and purchase intentions. We suggest that the effects of culture are likely to alter how GBA signals are processed by the consumers in a national market and correspondingly change the market-based performance of brands in the portfolio.
use the cultural dimensions developed by Hofstede (1983), which forms the basis for a significant proportion of the cross-cultural studies undertaken in the literature (Sivakumar and Nakata 2001), power distance, individualism, masculinity, and uncertainty avoidance.

We empirically test a conceptual model that analyzes the relationship between the degree of a brand’s globalness and its market-based performance. Our analyses of a panel dataset of 165 automotive brands in 65 countries from 2002–2008 provides evidence that global brands perform better in the marketplace than brands which are less broadly dispersed, and that country-of-origin and culture are instrumental in determining how global brands perform. This study expands our understanding of how global brands perform in the global marketplace in a number of ways, and has some important implications for managing global brand portfolios. References are available upon request.
A STUDY OF THE MALAYSIAN AUTOMOBILE INDUSTRY: IS A BRAND ALLIANCE THE ANSWER?

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SUMMARY

The Malaysian automobile industry started in the 1980’s. Over thirty years, the brand images of the Proton and Perodua have been lower than imported cars from Japan, Europe, and the United States. Although Malaysian consumers have to pay 100 to 200 percent tariff if they purchase an imported car, Toyota’s market share increased from 6.29 percent in 2002 to 19.1 percent in 2008 (Malaysian Automobile Association 2009). Also, Honda’s market share increased from 1.4 percent in 2002 to 6.0 percent in 2008. In addition, by 2010 the Malaysian government had to meet the agreement with ASEAN Free Trade Agreement (AFTA) to reduce and eventually eliminate the tariff for foreign imported vehicles which are assembled in ASEAN countries (http://www.aseansec.org/).

This study explores consumers’ perception of the local car after its brand alliance with Japanese (Toyota), U.S. (Ford), or German (Volkswagen) automakers. Our study only focuses on the consumer automobile and not on commercial vehicles. These marketing phenomena are similar in the European Union (EU) countries. The automobile manufacturers of the European Union are interested in entering other markets by using co-branding or strategic brand alliance. Thus, for this study we extend and modify previous studies from European automobile industry (Abratt and Motlana 2002; Rao and Ruekert 1999; Simonin and Ruth 1998).

According to Keller and Lehmann (2006), attitude is a person’s relatively consistent evaluation, feeling and tendencies toward an object or an idea. Attitudes are typically evaluated as positive, negative or neutral in relation to three key components of a brand; cognitive component (beliefs), affective component (feelings), and co-native components (actions/behaviors). Many studies of brand extension were developed based on consumer brand attitude (ATT) toward the original brand (Aaker and Keller 1990). A brand alliance (BA) has been defined as a deliberate decision by the firm/manager to link two or more brands, communicate that linkage to consumers, and in the process achieve important goals that neither brand could achieve as effectively or efficiently, working independently (Voss and Gammoh 2006).

Most studies of brand extension and brand alliance discuss the issue of brand fit (BF). Brand fit refers to the consumer’s perception of brand image cohesiveness and associative consistency between the brands of the marketing alliance (Simonin and Ruth 1998; Park et al. 1996). According to James (2005), to determine appropriate brands for the study, a number of factors should be considered which include relevance, quality and fit.

Country of origin salience (COOS) is a new construct that combine both country of origin and country of manufacture factors. It is developed from the original concept of country of origin. Country of origin is the notion that country of origin information serves as an indicator of the quality of products from a country, and is strongly supported through research results (cf., Gürhan-Canli and Maheswaran 2000). COOS becomes an exogenous latent variable which leads to the consumer brand attitude toward foreign cars and Malaysian cars. Then, the brand attitude toward foreign car and local car leads to the attitude toward the brand alliance of both types of car. Both brand attitudes moderate the relationship between COOS and the effect of brand alliance. Brand attitude toward foreign and local cars will also lead to brand fit of both types (foreign and local car) and as a mediator to the dependent variable. Christian’s et al. (2007) research shows that brand fit is positively related to consumer’s attitudes about a cross-border brand alliance. A high fit of brand image indicates a positive influence on consumers’ attitudes toward the co-brand (Bouten 2006; Simonin and Ruth 1998).

Surveys were collected in 2009 at the capital city of Malaysia, Kuala Lumpur. There is a total of 200 valid responses from car owners. The overall model fit is GFI = .864, NFI = .828, RMSEA = .049. The brand attitude toward Japanese car is positive and significant in making a difference in Malaysian consumers’ mind. H1A is significant only with Japanese automaker, confirming the previous assumption that the majority of Malaysian consumers prefer the Japanese car brand. Results of H1B indicate that COOS is significant toward brand attitude of both Proton and Perodua. It is obvious that Malaysian consumers know these brands are locally produced and this has a strong impact on their brand attitude toward both Proton and Perodua. Brand attitude toward foreign cars (of all brands) is significant and it is a full moderator between country of origin salience and attitude of brand alliance (H2A). In fact, H2B, the consumer’s attitude toward local car, is also significant as a moderator between

...
country of origin salience and the brand alliance. The relationship between the brand fit and consumer attitude toward foreign car (H3A) and local car (H3B) is basically not significant except for the US (Ford) car. As for H4, it is insignificant for both US and German brand fit with brand alliance but significant for the Japanese brand.

Country of origin salience (COOS) is a new yet significant construct in the study of brand alliance. COOS combines both country of origin and country of manufacture factors. As indicated by the comparison of COOS among the three potential brand alliance partners, the most interesting results of this study is that a Japanese and Malaysian brand alliance will be superior to brand alliances with either U.S. (Ford) or German (Volkswagen) automakers. The German automaker, Volkswagen, will be the second and the U.S. automaker, Ford, is the last choice for a brand alliance.

In conclusion, the study contributes to two insights. First, it is important to assess the consumer brand attitude of both local and foreign automobiles before making any brand alliance decision because it has a significant role in moderating the success of the decision. Most of all, country of origin salience has strong impact on which country of automakers and as well as the brand of automaker that local automakers should work within the future. References are available upon request.

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THE GLOBALNESS ROUTE TOWARD BRAND EQUITY: HOW CONSUMER AND BRAND LEVEL FACTORS CHANGE THE ROUTE TO SUCCESS

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SUMMARY

The objectives of the present study are to examine (1) how perceived brand globalness (PBG) and perceived brand localness (PBL) serve as halos for brand equity within the service sector (2) mediated by hedonic and functional values and (3) moderated by consumer and brand level factors.

PBG enhances consumers’ purchase likelihood via perceived quality and prestige (Steenkamp, Batra, and Alden 2003). But results are not consistent (Dimofte, Johansson, and Ronkainen 2008). Retailers, for instance, are closer to the customer (Evans and Bridson 2005) and see the need for adaptation. Moreover such local adapted brands are perceived as higher in affinity and quality (Kapferer 2005). We propose the indirect impact of PBG and PBL on brand equity mediated via hedonic and functional values (Sweeney and Soutar 2001). Perceived value is a ratio of salient “give” and “get” components (Zeithaml 1988) and drives customers’ behavior especially within the service context (Sweeney and Soutar 2001). The relevance of hedonic and functional values is grounded on the higher accessibility of hedonic (emotional) components (Feldman and Lynch 1988; Verplanken, Hofstee, and Janssen 1998), but which route toward brand equity is taken depends on brand level factors such as brand’s country-of-origin and consumer level factors (Zhang and Khare 2009). The halo theory has been used in country-of-origin research (Han 1989) to explain how consumers draw inferences from country image specific associations to evaluate an object from this country. Quality beliefs (Han 1989) and social status (Batra et al. 2000; Ger and Belk 1996) are inferences drawn from country image. These functional and social aspects are especially important within the service sector, where customers are value driven (Sweeney and Soutar 2001). Furthermore we draw upon social identity theory (Tajfel and Turner 1979; Brewer 1991) to explore the moderating effect of consumer level factors. Consumers can be categorized according their identity, which can be global or local and therefore evokes preferences for global or local brands toward identification (Zhang and Khare 2009).

We collect consumer data (n = 1188) in an emerging market (China) to 36 service brands across three industries. Brands originate from three regions (West, Asia, and China Mainland) to implement our moderator. The hypotheses are tested across three service industries including fashion retailing, food retailing, and restaurants, assigning equally twelve brands per industry to further increase the generalizability of results. We applied classical checks of validity and reliability and measurement invariance. Firstly, we estimate the structural model. Secondly, we conduct the mediation analysis according the suggested procedure by Baron and Kenny (1986) and evaluate other plausible rival models. Thirdly, we performed two multi-group analysis using brands’ country-of-origin and consumer identity as moderators, after splitting the sample according the moderators to finalize the moderated mediation.

Results show that PBG and PBL indirectly enhance brand equity and our study shows how. The results emphasize the mediating role of hedonic and functional values, whereby hedonic value such as socio-emotional value is a full mediator and functional value such as quality value plays a subordinate role as a partial mediator. Which route to success PBG and PBL take depends on brand as well as consumer level factors.

The brands’ country-of-origin is relevant in the way brand equity is built in the consumers’ mind. For brands originating from (cultural) peripheral Asian countries, PBG instead of PBL is the primary driver for brand equity via socio-emotional value and quality value in a fully mediated causal chain. Surprisingly, these cultural peripheral brands cannot use their cultural affinity in terms of PBL. Besides, we find evidence that the path to brand equity is based on the functional component quality value, while the direct impact of socio-emotional value disappears. We conclude that cultural peripheral brands like Asian brands are purchased out of cognitive evaluation and without a direct affective appeal. Referring to consumer cultural theory (McCracken 1986) we conclude that brands originating from cultural peripheral countries do not match with Chinese identity. This mismatch constrains the building of brand equity.
Brand equity of Western brands is primary driven by PBG fully mediated by socio-emotional value and partially mediated by quality value. Brand equity of Chinese Mainland brands is driven by PBL. We conclude that cultural far brands with a Western appeal and domestic brands carry cultural values that activate a direct affective impact on brand equity, which is just partially mediated via quality value.

Consumer identity is relevant for the way brand equity is built in the consumers’ mind. PBG is the primary driver for brand equity when consumers’ identity is global. The mediating role of quality value varies upon the level of consumer identity. For local identity consumers emotional appeal seems directly accessible and diagnostic to create brand equity – for global consumers the path to brand equity leads essentially via quality value.

For practitioners our results are useful in several aspects. It is obvious that Western retail brands like French retail brand Carrefour try to adapt in Chinese environment. But it is also obvious that Western brands should not conceal their rather global identity due to the naturally competitive advantage of Asian and especially Mainland brands to deliver local cultural values. The recommended strategy is to leverage brand equity driven by a PBG but cater on the functional basis for the specific needs, thus do not import standardized concepts that ignore specific needs. References are available upon request.

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UNDERSTANDING CHINESE CONSUMERS’ BRAND PERCEPTIONS: 
THE ROLE OF SELF AND GENDER CONSCIOUSNESS

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SUMMARY

The unprecedented increase in brand development among one of the fastest-growing consumer markets, the new generation of Chinese consumers, compels a greater understanding of the psychological factors that were largely stereotyped to be collective and homogeneous. Grounded in self-congruity theory, the primary purpose of this study is to understand the joint impact of Chinese consumers’ self- and gender consciousness on their ensuing brand perceptions. The impact of self-concept theory is inextricably connected to these consumers’ brand perceptions and brand choice. According to self-congruity theory (Sirgy 1982), consumers prefer certain products or brands that are consistent with their self-image and therefore, can enhance their self-image. In other words, certain products and brands serve as mirrors, allowing consumers to see positive reflections of themselves and present the positive side of self to others (Aaker 1997; Chebat et al. 2006; Sirgy 1982).

While the principle of self-congruity has gained widespread attention in the social sciences literature addressing Western consumers, far less attention has been afforded to the increasingly “independent” consumers in China. First, the extent of collective Eastern conventions on modern Chinese consumers’ self-congruity warrants further investigation (He and Mukherjee 2007; Liao and Wang 2009). Likewise, the overarching traditional Chinese culture is dissipating, and Chinese consumers’ awareness and expression of their psycho-sociological gender identities are reflective in building relationships with products and brands. Such expressions of gender are seen across a host of global brands. Thus, these are critical gaps given that global brands spend significant resources toward reaching young Chinese consumers at a personal level. To close the gaps, the study attempts to investigate the process that underlies the relationship among consumer consciousness (including self consciousness, gender consciousness, and brand consciousness), consumers need for uniqueness (CNFU), and consumers’ brand perceptions for Chinese young consumers.

The study selected personal care products as the research context, because they are used frequently by young Chinese consumers. Additionally, personal care products are closely related to consumers’ self concept as they facilitate self-expression. Participants then selected and rated a brand they have used among five personal care brands: Nivea, Dove, Neutrogena, Oil of Olay, and Biore. These brands represent different combination of market factors such as price, brand image, market share, and distribution strategies in China. An online survey-based questionnaire with consumer panels was used to collect data, and all constructs used were adopted from extant literatures. The sample for this study comprised of 302 Chinese participants. The sample was obtained from a pool of consumer panel members provided by a marketing research company in China.

The relationships were tested using full structural equation modeling. Contrary to expectations, the results demonstrate some interesting observations. First, the direct effect of self-consciousness has a negative impact on brand consciousness. Although not predicted, such a result may be explained by the deeply held Confucian values in the Chinese culture that emphasize on collectivism, harmony, tradition, and loyalty. As a result, consumers may have difficulty in connecting to the Western sense of brand concept that advocates a distinct personality, a sense of fun and exuberance, and a propensity toward an outdoor lifestyle (Sung and Tinkham 2005). Furthermore, China has paved its way to be a consumer society in the past 30 years (Bruce 2010). As such, branding is a fairly new concept in the Chinese culture with relatively low penetration. The sense of self may not cast a strong effect on brand consciousness and selection of brands. Second, the study also found that gender consciousness was not related to brand consciousness. It is only since the early 1990s that Chinese consumers have started to learn to embrace their manhood or womanhood (Sin and Oliver 2001), and that might account for the lack of significance of results. Although both self-consciousness and gender consciousness have no positive effect on brand consciousness, our findings suggest that self consciousness and gender consciousness may affect brand consciousness through CNFU. If a brand has a unique appeal, it will create a bond between Chinese consumers and brands. Finally, the study suggested that brand consciousness can positively lead to brand perceptions, including brand attitudes, brand loyalty, and willingness to pay high price.

Findings for the study provide insights for both marketing scholars and practitioners. At the theoretical
level, the study demonstrates that self-consciousness and gender consciousness are two related but different concepts, and they can impact consumer’s brand perceptions. The study also enriches the literature on consumers’ need for uniqueness, which receives increasing calls for more research (Kumar et al. 2009). The results from this study indicate that consumers’ need for uniqueness plays an important role in enhancing their brand consciousness and other brand perceptions. At the practical level, the study encourages brand managers to invest resources to evoke consumers’ awareness about themselves and their brand, and to design promotion campaigns focusing on self-expression to connect consumers with brands in an Eastern culture like China. References are available upon request.

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COMPLEXITY AND CONTEXT IN INTERNATIONAL MARKETING: FROM STANDARDIZATION/ADAPTATION TO VALUE CO-CREATION

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SUMMARY

International marketing has been recognized as a distinctively complex subset of marketing as far back as the initiation of the discipline (Litman 1912; Fisk 1919). Early marketing scholars separated the study of international marketing from that of domestic marketing due to increased complexities of the former, which included differences in tastes and habits of people (i.e., culture), currency, and laws, as well as increased distances and limitations on communications (Fisk 1919). However, even at the time this bifurcation occurred, it was said that “there is fundamentally no difference between international, or what is termed foreign trade and domestic trade” (Litman 1927, p. 3). This suggests that although particular nuances of international marketing may increase the complexity of exchange in global markets, the fundamental mechanisms driving exchange and value creation remain the same (Bartels 1968).

A look back at the origins and evolution of international marketing suggest that the discipline’s emphasis on studying seemingly unique complexities of global or international markets and its production-oriented roots have limited the understanding of the fundamental drivers of markets, the fundamental mechanisms driving exchange and value creation remain the same (Bartels 1968).

The discipline of international marketing, much like marketing in general, is historically grounded in a goods-dominant (G–D) logic that focuses on the exchange of tangible and static resources and value created by the firm (Vargo and Lusch 2004). This view provides a limited understanding of market complexities associated with international and cross-cultural exchange in an increasingly interconnected world. Alternatively, S–D logic provides a broader and more dynamic perspective for thinking about complex market conditions, international or otherwise. S–D logic shifts the locus of exchange from units of output to the processes by which value is created through interaction among multiple stakeholders. This theoretical framework centers on service—the application of competences for the benefit of another—as the basis of exchange (Vargo and Lusch 2004, 2008). In consideration of its conceptualization of service, S–D logic also sheds new light on several other core concepts for developing a deeper understanding of market complexities. In particular, S–D logic reconsiders (1) the nature of the resources being exchanged and (2) the processes and contexts through which value creation occurs.

With regard to resources, S–D logic centers on the integration and exchange of what have been termed “operant” resources—those that are capable of acting on other resources to create value (e.g., knowledge and skills) — rather than “operand” resources—those that require the application of operant resources to be valuable (e.g., goods and money) (Constantin and Lusch 1994; Vargo and Lusch 2004). This focus on operant resources centers on the idea that markets are driven by the application of dynamic, influential resources for the benefit of others—that is, service-for-service exchange. With regard to value creation, S–D logic emphasizes the “co-creation” of value (Vargo and Lusch 2008) by recognizing the joint and collaborative efforts among firms, customers and other stakeholders in value-creation processes. That is, S–D logic focuses on the processes that contribute to value creation and the underlying drivers (i.e., service) of interaction and interdependent exchange among multiple market-related actors.

Although the growing discourse on value co-creation is largely focused on the interaction among firms and
customers (e.g., Prahalad and Ramaswamy 2004), S–D logic also considers other factors external to the firm as endogenous resources for value co-creation (Lusch and Vargo 2006). Grounded in S–D logic, Vargo and Lusch (2011) broaden the context of value creation by proposing a service-ecosystems approach for studying value co-creation in markets and marketing. A service ecosystem is defined as “a spontaneously sensing and responding spatial and temporal structure of largely loosely coupled, value-proposing social and economic actors interacting through institutions, technology and language to (1) co-produce service offerings, (2) engage in mutual service provision, and (3) co-create value.” This view of value co-creation emphasizes the idea that interactions are governed by institutions or “rules of the game” (Williamson 2000), such as social norms, laws and culture. However, these same institutions are also constituted by human actions and interactions (Giddens 1984) and, thus, service ecosystems are formed and reformed through a recursive relationship between individual action and collective meanings (e.g., social norms, laws, and cultures).

An S–D logic, service-ecosystems view suggests that various operant (and operand) resources are integrated to co-create value through interaction and exchange among dynamic networks of social and economic actors. Thus, interaction in service ecosystems are driven by the needs of individual actors who interact with other actors for access to resources they do not own. Because perceptions of value vary from actor to actor and context to context, the relationships among actors are constantly changing and ecosystems continually evolve (Akaka and Chandler 2010). This dynamic view provides insight to the complexity of global markets and international exchange, but also suggests that driving these complex interactions is the fundamental phenomenon of people doing things for other people – exchanging service. To illustrate the application of S–D logic in international marketing, we discuss the long-standing standardization/adaptation debate, which has been a central concern of international marketing theory and practice for over 40 years (Ryans et al. 2003; Theodosiou and Leonidou 2003).

In this case, we apply S–D logic and its conceptualizations of service, resources and value creation to provide a unifying framework for approaching the standardization/adaptation issue that moves beyond the traditional “standardize vs. adapt” view and even the contingency or “hybrid” (Agrawal 1995; Akaka and Alden 2009) approach. Drawing on S–D logic and its contextual view on value and value creation, we argue that even when similarities in customer characteristics and behaviors exist, all value is heterogeneous and uniquely determined by the service beneficiary. Within S–D logic, each customer derives and determines the value of a firm’s offering from a unique and context-specific perspective. In global markets, differences across local, national and regional borders often reflect unique social and cultural institutions that constitute the contexts through which value is derived. In this way, an S–D logic framework moves international marketing beyond the standardization/adaptation debate and the question of interest shifts from studying how firms should create standardized, customized or hybrid offerings to investigating how customers uniquely integrate (mostly operant) resources and co-create value for themselves and others in the context of their own lives. Ultimately, we argue that an S–D logic, service-ecosystems view has the potential to provide international marketing researchers with a theoretical framework to both deepen and broaden conventional perceptions of value creation in global markets and provide insight to the complex social and cultural contexts through which value is derived. References are available on request.

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SUCCESSFUL GLOBAL ACCOUNT MANAGEMENT ORGANIZATION TOWARD INTERNATIONAL RETAIL CUSTOMERS

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SUMMARY

Performance Effects of GAM Strategies and Structures

This study examines the importance of the strategic and structural design elements for the performance of Global Account Management (GAM) within the specific context of the consumer-goods industry. In this industry the market power is traditionally with the retailer, and trade marketing distinguishes itself in several specific regards from consumer marketing. The significance of this research field results from four major factors:

1. The dynamic internationalization of retailing forces manufacturers to rethink their mostly nationally oriented GAM organization.
2. Manufacturers are often sceptical with regards to complex GAM organizations.
3. International retailers often exert an immense (pricing) pressure on manufacturers (with internationally cumulated orders, for example).
4. There is a lack of knowledge on this particular topic which is supported by the fact that only four crosssectoral surveys address GAM.

Since GAM is supposed to lead to higher profitability for the customer, but at the same time requires higher coordination efforts than national key account management it is important to know which strategic and structural design elements of GAM organization determine GAM performance most.

Based on resource dependence and transaction cost theory we hypothesize the effects of strategic and structural GAM design elements on the effectiveness and efficiency of GAM. Further it is questioned whether strategic or structural design elements determine the success of GAM most.

In this study, we distinguish the strategic design elements intensity, proactivity and standardization, and the structural design elements centralization, specialization, and formalization. Effectiveness of GAM is viewed as growth/success with the customer, while efficiency is understood as costs/expenditures in relation building.

We test the hypotheses on a sample of 670 German manufacturers whose GAM activities were investigated towards their largest retail customer in terms of sales. Based on a repeated multi-stage procedure 25% of these manufacturers could be considered (61% of the respondents were CEOs, sales manager, and 39% were Key Account Manager). We used the PLS approach to test our hypotheses.

Most hypotheses were supported. Four results are especially interesting for manufacturers:

1. Both strategy and structure moderately determine performance of GAM. That implies that performance is dependent on the organizational design.
2. The structural design elements have a higher relevance for performance than the strategic elements. Efficiency is determined twice as strong by GAM structure than by GAM strategy.
3. Effectiveness is determined by three design elements: GAM intensity (level of activities which are important for the customer), GAM centralization (extent to which activities are coordinated at the headquarters) and GAM formalization (implementation of homogeneous rules and processes in customer handling).
4. Especially centralization of important international GAM decisions (concerning prices/conditions, supply chain, category management) at the headquarters determines GAM performance (both effectiveness and efficiency), not only proactivity which is the main performance driver at national GAM level.

Practical conclusions involve in particular the priorities which are set by manufacturers during the design of GAM. Two are especially concise.

1. As the international centralization determines primarily GAM performance, manufacturers should have a
corresponding design or maybe even consider changing the GAM organization accordingly. Of course, the shift of responsibilities to the headquarters is combined with losses of competence and responsibility of the regional units. But centralization is, compared to other design elements, the central control lever for effectiveness and efficiency of GAM.

2. Effectiveness and efficiency of GAM is determined by different design elements. Although effectiveness and efficiency represent complementary performance dimensions or objectives, one of the two might be perceived more important than the other. This study provides clues for the main drivers of effectiveness and efficiency of GAM, which is especially useful when manufacturers make a prioritization.

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MANAGERIAL TIES, PRODUCT INNOVATION, AND THE MODERATING ROLE OF ECOSYSTEM: A DYNAMIC CAPABILITIES PERSPECTIVE

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SUMMARY

Firms operating in China cultivate managerial ties (business ties and political ties) to be aligned with the distinct local ecosystems in China. Existing research provides inconsistent and even contradictory findings about the effects and importance of different types of managerial ties in relatively developed region of China (e.g., Hong Kong, Beijing, Shanghai, Guangzhou).

However, the effects of managerial ties, which were deemed as informal institutions that governing business transactions in transition economies, deeply rooted in situations whereby formal institutions and market supporting system are weak. Since China contains regional disparities in terms of different levels of decentralization, marketization and globalization processes, location-specific institutions are varying significantly across different regions. In this case, the effects of managerial ties may change across different regions in terms of regional disparities.

Drawing on the view of dynamic capabilities, this study offers a dynamic view of the roles of managerial ties on firm product innovation. Specifically, this research employs the notion of ecosystem to depict a full picture of the context that firms embedded. Firms’ business ecosystem includes the racer of the game (the community of organization, institutions, and individuals) and the ruler of the game (regulatory authorities, standard-setting bodies, the judiciary, and knowledge subsidiaries). The rulers can induce constraints on the rules of the game. In this vein, we use market dynamism to represent the micro level ecosystem (the game per se), and the level of regional development to reflect the macro level ecosystem (different places where the games were embedded).

In general, the empirical data collected from 21 provinces out of 31 provinces in mainland China (Eastern and Coastal Region (11 provinces), Middle Region (4 provinces), and Northwestern Region (6 provinces)) reveals that the positive effect of business ties on product innovation is declining while the positive effect of political ties is increasing. In addition, the impacts of business ties and political ties on product innovation vary across different regions and different degrees of market dynamism. Specifically, when considering the influence of the macro-level ecosystem, the positive contribution of business ties on product innovation is declining in the developed region but increasing in the under-developed region when business ties are getting stronger. On the contrary, the positive effect of political ties in the developed region is increasing while declining in the under-developed region. With respects to the micro-level ecosystem, when market dynamism is high, the declining rate of the positive effect of business ties on product innovation will become greater while the increasing rate of the positive effect of political ties will be greater. Moreover, the interaction between business ties and political ties has significant influence on product innovation when firms operating in the highly dynamic market.

This research provides implications for the dynamic capabilities research, social network theory, and offers fresh insights of the co-evolution between managerial ties, product innovation, and ecosystems. References are available on request.

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OFFSHORE OUTSOURCING OF CUSTOMER SERVICES: WHAT DO THE CUSTOMERS THINK?

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SUMMARY

Introduction

Offshore outsourcing of customer services is a fast-growing aspect of the world economy today but we know little about its impact on consumer perceptions and behavior. This paper combines the current research on country-of-origin and services marketing areas to address this gap and puts forth seven specific hypotheses. Empirical findings from an online survey-based study with financial services customers show that consumer ethnocentrism and attitude toward offshore outsourcing negatively correlate with each other and influence perceived service quality and customer satisfaction together. Moreover, customer satisfaction mediates the effect of perceived service quality on customer complaint and purchase intentions, brand image, and brand loyalty.

Methodology

The online survey was conducted with the customers of an American retail financial services firm, contacted via email. Five hundred forty-eight complete responses were received out of 5000 randomly chosen customers, an acceptable response rate (> 10%) for online or email surveys (Sheehan 2001). The online questionnaire had two parts which were presented one after the other. First, the participants were asked to rate their service provider on service quality, customer satisfaction, repeat purchase intentions, complaint intentions, brand image and brand loyalty. Next, they completed the scales for attitude toward offshore outsourcing and consumer ethnocentrism followed by some demographic questions including gender, age, education, and occupation.

Data Analysis and Results

The well-established two-stage process to first test the measurement model using confirmatory factor analysis on all the scales to assess their psychometric properties (Anderson and Gerbing 1988; Byrne 2004) and then tested the structural model. All the eight hypothesized paths were found statistically significant and in the expected direction. Consumer ethnocentrism and attitude toward offshore outsourcing were negatively correlated with each other, as expected. Next, all the seven hypotheses were supported. Specifically, attitude toward offshore outsourcing was positively associated with perceived service quality (H1) and consumer ethnocentrism was negatively associated with perceived service quality (H2). Perceived service quality mediated the effect of attitude toward offshore outsourcing and consumer ethnocentrism on customer satisfaction (H3). Finally, customer satisfaction mediated the influence of perceived service quality on repeat purchase intentions (H4), customer complaints (H5), brand image (H6), and brand loyalty (H7). R-squared values for each of the four dependent variables (repeat purchase, complaint, brand image, and brand loyalty) ranged from .13 to .21, showing that the model explained significant yet relatively small variance in the four dependent variables. Hence, it seems that other variables may need to be added to the model.

Discussion and Managerial Implications

These results support the findings reported in some recent articles in popular press (e.g., Briggs 2005; Jain 2006; Venables 2006), and industry reports (e.g., American Banker and Gallup 2004; Data-Monitor 2004), which show a negative effect of offshore outsourcing of customer services on customer perceptions and behaviors. Hence, customers with high consumer ethnocentrism seem to be relatively more concerned about the quality of service provided by offshore service representatives compared to their onshore counterparts, resulting in greater dissatisfaction, which in turn seems to have a negative impact on their complaint and repeat purchase behavior, as well as the brand image of the service provider and their brand loyalty.

These findings warrant attention from the companies that seem to be rushing mindlessly toward outsource their customer service operations simply from an economic perspective. They need to understand the ethnocentric tendencies of their customers and try to improve it with customer education. They also need to focus on improving the quality of service provided by their offshore service representatives by providing them the necessary training and support, so that their customers do not have any real reasons to be dissatisfied or complain about their service quality.

Limitations and Future Research

Notwithstanding the above, the negative impact of dissatisfaction with offshore service representatives is not very strong on customer perceptions and behavior as of now, because their complaint and repeat purchase intentions, brand image, and brand loyalty may be influenced
by various other factors besides perceived service quality and customer satisfaction. These may include involvement level, perceived risk, and exit barriers associate with service relationships, which should be included in future research to provide a more complete picture.

Hopefully this research would be a useful reminder for companies using offshore outsourcing of their customer services to understand the challenges in managing the relationships between their customers and offshore service representative. We also need more research in this emerging area with considerable practical relevance, to develop and test more comprehensive conceptual frameworks with a diverse range of customers using different methodologies. References are available upon request.

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DOES AMERICA RESHAPE CHINESE CONSUMERS’ FLAVOR TOWARD LUXURY?

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SUMMARY

In an attempt to counteract the impact of the recent financial crisis, luxury companies increasingly turn to new emerging markets, which are expected to account for about 65% of luxury purchases in the next decade. According to researchers, this increasing demand for luxury goods is a consequence of rapid economic growth and the purchasing habits of an expanding “consumer class” in these markets seeking to demonstrate their status and wealth (Myers and Kent, 2004). Nevertheless, research fails to explain the predilection of emerging market consumers for American and European luxury brands. Clearly we still do not fully understand the potential impact of western culture on the consumption patterns of luxury goods.

Luxury and luxury consumption are tightly related to culture. To date, notable research on luxury consumption has focused on cross-cultural comparisons, but little is still known about how people might change when they move to a new country and a new culture. Within the marketing literature, this process is conceptualized as consumer acculturation (Peñaloza 1994) and reveals changes in attitudes, values, or behaviors that consumers manifest when they move to another host culture (Lee 1989). Cultural change and unsettled social conditions may cause escalation of consumer desires (Ger et al. 1993; Ger and Belk 1996). However, little research has explored the role of cultural change on luxury consumption of immigrants (e.g., Chen et al. 2005).

It is therefore interesting to investigate the relationships between luxury consumption and acculturation in the context of emerging markets. Among the emerging luxury markets, China is selected for its sales volume and growth potential. China has surpassed the U.S. to become the world’s second largest luxury market in 2009 (Goldman Sachs 2009). Recent consulting companies’ reports estimate that China’s consumption of luxury goods reached USD 10.3 billion in 2010 (Price Waterhouse Coopers 2011). The migration pattern of the Chinese, one of the most dynamic in the world, was a further reason for such a choice.

This paper focuses on the following research question: will the American culture reshape Chinese immigrants’ flavor toward luxury? This study involves two studies. In the first study, we developed a “social values of luxury consumption scale” using Chinese and American student samples. The “social values of luxury consumption scale” was based on Wiedmann et al.’s (2009) conceptualization with items adapted from existing scales such as the materialism scale of Richins and Dawson (1992), the scale of “social position indicators” from Lu’s (2005) study of luxury consumer behavior in China, the attention-to-social-comparison-information scale of Lennox and Wolfe (1984), as well as items generated from exploratory interviews are included. A total of 69 items are then sent to 10 experts and scholars for face validity. The 38 items that were retained were later administered to student samples (58 Chinese students and 99 American students).

In the second study, we used this scale to examine the influence of acculturation with Chinese living in China (zero acculturated sample) and Chinese living in the U.S. (acculturated sample). We used purchases of watches, automobiles, clothing, leather goods as material consumption while vacations and restaurant visits are treated as experiential consumption. Multiple regression analyses were conducted with willingness to pay for material consumption as the first dependent variable and willingness to pay for experiential consumption as the second dependent variable. The key predictor variables were the three social drivers of luxury consumption (materialism, status and impression management) in Study 1 and sociodemographic variables were also included as control variables.

The Chinese student sample in study 1 and the zero-acculturated sample in study 2 show similar results in the regression analyses: materialism seems to be an important driver for both material and experiential consumption. For the acculturated Chinese sample in study 2, materialism also has a significant effect on both material and experiential consumption. However, for the American student sample, this effect is only significant on experiential consumption, but not on material consumption. American Chinese seem to be more similar with the Chinese population – materialism encourages their spending on both luxury goods and luxury services. When we compare the results of American student sample (study (1) and American Chinese sample (study (2), the two samples are
similar, especially for experiential consumption: status has a significant negative effect on experiential consumption for both two samples (American and American Chinese), but has no effect for the other two samples (Chinese students in study 1 and Chinese with zero acculturation in study 2).

Materialism, as an internal/personal motive, and status, as an external/social driver for luxury consumption, seem to have differential impact depending on different levels of acculturation of the American Chinese population. On one hand, they still look like Chinese – their luxury consumption is driven by internal materialistic motives like the Chinese living in China. On the other hand, they may try to emulate Americans – knowing that the social motive of status pursuit in luxury consumption maybe regarded as inappropriate in that social setting.

In this study, the interesting phenomenon of “domain-specific” acculturation is explored in the context of luxury consumption. Follow-up studies should be conducted by using different measurement methods to better investigate the different layers of consumer motives on luxury consumption, such as the personal motives. Moreover, given the influence of globalization, it is also important to take into account the variables of transnational and global consumer culture in future research.
IMPACT OF ACCULTURATION ON IMMIGRANT CONSUMER BEHAVIOR

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SUMMARY

Leaving one country and settling down in another entails a series of challenges and questions for immigrants. Two questions that all immigrants have to address are: “to what extent are cultural identity and characteristics considered to be important, and their maintenance strive for,” and “to what extent should they become involved in other cultural groups, or remain primarily among themselves” (Berry 1997, p. 9). Berry (1997) denotes the answers to these questions as “acculturation strategies.”

While the acculturation strategies immigrants choose surely have important political and social implications (Berry 1997), businesses too need to be aware about how immigrants feel about those issues. As extensive marketing research has shown, attitudes of immigrants toward culture of origin (CoO) and society of settlement (SoS) can be significantly associated with consumer behavior in a variety of ways (e.g., Laroche et al. 2005; Laroche et al. 2007; Torres and Briggs 2007). Studying how acculturation strategies and consumption are related is therefore clearly warranted both from a practitioner and an academic point of view.

In this paper, we examine whether and to what extent acculturation strategies of second and third generation Turkish university students in Germany have an impact on two dimensions of immigrant consumer behavior: consumption of media in the language of the culture of origin (henceforward referred to as “ethnic media consumption”), and consumer innovativeness (CI). We define acculturation strategy toward the CoO as “identification and attachment to the CoO,” and acculturation strategy toward the SoS as “importance attached to interaction seeking with the SoS.”

Thereby, we expect acculturation strategies to impact immigrant consumer behavior in two major ways. First, acculturation strategies give an indication of how immigrants feel about a certain culture. If immigrants identify highly with their CoO and are very attached to it, it is conceivable that they are also likely to identify with the contents or the values of that culture, which in turn could increase the likelihood that they act in a way that is in accordance with those contents or values. Webster (1994) and Laroche et al. (2007) provide empirical evidence that supports this reasoning. Second, acculturation strategies are likely to have an impact on the exposure of immigrants toward CoO and SoS. And since the impact of culture on human behavior emanates from exposure to that culture (Hofstede 1980), we expect increased exposure to a culture to also lead to behavioral patterns (including consumption) that are reflective of that culture’s contents and values.

Coss-cultural research innovativeness suggests that national culture has a significant impact on CI (e.g., Steenkamp, Ter Hofstede, and Wedel 1999; Tellis, Stremersch, and Yin 2003). Juxtaposing Turkey and Germany on relevant national cultural dimensions leads to the conclusion that Germany is probably more conducive toward CI than Turkey. Hence, by the argumentation outlined above, we hypothesize that a positive acculturation strategy toward the CoO (in this case Turkey) should lead to lower levels of CI, and a positive acculturation strategy toward the SoS (in this case Germany), should lead to higher levels of CI. With regard to ethnic media consumption, we argue that a positive acculturation strategy toward the CoO should have a positive impact, while a positive acculturation strategy toward the SoS should have no significant influence. Finally, in line with the bidimensional view on acculturation (Van de Vijver and Arends-Tóth 2006), we argue that acculturation strategies toward the CoO and the SoS should be independent from each other.

In line with our hypotheses, we find that acculturation strategies toward CoO and SoS are independent. Moreover, our results show that identification and attachment to the CoO lead to more ethnic media consumption. At the same time, importance attached to interaction seeking with the SoS has no impact on ethnic media consumption. Businesses should take these results into account when they devise segmentation and product development strategies building on acculturation strategies of immigrants.

Interestingly, our study also finds that acculturation strategies have no impact whatsoever on the innovativeness of immigrant consumers. Hence, for our sample of second and third generation Turkish students in Germany, being “culturally conservative” in the sense of identifying highly with the CoO and being attached to it, appears to be something which is different from being conservative in
the sense of being less innovative or having a lower need for stimulation. The same applies to importance attached to seeking interaction with the SoS. We find that importance attached to interaction seeking with the SoS has no impact at all on innovativeness or the need for stimulation. References are available upon request.

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EXAMINING THE ROLE OF SALESPERSON’S EMOTIONAL TRAITS IN ETHICAL DECISION MAKING

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SUMMARY

Sales research needs to continue exploring the variables related to salesperson ethical decision making process (Hunt and Vitell 2006; Ferrell, Johnston, and Ferrell 2007). Our research extends this perspective as the goal of this study is to examine the effects that the salesperson’s emotional traits such as guilt and empathy have on ethical attitudes and behaviors. The interpersonal nature of selling suggests that our choice of social emotions, guilt and empathy, are suitable for this study.

The current research examines a collection of Indian salespeople and enhances the understanding and knowledge of salespeople’s emotional traits, particularly in a non-western context. All measures used within this study were adapted from previously developed scales. In order to take advantage of the benefits offered from the use of structural equation modeling we employed a covariance-based structural equation modeling (SEM) program (AMOS 6.0).

Our results indicate that these emotional capacities have direct significant influence on salespeople’s ethical attitudes and in turn on ethical behaviors. Findings also highlight the moderating influence of salesperson’s role clarity on the link between ethical attitudes and ethical behaviors. The interesting point to notice was that when salespeople enjoy better role clarity the relationship between ethical attitudes and behavior is stronger in comparison to when the level of role clarity is lower.

We believe the results of the study provide a number of contributions to both marketing and sales theory as well as practitioners. For example, our findings propose a new set of antecedents to ethical attitudes and behaviors. This rationale provides a foundation for further research incorporating emotional traits within ethical decision making frameworks. References are available upon request.

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PLACING BOUNDARY CONDITIONS ON FRONTLINE EMPLOYEE WITHDRAWAL: TURNING JOB DISSATISFACTION INTO EXTRA-ROLE CUSTOMER SERVICE

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SUMMARY

It is well known within the academic and business communities that frontline employees who go above and beyond role prescriptions differentiate service and sales organizations from their competitors (Day 1994). To that effect, previous research has studied extra-role customer service (hereafter ERCS), or discretionary behaviors on the part of frontline employees that are crucial to developing a customer-linking capability (Bettencourt and Brown 2003).

Social exchange theory is one explanation as to why frontline employees may perform ERCS (Organ 1988). If frontline employees perceive the benefits of going above and beyond role expectations to be greater than the costs of doing so, they are likely to enter into social exchange with their organization (Blau 1964). A likely condition for social exchange to occur is job satisfaction (Bettencourt, Brown, and MacKenzie 2005).

However, it is well documented that frontline employees in retail settings are over worked and under paid (e.g., Katzenbach and Santamaria 1999). Indeed, work stress has been studied meticulously in the frontline setting (e.g., Singh 2002). Inevitably, these unfavorable conditions lead to sales and service personnel who are dissatisfied, making the topic of a dissatisfied frontline relevant to practitioners and academics alike.

It is then both interesting and important to identify ways in which organizations can facilitate an environment that prevents employee withdrawal (i.e., reduced effort or voluntary turnover) from occurring. The purpose of this paper is to investigate conditions that attenuate the negative relationship between job dissatisfaction and ERCS. We identify two gaps that we investigate as research questions.

The first research question relates to the contextual role of frontline employees’ commitment to their organization. Payne and Webber (2006) indicate that affective commitment plays a contingency role in the relationship between job (dis)satisfaction and customer-oriented behaviors. What is less understood is the contingency role continuance commitment plays. Therefore, we look to understand whether employees who are dissatisfied, yet committed to their organization out of necessity, may perform ERCS under certain conditions.

The second research question this paper addresses is whether it is worthwhile for supervisors to provide helpful and supportive efforts to employees who are dissatisfied. Given that supervisors have limited time and social resources, it is important that their efforts be allocated appropriately (Konovsky and Pugh 1994). Therefore, we look to investigate whether employees who are dissatisfied, yet supported by their supervisors, may perform ERCS.

Drawing from these research questions, the conceptual model of this paper addresses boundary conditions of the negative link between job dissatisfaction and ERCS. Specifically, it is hypothesized that continuance commitment and supervisor support will each individually attenuate the extent to which frontline employees withdraw ERCS as a result of job dissatisfaction. Further, a three-way interaction is hypothesized in such a manner that job dissatisfaction will have the most positive relationship with ERCS when both moderators are at their respective high levels.

The data were collected from branches of a nationwide Canadian travel agency. The scales used in the survey were either adapted or directly taken from established scales used in previous research. To control for possible model misspecification, training, tenure, compensation, and education levels were controlled for. Using hierarchical regression analysis, some very interesting results stem from this research.

Previously, little was known about the impact continuance commitment has on service and sales organizations. This research identifies the positive role it can play, using the premise that continuance commitment ensures that employees who are dissatisfied will remain employees and, in turn, have the opportunity to make changes for the better (Zhou and George 2001). Therefore, the results of this paper bring new light to continuance commitment in the services and sales literatures.

This paper also poses practical lessons for top managers and supervisors of service and sales organizations. For top managers, the results herein suggest the
counterintuitive notion that supervisor support is likely to go for nothing if frontline employees of an organization are highly demanded due to their education or skill level (i.e., continuance commitment is low). In such conditions, dissatisfied employees are not receptive to supervisor support, making investments in coaching this employee group sunk costs.

However, several conditions, internal and external to the organization, can provide an opportunity for organizations to reap the benefits of highly qualified supervisors. For instance, internal to the organization, if frontline employees are highly committed to an organization due to organization-specific investments, such as organization-specific training, it is likely that supervisor support will result in higher levels of ERCS from employees who are dissatisfied. This is evidenced by the significant three-way interaction, supporting our hypothesis that job dissatisfaction results in the greatest levels of ERCS when both continuance commitment and supervisor support are high.

In addition, another contingency may be external to the organization: if the economy is in a downturn and employment is sparse, these findings also suggest that organizations can expect increases in ERCS from investments in qualified supervisors, because continuance commitment of employees will be high in this circumstance.

Altogether, high supervisor support and high continuance commitment are hypothesized to increase employees’ benefits of performing ERCS (i.e., reciprocity-based) and decrease employees’ costs (i.e., opportunity costs), respectively. Results indicate that top managers have a controllable means (i.e., supervisor support) to solve a problem that is otherwise seemingly uncontrollable for service organizations (i.e., dissatisfied frontline employees who are bounded in their current employment). Prescriptions are presented that outline how employees who may otherwise reduce effort can be motivated to deposit extra-role behaviors into the organization.

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ARE “LONE WOLVES” REALLY THAT BAD? AN ANALYSIS OF TEAM PLAYERS, LONE WOLVES, AND THE LONELY

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SUMMARY

By definition, a lone wolf refers to a psychological state in which an individual prefers to work alone when making decisions and setting/accomplishing priorities and goals (Dixon, Gassenheimer, and Barr 2003). Salespeople who operate as lone wolves have consistently been characterized within prior research as lacking commitment to and being more likely to leave their organization (e.g., Blau and Boal 1987; Griffeth, Gaertner, and Sager 1999; Ingram, Lee, and Lucas 1991). The described lack of commitment and higher intention to turnover of lone wolves is posited to compromise a salesperson’s capacity for building relationships and to limit their performance (Mulki, Jaramillo, and Marshall 2007). Consequently, lone wolves are portrayed as unenthusiastic about expending effort to cooperate with others and dedicating very little time and energy to develop relationships within their work environment (Dixon, Gassenheimer, and Barr 2003; Mulki, Jaramillo, and Marshall 2007). Moreover, their individualistic tendencies have been consistently associated with low performance (Mulki et al. 2007). But are salespeople who operate as lone wolves really that bad?

Managing the increased competition and complexity in the sales profession has resulted in many organizations shifting their emphasis from developing independent salespeople to the importance of creating successful sales teams (Jones, Brown, Zoltners, and Weitz 2005). As the use of sales teams continues to gain favor, salespeople appear to be less likely to have the ability to operate on their own (Dixon et al. 2003). The traditional “lone wolf” salesperson may be on the verge of extinction. When examining the field’s transition to a team setting, three types of salespeople have emerged: team players, lone wolves, and lonely. Team players are the salespeople that work on a team and prefer to work on a team. Lone wolves are salespeople that work alone and prefer to work alone. The lonely are the salespeople that work alone but would prefer to work on a team. Thus, the purpose of this study is to contribute to the literature by empirically examining the commitment and turnover intentions (both organizational and occupational), the effort invested in developing relationships, and the performance of salespeople who operate as lone wolves in comparison with team players and the lonely. This research extends the extant literature by demonstrating that the salespeople who operate as lone wolves may not be as different from those who operate as team players. In fact, the differences in turnover, relationship development, and performance arise from an overlooked group of salespeople (i.e., the lonely).

The data for this study comes from 394 completed questionnaires from financial advisors within one of the largest firms operating within the financial services industry. This represents an effective usable response rate of 20.82 percent. The questionnaire included items to measure the dependent variables of occupational commitment, organizational commitment, occupational turnover intentions, organizational turnover intentions, relationship development, and performance and the independent variable of salesperson type. The classification of salespeople as team players, lone wolves and lonely was based upon their answer to two questions assessing whether they worked on a team and whether they wanted to work on a team. Using this system, 204 salespeople were classified as team players (51.8%), 90 salespeople were classified as lone wolves (22.8%), and 100 salespeople were classified as lonely (25.4%). Analysis of variance with Bonferroni post hoc tests was used to test the hypotheses.

The results of this research demonstrate that lone wolves really aren’t that bad. Lone wolves were found to exhibit the same level of commitment, both to their occupation and to their organization, as the other types of salespeople (i.e., team players and the lonely). Moreover, lone wolves evidenced the lowest level of organizational turnover intentions. In terms of relationship development, lone wolves were no less likely to spend time developing relationships with their managers and other associates within their firm or to spend time developing relationships with new or current clients than other salespeople. Lone wolves, however, expend the least amount of effort on both developing relationships with other salespeople internal and external to their firm. With respect to performance, lone wolves were found to neither exhibit the lowest levels of performance, nor exhibit the highest levels of performance. While lone wolves might not be that bad, the significant differences found within this research identify another type of salesperson that might be: the lonely. The results indicate that the lonely exhibited the highest level of occupational and organizational turnover intentions, expended the most energy to develop relationships with other salespeople internal and external to their organization, and exhibited the lowest level of performance.
For organizations transitioning from independent sales agents to sales team members, the similarities between lone wolves and team players as well as the significant differences exhibited by the lonely provide two clear managerial implications. First, the preference of a salesperson to work alone does not indicate that they are less committed to or more likely to leave your organization, spend less time developing relationships, or perform poorly. In fact, these lone wolves exhibit virtually identical tendencies to highly regarded team players. Second, the preference for a certain type of work environment should be taken seriously and tried to be accommodated as much as possible. Salespeople who were able to match their preferred working style with their team situation (i.e., lone wolves and team players) resembled each other on many positive key characteristics (e.g., turnover, relationship development), where differences resulted when salespeople were unable to match their preferred working style with their team situation (i.e., the lonely). References are available upon request.

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A QUESTION OF PRODUCTIVITY AND PERFORMANCE: THE SELLING SALES MANAGER OR THE MANAGING SALES MANAGER?

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SUMMARY

Resource allocation decisions across the firm can significantly influence customer value delivery and firm profit. And, few functional areas have more impact on a firm’s revenue stream than sales. This is particularly true in B2B settings which rely on a high degree of interpersonal interaction between a buyer and seller. In this environment, sales-focused investments typically dominate those supporting other marketing mix elements. Researchers have introduced a variety of models and methods over the years to deal with these issues and provide guidance to managers. Surprisingly, there is one critical and fundamental sales resource allocation issue that has escaped in-depth exploration to date: how should a sales manager allocate his/her time to maximize sales performance?

Thus, the purpose of this research is to measure the efficiency of sales teams and determine what factors (from the perspective of the sales manager) play a role in increasing sales team performance. To do this we first establish a theoretical and qualitative basis for our investigation. We then combine data from salespeople, sales managers, and archival performance to measure the efficiency of sales teams. Next, we investigate how different factors influence the efficiency of sales teams. Specifically, we analyze how sales managers allocate their time across different core activities. We also create team profiles to determine how team characteristics and time allocation can influence team efficiency. Our research concludes with a discussion of these different profiles and ways which managers can alter their behaviors to gain the greatest return on their time investments.

To begin our investigation we conducted 57 interviews with sales managers to determine how they allocated their time and across what types of activities. The primary objective was to obtain feedback about (a) the activities that managers must allocate their time across, (b) determine how they spend their time, and (c) uncover whether managers have selling and managing responsibilities. Interesting findings from this portion of research suggest that there are different types of managers that fall on a continuum of activities from selling activities (selling sales manager) to solely management activities (managing sales manager). On the left hand of the continuum is the selling sales manager who has the dual responsibility of achieving a personal sales quota and managing other salespeople. On the far right of the continuum is the managing sales manager who focuses solely on managing a sales team. The center, and largest portion of the continuum, holds the hybrid sales manager. This manager type both manages her or his salespeople for future growth and interacts with customers to close sales. Due to its significant size, we focus on the group of hybrid sales managers in this research.

To empirically test how a sales manager’s time allocations affect the efficiency of sales teams we follow a two-step semi-parametric approach using multilevel data from a B2B sales force of a U.S.-based firm. In the first step we measure sales team efficiencies using a non-parametric Data Envelopment Analysis (DEA) approach to establish each sales team’s level of efficiency. In step two we use a parametric regression approach to determine how a sales manager’s time allocation decisions explain the efficiencies of sales teams.

Our results highlight the importance of effective time management for sales managers and are instructive as to how managers should allocate their time across managing, customer interaction and administrative activities. To our knowledge this is the first paper that empirically examines how a sales manager should allocate his or her time on selling versus managing so as to maximize sales efficiency for the entire sales team for which he or she is responsible. We believe that this study makes a significant contribution to the literature in three different ways.

First, we find that managers can be most effective at influencing sales team efficiency through interaction at both the customer level and subordinate level. Second, we find that many sales managers are managing too little. It appears that managing is more valuable for improvements in efficiency than selling. Third, on average, we find that those teams with the highest level of experience versus those with less experience achieve greater efficiency through additional management while the lesser experienced teams require less managing for greater efficiency.
In all, this study highlights an important area where sales managers are sub-optimizing performance through misallocation of time toward activities. The use of hybrid sales managers can be a sensible strategy. However, firms must attend to the sales manager’s allocation of time, which can be dramatically out of balance. Addressing this issue has practical ramifications in the areas of structure, selection, training, evaluation, and compensation. From a structural perspective, firms employing hybrid sales managers should ensure that the sales manager is not too heavily laden with other responsibilities such that his/her ability to devote sufficient time to managing is compromised. In terms of selection and training, firms must take care when promoting salespeople to sales manager positions that the new sales manager has the managerial skills to succeed, understands the value of building skills within the sales team (in particular with experienced salespeople), and guards against tendencies to revert to more selling behaviors.

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EFFECTS OF FORMAL SALES CONTROL SYSTEMS:
A COMBINATORY PERSPECTIVE

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SUMMARY

This research investigates the combinatory effects of three well-established formal sales control styles – outcome, capability, and activity control above and beyond their main effects. While it is often noted that combinations of these different types of sales control are more effective, empirical evidence is lacking as to how various controls interact in affecting salesperson performance. This study is designed to address three research questions: (1) Do sales control combinations always produce positive synergies? (2) What are the pathways through which sales control combinations affect salesperson performance? (3) To what extent can control combinations using distinct components of behavior control (i.e., activity or capability control) provide additional insights? Sales control combinations are theorized to have differential impact on three key intermediary variables (salesperson knowledge, role ambiguity, and intrinsic motivation), which subsequently affect salesperson performance.

This research was conducted within the U.S. manufacturing sector (SIC codes 20–39) using industrial salespeople and their managers as respondents. A prequalified random name list of 471 industrial sales managers within SIC codes 20–39 was obtained from a leading list broker. Those managers then provided a pool of 1,371 salespeople for this study. A two-wave mailing effort generated 195 matched salesperson-sales manager dyads that were used for testing our conceptual framework. Moderated regressions indicate that (1) capability and outcome control styles have positive combinatory effects that enhance salesperson knowledge and intrinsic motivation while mitigating role ambiguity, (2) a combination of activity and outcome control can hurt salesperson performance by lowering intrinsic motivation, and (3) combining all three control styles significantly enhances salesperson knowledge. Finally, results indicate that the effects on manager-rated salesperson performance of sales controls (both main and combinatory effects) are indirect via salesperson knowledge, role ambiguity, intrinsic motivation, and their interaction effects.

These results provide strong empirical evidence that a more comprehensive understanding of the sales control systems would be compromised if their combinatory effects were not considered: it is found that in only 6.59 percent of cases managers have combined a high level of outcome control with a high level of capability control, whereas as many as 25.27 percent of cases reported a high outcome–high activity control combination. Meanwhile, 43.96 percent of cases reported a high outcome-high activity–high capability control combination and the remaining 24.18 percent reported a high outcome–low activity–low capability control combination. Therefore, in almost 50 percent of cases managers failed to deploy “correct” sales control combinations. The prevalence of this type of ill-informed practice is quite alarming, especially given the deleterious effect of activity-outcome control combination found on intrinsic motivation. Overall, our findings highlight the critical intermediary roles of salesperson knowledge, role ambiguity, and intrinsic motivation in sales control combinations. Managers should continuously update and strengthen the knowledge structure of their salespeople, reduce their role ambiguity in the selling environment, and maintain a higher level of salesforce intrinsic motivation by deploying appropriate sales control combinations. References are available upon request.

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EXTENDING VIEWS OF REWARDS AND SALESPEPERSON OUTCOMES: EXPLORATION OF THE MODERATING ROLE OF TASK PROGRAMMABILITY

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ABSTRACT

Though many consider rewards effective reinforcing mechanisms to achieve desired salesperson outcomes, empirical support is mixed. To extend views about conditions under which rewards reinforce desired responses, we investigate the moderating role of “task programmability context” on the reinforcing influence of output- and activity-based rewards on affective and performance outcomes.

INTRODUCTION

As often noted in such “CEO-read” publications as the Wall Street Journal and McKinsey Quarterly, the sales function for most firms both accounts for the largest portion of the overall marketing budget, is a “primary source” of competitive advantage. Thus, understanding factors that drive sales force efficiency and effectiveness is of “strategic” importance, and of great interest to researchers and practicing managers alike (e.g., Speier and Vankatesh 2002).

Accordingly, a substantial body of work has examined the efficacy of various types of Sales Force Control (e.g., Anderson and Oliver 1987; Piercy, Cravens, Lane 2003; Baldauf, Cravens, Percy 2005). Further, within this stream it has been argued that rewards might be the most important control mechanism as they are highly pervasive in industry, and have been shown to exert a stronger positive influence on desired consequences than other forms of control (e.g., Bartol 1999). As Challagalla and Shervani (1996, p. 99) note, rewards “provide powerful incentives to salespeople to act in a manner consistent with organizational objectives.”

Yet, important questions about Reward Control still exist due to: (1) mixed views on the reinforcing influence of rewards, and (2) the lack of empirical research on potential key moderators of reward influence (Oliver and Anderson 1994; Challagalla and Shervani 1996; Murphy, Dacin, and Ford 2004). For example, though rewards often are considered reinforcers of desired behaviors (Ouchi 1977; Agnewal and Ramaswami 1993; Challagalla and Shervani 1996; Jaworski 1998), some contend that rewarding is not the same as reinforcing; that is, rewards do not necessarily increase desired behavioral responses (Stajkovic and Luthans 2003).

Thus, the objective of this research is to shed further light on conditions that might moderate the “reinforcing influence” of rewards through an empirical examination of the potentially moderating context role of Task Complexity (i.e., hereafter, Task Programmability) on the influence of various reward control mechanisms used in two central types of control systems, outcome- and behavior-based. Task programmability is a situational task factor (Ouchi 1979) that reflects task programmability. It is sometimes referred to as “procedural knowledge” in the marketing literature, and reflects the degree to which necessary sales-task activities can be delineated, or the cause-effect knowledge of the sales process is clear (Jaworski and MacInnis 1989; Ramaswami 1996). In other words, when task programmability is high, managers can specify appropriate scripts to guide employees in their tasks, and vice-versa when it is low.

With respect to important questions about “rewards and reinforcement” discussed above, we posit that an empirical consideration of task programmability will shed new critical light on reward control and sales force performance, because a “high task programmability context” is a “high reinforcement context” as it places greater demands on employee knowledge, skills capacity, persistence, and self-efficacy (Stajkovic and Luthans 2001, 2003). In other words, task programmability is potentially a crucial moderator of rewards’ influence on various desired outcomes; hence, insights gained from further research here will improve significantly our knowledge of the “strategically critical” (from both a cost and revenue perspective) relationship between sales force rewards and sales force performance. Thus, we close this gap by offering, and testing, a “contingency” (context-specific) view of task programmability’s moderating role with respect to the impact/efficacy of sales force reward control and performance.

This research is organized as follows. We begin with a relevant review of the literature on rewards and sales force control, and then present hypotheses about the moderating impact of task programmability on the influence of outcome- and behavior-based rewards on desired
sales force control outcomes. Next, we present empirical analysis findings, discuss the implications for sales force control and rewards, and conclude with suggestions for future research.

EFFICACY OF BEHAVIOR- VERSUS OUTCOME-BASED REWARDS

Rewards are established in the literature as a key tool of control, regardless of whether the system is outcome-based (rewards contingent on salesperson achievement of sales goals) or behavior-based (rewards contingent on desired salesperson behavior). For example, Challagalla and Shervani (1996) find that rewards are an effective control tool for achieving affective outcomes (i.e., satisfaction) and performance outcomes (i.e., sales-goal accomplishment).

But, an important unanswered question is do rewards work equally well in both outcome- and behavior-based systems of control? On the one hand, some research shows that behavior-based control has comparatively better outcomes than outcome-based. For example, Cravens et al. (1993) tested propositions of Anderson and Oliver (1987), and found behavior-based control positively related to professional competence, team orientation, risk aversion, intrinsic motivation, sales-support orientation, and customer orientation. Also, Oliver and Anderson (1994) show that as sales control systems move from outcome-to behavior-based, job affect, motivation, and performance all show improvement—and, argue (p. 54) that a key advantage of behavior-based control over outcome-based is “informational” in that such control is: nurturant, providing guidance and feedback . . . [whereas] the outcome-control salesperson is quite the opposite . . . [and] left on his or her own to succeed . . .

Yet, on the other hand, other empirical findings are in conflict with the “view” that the “inherent informational advantages” of behavior-based control generally leads to greater desired outcomes than outcome-based control. For example, Jaworski, Stathakopoulos, and Krishnan (1993) find behavior-based control to have a non-significant influence on employee satisfaction and job performance. Rather, they found that output controls increased satisfaction, contrary to Anderson and Oliver’s (1994) finding of a positive link between behavior-based control and job affect. And, notably, another study (Lusch and Jaworski 1991) even found “no relationship” at all for behavior-based control and performance. Further, other research indicates combined outcome- and behavior-based reward control is both effective and prevalent. Here, Oliver and Anderson (1995) find that such hybrid reward systems lead to relatively high levels of: (1) positive attitudes about the system, (2) intrinsic motivation of employees, and (3) employee performance.

One explanation for mixed “empirical” support in the Marketing Literature for a general premise that “inherent informational advantages” of behavior-based control lead to greater desired outcomes than outcome-based control might be found in the context of Task Programmability. Stajkovic and Luthans (2001, 2003) suggest that task programmability plays a pivotal role in determining reward-type effectiveness through the level of “employee perceived risk” it engenders due to its impact on employee required-knowledge, required-skill capacity, and self-efficacy. Agency theory would also seem to suggest that lower task programmability implies higher risk to salespeople due to a limited understanding of tasks required to achieve desired outcomes (Eisenhardt 1985; Bloom and Milковich 1998).

Yet, despite this, empirical research in the Marketing Literature has tended to only examine task characteristics as a “contingent factor” of sales force control determinants (e.g., Kraft 1999). Just a few studies examine the impact of task programmability on salesperson behaviors as a “main effect” (Jaworski and MacInnis 1989; Ramaswami 1996), and though these findings are mixed, they suggest that task programmability plays a key role in sales force control. In sum, factors behind mixed findings for relative control efficacy of behavior- versus outcome-based rewards remain unclear, as the literature has not sufficiently explored situations that can moderate reward influence. Thus, we focus on the situational role of task programmability and how salespeople respond to behavior- and outcome-based reward incentives.

HYPOTHESES

Based on the literature review, our thesis that we test in this research is that task programmability (a situational factor) moderates the influence of output rewards (a form of outcome-based control) and activity rewards (a form of behavior-based control) on salespeople’s affective and behavioral responses. We chose these two outcomes to examine based on Anderson and Oliver’s (1994) work emphasizing the importance of investigating of control systems on affect and behavior, and performance. We examine “affect” with the dependent variable “organizational commitment,” and “performance” with the dependent variable “achievement.”

Affective Outcomes – Organizational Commitment

Organizational commitment is the psychological attachment felt by an employee for the firm, and represents the affective outcome of control systems. Such affect-oriented commitment reflects a willingness to exert additional effort to maintain organizational goals and values (Porter et al. 1974). It also is a strong indicator of turnover intention in a sales force setting (Johnston et al. 1990;
Hypothesis 1: Activity rewards positively influence organizational commitment in both high and low task programmability contexts.

However, given the above hypothesis, it is important to note that activity rewards do not “fully” shift the task ambiguity risk from salespeople to the firm – they would only partially shift the risk, and especially so in low task programmability situations. Thus, though an organization’s use of activity rewards seems likely to be viewed as a signal of its benevolence to employees (as discussed in above hypothesis), in low task programmability situations it also seems likely that the signal would be muted to some degree. Therefore, we posit that activity rewards’ positive impact on salesperson organizational commitment will not be as strong in low task programmability situations as in high task programmability situations.

Hypothesis 2: Activity rewards have a greater positive influence on organizational commitment in high task programmability contexts than in low task programmability contexts.

Output rewards, which reward salespeople strictly based on bottom-line outcomes, are not “nurturant” signals to employees (e.g., Oliver and Anderson 1994). When considering the salesperson-firm dyad as an exchange relationship, output rewards signal that the firm will reciprocate salesperson efforts only if bottom-line output objectives are met. Given that employees’ sense of organizational support and reciprocation is important as employee perceptions of organizational support are strongly related to employees’ commitment to the organization (e.g., Eisenberger et al. 1986) – it seems unlikely that output rewards would foster employee commitment to the organization, and, indeed, could even be detrimental to the development of organizational commitment. However, we expect that detrimental effects of output control will be attenuated “to some degree” given that in the sales profession output reward: (1) is a well-accepted practice, (2) used by most sales organizations, and (3) expected by most salespeople. Thus, we posit that regardless of level of task programmability, output rewards will not positively influence employee organizational commitment.

Hypothesis 3: Output rewards do not positively influence organizational commitment level in either high or low task programmability contexts.

Performance Outcomes – Achievement

Rewards can play an important role in salespeople’s motivation to achieve performance goals (Luthans and Kreitner 1985). Compared to outcome-based controls, some suggest that behavior-based controls are related less to extrinsic motivation (Oliver and Anderson 1994). Whether the motivation is intrinsic (e.g., recognitions) or extrinsic (e.g., bonuses), path-goal theory (House 1971) suggests that commitment to goals is influenced strongly by the level of reward. However, overall, research findings are mixed with respect to whether outcome- or behavior-based control is more effective in facilitating sales and profit performance outcomes. For example, Oliver and Anderson’s (1994) empirical work finds that the differences between behavior-based and outcome-based controls are minimal in terms of achieving sales/profit goals, which is contrary to Grant and Cravens’ (1996) findings that behavior-based controls lead to higher achievement. And, this is just one of many such examples.

Hence, controlling for salesperson skill levels, it seems clear that both activity and output rewards can influence salesperson outcome performance. Yet, the
empirical findings are mixed regarding the significance and level of this influence for both behavior- and outcome-based control. Here we posit that low task programmability provides one possible explanation for such mixed findings, which leads to the question: How does the influence of activity and output rewards on outcome performance vary based on level of task programmability?

In the context of low task programmability, the literature tends to suggest that outcome-based control is more effective than behavior-based control (Eisenhardt 1985; Govindarajan and Fisher 1990; Banker et al. 1996; Joseph and Thevaranjan 1998). For example, Ouchi’s (1979) work suggests that as task programmability decreases, behavior-based control becomes ineffective due to increased difficulty in performance assessment. Further, Anderson and Oliver’s (1987) work suggests that the advantage here of outcome-based control is that low task programmability makes it very difficult (perhaps impossible) to specify a formula for salesperson behavior/inputs that result in desired outcomes. Thus, in such situations many managers prefer to let their salespeople develop their own methods to do well.

In the context of high task programmability, conversely, the literature tends to suggest that behavior-based control is more effective than output-based control. For example, organization theory would favor behavior-based control here because desirable behaviors can be explicitly defined and readily measured. Further, drawbacks of behavior-based control (such as the subjectivity of managers’ understanding of what tasks are effective) are likely to be mitigated when task programmability is high as there is better understanding of what works and what does not work (Anderson and Oliver 1987).

Therefore, we posit that output rewards are more positively influential on salesperson achievement in low task programmability contexts, and activity rewards are more positively influential on salesperson achievement in high task programmability contexts.

Hypothesis 4: Output rewards have a positive influence on achievement in only low task programmability contexts.

Hypothesis 5: Activity rewards have a positive influence on achievement in only high task programmability contexts.

METHOD

Sample Selection and Data Collection

We now discuss the rationale used to choose an appropriate “selling context” from which to gather data for our empirical study (the sales force of a Large Norwegian Insurance Company that sells insurance and related products to both businesses and consumers). One critical context selection criteria was that sales management used rewards with the salespeople. Also, like other research, we chose to test our hypotheses in tight, single-firm context since: (1) it reduces extraneous influences of firm- or industry-specific variance (e.g., Ramaswami and Singh 2003), (2) it also seemed likely to provide sufficient non-extraneous variance for all key variables as the firm’s operations vary among its types of related businesses and its territories (e.g., Ramaswami and Singh 2003), and (3) studies have firmly established the applicability of a single-firm sampling frame in sales force research (e.g., Ramaswami and Singh 2003).

A random sample of 512 salespeople across its operations was provided by the firm, and we mailed the questionnaire directly to these potential respondents. To maximize response rate, a reminder note was mailed after two weeks. Three hundred ten surveys were returned. Those missing data were eliminated, resulting in 250 fully-completed surveys (a response rate of ~49%). This sample was further reduced to 185 (as discussed in Analysis section below), to study only those salesperson respondents who could be clearly classified as being in either the context of “low task programmability” or “high task programmability.” Other characteristics of the salespeople that comprised the analyzed sample: ~94 percent male, ~61 percent had college degrees, mean age = ~42.2 years, mean employment length = ~10.7 years (distribution = one to 30 years).

Control Variables

To make hypothesis testing more robust (to better account for rewards true-level of influence on the outcome variables), we used three control variables (likely salesperson characteristic covariates) that may influence focal outcomes. Employment Length is used as an antecedent control variable for both Organizational Commitment and Achievement – as employment length may be a significant covariate for both dependent variables (e.g., Cron 1984; Kim and Frazier 1997; Kumar, Stern, and Achrol 1992). Product Knowledge and Sales Skills are used as antecedent control variables for only Achievement – as both may be a significant covariate of achievement (e.g., Cravens et al. 1993).

Measurement Items

The Appendix provides specific scale items, and Cronbach’s a, for each measure, and below is a description of each measure. Output Rewards and Activity Rewards are based on Challagalla and Shervani’s (1996) measures, which combine monetary and non-monetary rewards. Both reward items represent the extent to which
rewards are tied to outputs (output rewards) and inputs (activity rewards) on the job. We chose scales that measure various reward types (bonuses, recognition, commendation, promotion, and pay increases) as research shows substantial individual differences in reward preferences. Task Programmability captures degree to which sales task activities can be defined so that cause-effect knowledge of the sales process is clear to salespeople (Jaworski and MacInnis 1989; Ramaswami 1996). We adapted Ramaswami’s (1996) scale of procedural knowledge which reflects task programmability (based on work by Jaworski and MacInnis 1989). Organizational Commitment captures degree to which a salesperson is attached to or identifies with the selling organization and is willing to exert additional effort to maintain organizational goals and values (Porter et al. 1974). We adapted Allen and Meyer’s (1990) scale affective organizational attachment. Achievement pertains to salesperson selling performance, and refers to the extent to which the salespeople perceive they achieve output congruent with the organization’s goals. We used Cravens et al.’s (1993) scale that captures degree to which salespeople achieve sales objectives. Product Knowledge was measured with four items adapted from Cravens et al. (1993). The items represent knowledge about product specification, product applications, ability to detect causes of failure of company products, company product developments. Sales Skills refers to the salesperson’s selling skills, measured using items adapted from Cravens et al. (1993) that capture skills related to: listening to the customer, understanding and communicating with the customer, working out solutions for the customer, using established contacts to develop new customers. Employment Length was measured with a question that captured the salesperson’s length of employed with the company.

Measure Validation

The two-step approach suggested by Anderson and Gerbing (1988) was applied to validate the measures used to test this model. Using AMOS 4.01 with maximum likelihood estimation, confirmatory factor analysis (CFA) techniques were used to estimate a measurement model. The measurement items with substantially low factor loadings (< .60) were dropped from the model so as to keep only the items with substantially high (≥ .60) and statistically significant (α = .01) factor loadings for the final analysis. The chi-square value of the resulting measurement model was 410.9 (df = 215). Fit indices reported are comparative fit index (CFI) = 0.91, incremental fit index (IFI) = 0.91. The root mean square error of approximation (RMSEA) was 0.07. These results indicate that the scale measures are internally consistent and provide a good fit for the factor model of the data. Discriminant validity was found as the average variance extracted for each construct is greater than the variance shared between the construct and other constructs in the model (i.e., the squared correlation between constructs). No squared correlation for a construct is higher than the average variance extracted for the construct, indicating satisfactory discriminant validity for all constructs.

ANALYSIS

Table 1 reports measure correlations, means, standard deviations. As output rewards and activity rewards share relatively high correlations (.570), per “standard practice” the measures were mean-centered to limit multicollinearity concerns (Aiken and West 1991). Variance inflation factors (VIF) were well below the cutoff of 10.0 suggested by Mason and Perreault (1991) indicating multicollinearity is not a concern for beta estimates. Table 2 summarizes OLS multiple regression results for the multi-group analysis used to test our hypotheses on the moderating “context influence” of level of task programmability (Low TP and High TP). To create these two subsample contexts, we first split the data into three groups based on level of task programmability (using 33 and 67 percentile frequencies): Low (mean = 2.30; nlow = 88), Moderate (mean = 3.81; nmoderate = 65), High (mean = 5.16; nhigh = 97). [T-tests of mean differences between the groups were significant at p < .001.] Then, we used just the Low and High groups as the Low TP and High TP contexts in which to test our hypotheses (again, see Table 2).

Affective Consequences

After controlling for the influence of employment length on Organizational Commitment: H1 (Activity rewards have a positive influence on achievement in only high task programmability contexts) was “supported” as activity rewards effect was positive and significant in low task programmability context (β = .241, p < .05); and was positive and significant in high task programmability context (β = .520, p < .05). Here as well, H2 (Activity rewards have a greater positive influence on organizational commitment in high task programmability contexts than in low task programmability contexts) was “supported” as the positive impact of activity rewards was greater in high task programmability context. H3 (Output rewards do not positively influence organizational commitment level in either high or low task programmability contexts.) was “generally supported” as output rewards effect is insignificant in low task programmability context (β = -.081, ns); and was negative and only “marginally significant” in high task programmability context (β = -.241, p < .10).

Performance Consequences

After controlling for the influence of product knowledge, sales skills, and employment length on Achievement: H4 (Output rewards have a positive influence on achievement in only low task programmability contexts.)
TABLE 1
Correlation Matrix, Means, and Standard Deviations (SD)\textsuperscript{1}

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean (SD)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Output Reward</td>
<td>3.62 (1.59)</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Activity Reward</td>
<td>3.97 (1.34)</td>
<td>.44*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Organizational Commitment</td>
<td>3.73 (1.30)</td>
<td>.18</td>
<td>.33*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Achievement</td>
<td>4.78 (1.11)</td>
<td>.17</td>
<td>.19</td>
<td>.18</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Task Programmability</td>
<td>3.66 (1.40)</td>
<td>.20</td>
<td>.34*</td>
<td>.31*</td>
<td>.25*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Product Knowledge</td>
<td>5.34 (.76)</td>
<td>-.10</td>
<td>.14</td>
<td>.32*</td>
<td>.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Sales Skills</td>
<td>5.48 (.62)</td>
<td>.04</td>
<td>.04</td>
<td>.14</td>
<td>.44*</td>
<td>.31*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Employment Length</td>
<td>8.47 (6.56)</td>
<td>-.13</td>
<td>-.12</td>
<td>.28*</td>
<td>-.11</td>
<td>.07</td>
<td>.07</td>
<td>.01</td>
<td>1.00</td>
</tr>
</tbody>
</table>

TABLE 2
Multiple Regression Analysis Results\textsuperscript{2}

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Low TP</th>
<th>High TP</th>
</tr>
</thead>
<tbody>
<tr>
<td>n\textsubscript{low}= 88</td>
<td>n\textsubscript{high}= 97</td>
<td></td>
</tr>
</tbody>
</table>

**Predictors:**

| Output Rewards | R\textsuperscript{2} = .163 | R\textsuperscript{2} = .162 | R\textsuperscript{2} = .397 | R\textsuperscript{2} = .462 |
| Activity Rewards | -.081 (-.060) | -.241 (-.173)* | -.052 (-.036) | .057 (.032) |

**Control Variables:**

| Product Knowledge | — | — | .284 (.292)* | .422 (.500)* |
| Sales Skills      | — | — | .441 (.514)* | .213 (.248)* |
| Employment Length | .369 (.055)* | .237 (.033)* | -.088 (-.14) | -.037 (-.004) |

was “partially supported” as output rewards effect was insignificant in high task programmability context (β = -0.052, ns); but (unexpectedly) was insignificant in low task programmability context (β = 0.057, ns).\textit{H\textsubscript{1}} (Activity rewards have a positive influence on achievement in only high task programmability contexts.) was “supported” as activity rewards effect was insignificant in low task programmability context (β = 0.056, ns); and was positive and significant in high task programmability context (β = .331, p < 0.05).

DISCUSSION

Our research examines the influence of two types of rewards (outcome- and behavior-based) in low and high task programmability contexts in an effort to expand our understanding of reward influence, and reconcile some of the literature's conflicting empirical findings. From a contingency perspective our findings suggest implications for the efficacious use of rewards, and below we discuss some of the more important implications. Implica-
tions arise for the use of activity rewards in a high task programmability context—beginning with the strong positive influence findings for activity rewards that we found in this context, which strongly suggest that sales management can substantially, and positively, influence “across-the-board” (affective, behavioral, sales volume/profit performance) desired outcomes by employing behavior-based rewards in high task programmability contexts. And, it seems likely (based on the strength of the results) that resulting “across-the-board” outcome improvements fostered by “investment” in behavior-rewards will likely help Sales Management achieve and exceed strategically important targets for sales force return on investment (ROI).

Conversely, our results suggest in high task programmability contexts investment in outcome-based rewards is likely to provide relatively little (or only modest) ROI in the form of both soft (affective and behavioral) and hard (sales volume/profit) return on investment. Further, (and perhaps more importantly) investment here in outcome-based rewards may also become a “substantial opportunity cost” in that less investment is available for more efficacious (higher ROI) behavior-based rewards. Our results also suggest that the behavior-based rewards in low task programmability contexts hold some promise, since using behavior-based rewards here decreases salespeople’s perception of risk, which likely increases perceptions self-efficacy as well—which can be highly critical in a highly self-confidence driven profession like sales. Further, a decreased perception of risk creates a more nurturing and supportive environment all around, fostering more of a team-environment, and higher levels of sales force organizational commitment—all of which are beneficial in many tangible, strategic, and bottom-line ways.

Potentially interesting implications also arise from our findings for output rewards impact on organizational commitment in both high and low task programmability contexts. The findings here, upon further reflection and application of theory, not only make sense, but also might represent some of the more impactful insights of this research. Here, Justice Theory can be used to explain (well) the “marginally significant” negative finding for output rewards impact on salesperson organizational commitment in a high task programmability context as follows. Since the task is well understood the salesperson can the right steps per that understanding to make sales. Thus, if a sale does not happen, then it is likely that often the salesperson would attribute the failure to bad luck or circumstances beyond his or her (or anyone’s) control. Hence, from a Justice perspective, output reward would likely be viewed to some degree as unfair since such a system would likely be viewed as holding the potential to result in two “unfair” reward consequences; (1) potentially overly-reward those who had the least bad luck (or, circumstances beyond their control), and (2) potentially under-reward (i.e., punish) those who had “more than their fair share” of bad luck (or, circumstances beyond their control). Thus, an output reward system in the context of high task programmability would be likely viewed (at least to some degree) as “unfair” (or, holding the potential to be unfair) to employees—and, in turn, result in diminished salesperson commitment to the organization.

Further, potentially interesting implications also arise from findings for output rewards impact on achievement in both high and low task programmability contexts, we will discuss one of these. The insignificant finding for output rewards impact on achievement in the context of low task programmability, though not expected, does raise some interesting possibilities. In the extreme case of low task programmability the insignificant finding appears to indicate that output control (contrary to what has been posited so far in the literature)—does not have a direct effect on achievement; but, rather, is influenced more by personal skill (which is not inconsistent with musings in the literature). This explanation is plausible since a lack of task direction (or an ambiguous task) would appear to “elevate” the importance of personal skill as an influence on achievement of outcome-based results. In other words, in a context where the selling task is ambiguous, motivation provided by output rewards is not nearly as powerful an influence on performance as is personal skill because, simply: even if a salesperson is “highly motivated” to achieve from an output reward perspective, the salesperson cannot achieve sales well “in this ambiguous task context” without a high-level of personal skill needed to overcome task ambiguity. Further, the control variables indicate that the salespeople in our sample had a fairly high level of personal skill, given the means for product knowledge (5.34) and sales skills (5.48).

Limitations and Future Research Directions

Though our research is encouraging, like any study it has limitations that can be addressed with future research, two of which are as follows. First, as our research was tightly-focused regarding types of outcomes, future research should also consider other germane outcomes. Second, though a single-firm study context is well-accepted and offers enhanced internal validity, future research should replicate our results with more heterogeneous samples.
REFERENCES


**APPENDIX: MEASUREMENT ITEMS**

*Output Rewards:* Adapted Challagalla and Shervani (1996): Cronbach’s $\alpha = .72$ (5 point scale: strongly agree, strongly disagree)

1. I would get bonuses if I exceed my sales volume or market share targets
2. Promotion opportunities depend on how well I perform on sales volume or market share targets
3. I would be recognized by my company if I perform well on sales volume or market share targets
4. There are pay increases if I do well on sales volume or market share targets

*Activity Rewards:* Adapted Challagalla and Shervani (1996): Cronbach’s $\alpha = .69$ (5 point scale: strongly agree, strongly disagree)

How well I perform specified sales activities would be considered when awarding bonuses/financial rewards
If I perform sales activities well my supervisor would commend me
I would be recognized by my supervisor if she/he were pleased with how well I perform sales activities
APPENDIX: MEASUREMENT ITEMS

Task Programmability: Adapted Ramaswami (1996): Cronbach’s $\alpha = .64$ (5 point scale: strongly agree, strongly disagree)
1. There exists a clearly defined body of knowledge or subject matter that can guide me during my work
2. It is possible to rely upon existing procedures and practices to do my work
3. On my job, I have to actively search for solutions beyond normal procedures many times (reverse-coded)

Org Commitment: Adapted Allen and Meyer (1990): Cronbach’s $\alpha = .84$ (5 point scale: strongly agree, strongly disagree)
1. I enjoy discussing my organization with people outside it
2. I think that I could easily become as attached to another organization as I am to this one (reverse-coded)*
3. I do not feel like ‘part of the family’ at my organization
4. I do not feel ‘emotionally attached’ to this organization (reverse-coded)
5. This organization has a great deal of personal meaning for me
6. I do not feel a strong sense of belonging to my organization (reverse-coded)

Achievement: Adapted Cravens et al. (1993): Cronbach’s $\alpha = .90$ (7 point scale: “needs improvement,” “outstanding”)
1. Producing a high market share for your company
2. Making sales of those products with the highest profit margins
3. Generating a high level of dollar sales
4. Quickly generating sales of new company products
5. Identifying and selling to major accounts
6. Producing sales or blanket contracts with long-term profitability
7. Exceeding all sales targets and objectives during the year

Product Knowledge: Adapted Cravens et al. (1993): Cronbach’s $\alpha = .65$ (7 point scale: “needs improvement,” “outstanding”)
1. Knowing the specifications of company products
2. Knowing the applications and functions of company products
3. Able to detect causes of failure of company products
4. Keeping abreast of product developments*

Sales Skills: Adapted Cravens et al. (1993): Cronbach’s $\alpha = .77$ (7 point scale: “needs improvement,” “outstanding”)
1. Listening attentively to identify and understand the real concerns of customers
2. Convincing customers that they understand their unique problems and concerns
3. Using established contacts to develop new customers
4. Communicating their sales presentation clearly and concisely
5. Working out solutions to a customer’s questions or objections

1 Asterisk (*) denotes $p < .05$
2 Asterisk (*) denotes $p < .05$, † denotes $p < .10$
3 Items marked with * were dropped as a result of measurement model analysis.

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KEY ACCOUNT RETENTION: A NATURALISTIC APPROACH
ASSESSING THE DRIVERS & OUTCOMES OF KEY
ACCOUNT RELATIONSHIPS

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SUMMARY

Academics and practitioners alike agree that most firms are not built on the basis of once only customers, but rather that customers have a lifetime value in which they provide increasing revenues over an extended period of time. Lifetime value and customer retention are issues of strategic importance based on the benefits realized from loyal customers.

Key accounts are typically identified from the supplier’s perspective as their most important customers. Customers representing a high share of suppliers’ sales or profits should be, and are, treated differently than less impactful customers (e.g., customized solutions, high involvement). Retention marketing suggests existing customers are different from new customers and warrant separate and different approaches. Relational strategies should be selective because of the associated costs and risk, thus key accounts provide an appropriate context for study.

As a theoretical framework, Herzberg’s motivation-hygiene theory indicates we should look at the drivers of relationship retention and defection as separate entities because it is possible that key account decision-makers may focus on different factors when providing insight into what appear to be polar dichotomies. This research seeks to extend the existing key account relationship conceptualization beyond retention/defection intentions into the downstream value metrics of word of mouth referrals and customer business expansion.

We employed a naturalistic approach as it allowed us to focus on the perceptions of decision-makers and uncover emergent themes and ideas. Our sample consisted of interviews with 99 executives from 52 separate key accounts. These respondents were executive decision-makers involved in the bid process of the specified key account contract and interviews took place six months to one year prior to contract expiration. All impending bids were in excess of $1 million and on average were valued at $26.1 million ($5.1 million median) and had an average length of 4.8 years. The size of this sample, magnitude of the contracts, and proximity to a critical event in the exchange relationship make this an ideal context in which to examine the impact of key account relationship antecedents and outcomes. Peer debriefing, member checking, deviant case analysis, constant comparison, refutability, comprehensive data treatment, and inter-rater reliability were all employed to maximize the validity of the findings.

Findings demonstrated the performance and relational considerations leading to either a strong or vulnerable relationship in key accounts. The determinants of strong and vulnerable relationships for key accounts described a broad set of contributing factors. In total, we found seven primary determinants comprising relationship status in key account relationships: commitment, trust, adaptation, customer orientation, communication, partnership, and total cost of ownership. Each of these primary themes had several positive and negative subthemes. Consistent with motivation-hygiene theory, many of these determinants did not share identical subthemes within opposite valences.

We also examined the impact of a strong or vulnerable relationship on the customer’s likelihood of expanding or reducing the relationship, as well as the customer’s willingness to be a reference.

In evaluating future business intentions, 88 percent of the expansion opportunities were from strong relationships, thus showing that relationship strength can enable numerous cross-selling and up-selling opportunities. Examining the willingness to provide a positive reference, results indicated that 100 percent of the relationships evaluated as strong indicated they would be willing to be a positive reference for the specified supplier. On the other hand, relationships evaluated as vulnerable indicated about a 50/50 chance of receiving a positive reference.

Key account relationships are crucial to organizations involved in business-to-business sales. The current business environment continues to trend toward larger customers that are utilizing fewer suppliers. As such, managers must know how to cultivate effective relationships with these key accounts. Our study provides detail on the seven components leading to strong or vulnerable relationships in expiring contracts among key accounts. As these factors are not simply polar opposites, knowing
which factors apply to an intensive or minimalist strategy can be of significant importance. We also show the effect of these factors on two vital outcomes: future business and referral behavior. References are available upon request.

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“IT’S ALMOST LIKE TAKING THE SALES OUT OF SELLING”:
CONCEPTUALIZING VALUE-BASED SELLING IN
BUSINESS MARKETS

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SUMMARY

Today, there is widespread agreement that the creation of superior customer value is a key to a firm’s long-term performance. In business markets in particular, customer value represents the cornerstone of the marketing management process (Woodruff 1997; Anderson and Narus 2004; Uлага and Eggert 2006). While we can build on a sound and growing body of literature on customer value in business markets, its implementation at the sales force level has remained largely neglected as an area of discovery. Yet, unless salespeople understand and persuasively communicate the superior value proposition to targeted customers, a firm’s strategic focus on value creation won’t have a performance impact (Anderson, Kumar, and Narus 2007). Interestingly, the sales research has not focused on value orientation in selling but has rather ventured in other directions, with customer-oriented selling and adaptive selling being the two most prominent salesperson behaviors under investigation (Saxe and Weitz 1982; Spiro and Weitz 1990). Empirical findings, however, stand in sharp contrast to their prominent position in the literature, as recent meta-analyses demonstrate that dominating selling behavior constructs only weakly explain salesperson performance (Franke and Park 2006). Against this background, there is a need to explore and conceptualize value-based selling as a sales approach that focuses on implementing a firm’s customer value orientation at the sales force level. In this study, we define and conceptualize value-based selling, based on a review of the extant literature and a series of in-depth interviews.

In the personal selling literature, we can find numerous references to the importance of salespersons’ value-creating behaviors (e.g., Weitz and Bradford 1999; Weitz, Castleberry, and Tanner 2007). Yet value is mostly discussed in passing in sales research, and the extant studies have not synthesized the value related dimensions of salesperson behavior or conceptualized a value-based selling approach. Instead, the selling literature has developed in different directions, exploring behaviors such as hard selling (e.g., Chu, Gerstner, and Hess 1995), up-selling (e.g., Wilkie, Mela, and Gundlach 1998), consultative selling (e.g., Liu and Leach 2001), relationship selling (e.g., Frankwick, Porter, and Crosby 2001), and, in particular, customer-oriented selling (e.g., Saxe and Weitz 1982) and adaptive selling (e.g., Spiro and Weitz 1990). On the whole, it still remains unclear what selling behaviors salespeople should engage in to create value, and how a construct of value-based selling impacts the creation of value for the firm and customers.

In order to explore the constituents of value-based selling, we conducted in-depth interviews with sales managers from 11 companies, engaged in international operations, in a variety of industries. The firms were purposefully selected on the basis of their customer value centered strategy statements. The inductive analysis was based on grounded theory, coding to identify the key elements of value-based selling behaviors, to attain insights with regard to their content, and relationships to other selling approaches. NVivo 8 software was employed to facilitate the coding, analysis, and interpretation of the interviews. After 11 interviews, we reached theoretical saturation indicating a sufficient sample size.

The interviews with sales managers show that value-based selling is a viable and utilized sales approach in companies selected for our study. The common themes recurring in the top-of-the-mind responses indicate that value-based selling behaviors shift the focus of selling to the offering’s implications for the customer’s business, rather than simply focusing on the customer’s expressed needs and creating customer satisfaction. Hence, value-based selling is a broader approach than selling product functionalities or customer benefits, focusing on the value-in-use potential of the offering for the customer’s business and financial profit. Based on the analysis of the interviews, we define value-based selling behavior as “the degree to which salespersons translate the benefits of their market offerings into monetary terms, based on an in-depth understanding of their customers’ business models, thereby convincingly demonstrating their contribution to customers’ profitability.” More specifically, the analysis reveals that value-based selling is a multidimensional concept comprising three salient dimensions: (1) understanding customers’ business model, (2) crafting the value proposition, and (3) communicating the value.
The first dimension of value-based selling focuses on building a thorough understanding of the customer’s business goals. The need for this understanding was manifested in various ways in the interviewees’ comments that were all comprised in the business model concept (cf., Johnson, Christensen, and Kagermann 2008). The interviewees emphasized further the need to go beyond customer articulated needs for selling value. This is an interesting issue, since customer needs have dominated sales research for decades, as reflected in the most prominent scale items for capturing sales behavior (cf., Saxe and Weitz 1982). Overall, an understanding of customers’ business models enables the salesperson to identify the most important value drivers that will add substantial value to the customer’s business.

The second dimension of value-based selling concerns the crafting of the value proposition. In value-based selling, the focus lies on active identification of customer problems and the creation of mutually valuable solutions to these problems (cf., Liu and Leach 2001). Hence, value-oriented salespeople strive actively to indentify and craft offerings that have substantial potential to impact a customer’s profits. The analysis indicates that quantification efforts constitute the major facet of crafting the value proposition. It cannot be crafted by the seller alone but requires some participation from the customer and is based on dialogue, customer specific data, and other customer inputs. Accumulated knowledge is also a central aspect, as it enables the transfer of value-in-use data from one customer to another.

The third identified dimension of value-based selling is the communication of the value proposition to the customer. According to the results, the most salient aspect of sales communication is the credible demonstration of the market offering’s contribution to the customer’s business profit. While any salesperson might declare to save money or enhance customer revenues, value-based sellers provide persuasive evidence for their value claims. Open dialogue, transparency and trust are necessary ingredients for demonstrating the long-term orientation in selling and the credibility of the arguments presented. Results further show that communication in value-based selling should actively aim to reduce customer perceived risk. We identified two widely used risk reduction strategies from the interviews, namely references and guarantees to signal credible commitment to delivering superior value.

Based on the interviews, we indentified potential consequences of value-based selling. These can be divided into seller-related, buyer-related, and relationship-related consequences at individual and organizational levels.

Our conceptualization of value-based selling is consistent with the modern concept of marketing, which relates to “an organizational function and a set of processes for creating, communicating and delivering value to customers” (AMA 2004), and can be regarded as the practice of this concept at the level of the individual salesperson and customer. Further, with its explicit focus on customer value, value-based selling differs notably from adaptive selling and customer selling. As this study is one of the first academic enquiries to examine how salespeople can implement a firm’s customer value orientation, further research employing large scale, representative sampling is needed to assess the generalizability of our findings. More specifically, future studies should: (1) develop and validate measures for value-based selling behaviors, (2) study the proposed relationships between value-based selling behaviors and sales performance, (3) explore the broader nomological network of value-based selling, (4) investigate whether value-based selling is a universally applicable sales approach, and (5) study sales management topics related to recruitment, training, motivating, rewarding, and leading salespeople with value-based selling behaviors. Future research should also gather data at the salesperson and customer level to confirm and deepen our insights on value-based selling. References are available upon request.

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HOW DOES KEY CUSTOMER FOCUS MODERATE MARKET-BASED ORGANIZATIONAL LEARNING UNDER THE SPECIFIC CONSIDERATION OF PRODUCT COMMODITIZATION

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SUMMARY

Much of the extensive market orientation literature is concerned with how companies develop their knowledge about customers and competitors. It has been argued that firms can obtain a competitive advantage by catering to specific customer needs by applying this market knowledge (Slater et al. 1994). However, recently scholars have recognized that market orientation alone might not lead to a sustainable competitive advantage (Slater et al. 1995). Baker et al. (1999a, p. 423), e.g., find “that market oriented processes are necessary but not sufficient to maintain competitive advantage.” Instead, the importance of the organization’s ability to correctly interpret market data is increasingly being recognized (Ali et al. 2010). Organizational research scholars suggest that higher-order learning or generative learning is required, such that complex market information can be effectively harnessed (Morgan et al. 2003) and thus market orientation must be accompanied by a strong learning orientation (Slater et al. 1995).

A second trend in the marketing field is that scholars frequently propose that companies should focus on their most valuable customers (Algesheimer et al. 2006). Particularly in the context of customer relationship management research, it is argued that based on extensive customer databases and lifetime value computations firms should focus their company resources on high value customers. This judicious resource allocation is expected to lead to superior company performance (Homburg et al. 2008; Yim et al. 2004). However, little is known about the consequences of key customer focus on market-based organizational learning. Some researchers indicate that focusing on key customers (segments) might benefit these market-based organizational learning processes (Pelham 1997). Others, however, point out that companies should not rely on too narrow a market definition. Slater et al. (1995, p. 68), e.g., critically note that focusing on specific market segments or customers “could lead to learning only within boundaries.”

Accordingly, drawing on the resource-based view this research addresses two areas. First, it contributes to the understanding of market-based learning within companies by particularly focusing on how a company’s market and learning orientation facilitate the achievement of a competitive advantage. In this context market orientation is seen as the principal foundation on which learning occurs. Accordingly, it is assumed that learning orientation mediates the performance consequences of market orientation. Second, it explores how key customer focus moderates the relationship between market and learning orientation. In this context it is assumed that companies with a strong key customer focus primarily rely on their key customers for their market-based learning processes, thereby neglecting other market information. Since prior research has shown that different information requirements exist in high and low commoditized markets (Matthyssens et al. 2008; Hambrick 1993) the moderating effect is tested in these different market environments.

To conduct the research a cross-sectional online survey was conducted. The sample was obtained from the German Chamber of Industry and Commerce and covered companies in 12 different industries. In spring 2010, 290 qualified responses from managing directors or heads of marketing were received. To obtain valid and reliable data, previously validated scales were used for all constructs in this study. The questionnaire was developed and pre-tested using a small sample of practitioners and academics, before the final instrument was mailed to the sample. Partial least squares, a broadly accepted variance-based structural equation modeling technique, was used to evaluate the proposed theoretical model (Wold 1985). It has already been used in research similar to this study (e.g., O’Cass et al. 2007a, b; Voola et al. 2010).

The empirical results suggest that market orientation positively impacts learning orientation. Hence, it can be derived that market-oriented companies strengthen their ability to gather information about customer markets, which builds the basis on which learning can occur. The results also support that learning orientation in turn is positively correlated with company performance and thus facilitates a company to achieve a competitive advantage. Learning-oriented companies are characterized by a learning culture that stimulates creativity and thinking outside traditional thought patterns (Bell et al. 2002). Accordingly, these companies have the flexibility to respond to dynamic market environments and adjust to changing customers’ needs.
The empirical findings also support the direct positive effect of key customer focus on company performance. Accordingly, it can be reasoned that such a strategy increases the efficiency of a company’s marketing and sales efforts. Customers of high value to the company receive more attention and are therefore less likely to abandon the supplier-seller relationship. Low value customers, however, receive a stripped down level of attention. Pertaining to the moderating effect on market-based organizational learning, the results indicate that it depends on the industry in which a company operates. In markets with high industry commoditization a key customer strategy positively moderates market-based organizational learning. Key customers provide the company with the appropriate information on which it can act. However, in markets with low industry commoditization the results suggest that a key customer focus strategy might hinder these learning processes. Hence the empirical findings also highlight the importance of environmental market conditions in explaining how key customer focus influences market-based organizational learning. References are available upon request.

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HOW DOES CORPORATE REPUTATION IMPACT CONSUMERS’ REACTIONS TO PRICE INCREASES?

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SUMMARY

From the perspective of the firm, corporate reputation is one of the most valuable assets in achieving and securing competitiveness. Among other positive outcomes, a favorable reputation is assumed to increase willingness-to-pay of customers. Customers compare costs incurred for obtaining a product or service and the anticipated benefits received in return; the perceived net benefit from the transaction determines a customer’s preference for and evaluation of the product. A company with a favorable reputation can normally charge more for its products and services, directly contributing to its financial success. However, price increases ceteris paribus decrease customers’ net benefit leading to negative consequences such as customer dissatisfaction, complaints, or defection. Consumer reactions to prices and price increases are subjective in nature because price perception is relative to other product attributes, such as product quality. This implies that the identical price can seem expensive and unfair to one consumer but adequate and fair to another. With few exceptions, price increases will be viewed negatively by consumers, though. Therefore, factors that impact or attenuate consumers’ negative reactions toward price increases are of theoretical and practical interest. Some of these factors are included in our study, specifically price fairness, anger as an emotional reaction, the size of the price increase, and the reasons and motives for the price increase. To optimize pricing strategies it is important to understand how corporate reputation affects these different consumer reactions to price increases. Therefore, this study focuses on the research question: How does perceived corporate reputation affect consumers’ reaction to price increases?

In order to answer the research question, we are drawing on the theory of cognitive dissonance, equity theory, and attribution theory. To test our hypotheses, we conducted an experiment choosing a 2x2 between-subjects design. We manipulated “corporate reputation” (favorable versus unfavorable) and “price increase” (high versus moderate). All groups were completely randomized. We used airline services as the study setting. In total, 276 business students from two German public universities participated in the study.

Results confirm that perceived corporate reputation plays an important role in understanding consumer reactions to price increases. First, we could establish that the more favorably reputation is perceived, the less likely are consumers to attribute negative motives of the company for the price increase. In turn, perceived motive and reputation were found to impact perceived price fairness: if consumers perceive a negative motive for the price increase, perceived price fairness decreases. Moreover, we found that if companies with a favorable reputation are raising prices, consumers are more likely to accept this as a fair move compared to companies with an unfavorable reputation. Anger as an emotional reaction to price increases is affected by perceived price fairness meaning that the more positive the cognitive appraisal of a price increase, the less likely are consumers to become angry. Most importantly, perceived reputation and price fairness directly and significantly affect purchase intentions. However, we could not establish a moderating effect of the size of the price increase: neither the relationship between perceived reputation and perceived price fairness nor the impact of reputation on purchase intentions were affected by the size of the price increase, just the price increase in general. This means that even if consumers perceive a price increase as larger, this does not affect the impact reputation has on perceived price fairness and purchase intentions.

The study results indicate that it pays off for companies to have a favorable reputation. We could show that a favorable reputation enables firms to command higher prices without having to face the negative reactions a badly-reputed company would have to fear. Although pricing has to be modified very carefully, a company with a good reputation has more leeway in raising prices. This also means that marketers need not only investigate “hard figures” when reconsidering prices but also the soft factors such as reputation of the company and emotional reactions of their customers. Subjective price perceptions are important to know in order to correctly forecast consumer reactions to price variations. It might be tempting to maximize the short-term profits resulting from exploiting a favorable reputation, but the study results indicate that this would be short-sighted in terms of ensuing negative customer reactions. Managers should take the company’s reputation into account before establishing price increases which requires measuring corporate reputation before and after price variations. As reputation is notoriously hard to measure, this raises the bar for managers in charge of managing the company’s reputation and corporate profitability for long-term success.
Price increases that affect broad segments of the population as for instance in travel and mobility, food, insurance, or health care are widely discussed by the media and the people. Here, favorable corporate reputation can help reducing negative repercussions. In the long term however, reputation is also likely to be affected by pricing decisions, calling for a careful approach in communicating price changes. Here, it is important to note that the reason consumers perceive as underlying the price increase has a strong impact on perceived price fairness. If consumers think that price increases serve profit maximization goals, they find that unfair. However, our study implies that the motive for the price increase is affected by corporate reputation granting “good” companies the benefit of the doubt when increasing their prices.

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CONDITIONAL PRICE PROMOTIONS: THE EFFECT OF PROMOTIONAL PRICE ON CONSUMERS’ WILLINGNESS TO PAY

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SUMMARY

Research on price promotions has shown that when a free product is bundled together with another product, consumers reduce their willingness to pay for the free product when it is not being offered for free (Kamins, Folkes, and Fedorikhin 2009; Raghubir 2004). For example, when a pizzeria offers free bread sticks with the purchase of a pizza, consumers expect to pay less for bread sticks on a subsequent visit when the promotion is no longer in effect. Raghubir (2004) reasoned that when a product is offered as a free gift, consumers infer that the cost of the product is low and lower their willingness to pay for it when it is not in promotion.

In the current research, we examine promotions in which a product is offered for a low price – but not free – with the purchase of another product. If a free offer reduces consumers’ reservation price through inferences regarding the cost of the product, it follows that the impact of a promotion that allows a purchase for a reduced price should be a function of the magnitude of the promoted price. In this sense, free, or zero price, would be an extreme example of the application of this inference. In other words, compared to a situation in which a product is promoted for free, when a product is promoted for a price greater than zero, consumers should infer a higher cost. In turn, we should expect that this type of promotion would have a smaller impact on consumers’ willingness to pay on subsequent purchases.

Research on several aspects of human psychology has shown that zero is used in a qualitatively different manner than other numbers, often causing discontinuity in the transition from small numbers to zero (Heyman and Ariely 2004; Kahneman and Tversky 1979; Shampianier, Mazar, and Ariely 2007). This literature suggests that zero is a special number and the effect of price promotions on subsequent purchase occasions may not be a direct function of magnitude of the discount. We propose that the value of the required purchase is used as an anchor to estimate the price of a product, but a low price will. In this case, the reservation price of a free product will have only one anchor (value of the required purchase), while the reservation price of a product promoted for a value greater than zero will have both the required purchase and the promoted price as anchors.

Our reasoning leads to an interesting effect: a low price can lower reservation prices further than a zero price. Referring back to our opening example, we expect that a promotion that offers bread sticks for free with the purchase of a pizza will have a smaller impact on reducing consumers’ willingness to pay for bread sticks on subsequent visits, than one that offers bread sticks for a low price, like one dollar with the purchase of a pizza. Consistent with an anchoring mechanism, as the promoted price increases, reservation prices also increase and eventually are superior to those of the free condition. Therefore, we predict a discontinuity in the relationship between promoted product price and reservation price at zero, such that a zero price will lead to higher reservation prices than a low price.

Our hypothesis was tested in two studies. In our first study, 164 participants answered a series of questions about two promotional advertisements. Participants were randomly assigned to one of four conditions: control, free, 50 cents and 2 dollars. Thus, the between-subject manipulation was the type of promotion (if any) that was offered with the purchase of a product. In the control condition, participants were informed about the price of a product (pizza and tomato sauce), but no mention was made to the price of the promoted product (bread sticks and spaghetti). For both products, we found that participants in the free condition were willing to pay more for the promoted products when they were not in promotion than participants in the 50 cents condition. For bread sticks, even a two-dollar price lead to lower WTP than a free price. For both products, expected quality was not affected by the price manipulation.

In study 2, we manipulated two factors: type of promotion (free vs. low price) and price of the required purchase (medium vs. high). Participants were randomly assigned to four conditions and asked to consider that they were looking for a gift for a friend who loved wine and to state how much they would be willing to pay for a wine
thermometer. Participants also answered a few questions related to their expectations of quality. We found main effects for required purchase price and promotion type. More importantly, we found a significant interaction, as the WTP of a free product was significantly affected by the price of the main purchase, whereas the WTP of a low price product was not. Together, these studies offer support for our hypothesis.

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DIVIDE OR UNITE? CONSUMERS’ EVALUATIONS OF PARTITIONED AND ALL-INCLUSIVE PRICING STRATEGIES

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SUMMARY

When setting a price for a new or existing product, pricing managers have two strategic options at hand: They can either choose a partitioned pricing strategy or opt for all-inclusive pricing. In a partitioned pricing strategy a total price of a product or service is partitioned in two or more mandatory components. For example, an online retailer for electronic equipment may quote the price of an external hard drive (e.g., $36) and an additional charge for shipping and handling (e.g., $7.95). However, the online retailer could also display one total price for the hard drive which includes shipping and handling (e.g., $43.95). We refer to this pricing strategy as all-inclusive pricing.

According to standard economic theory, consumers should be indifferent when choosing between these two offerings with an identical total price ($43.95 in our example) no matter whether the price is presented as a partitioned or an all-inclusive price. However, previous literature obtained conflicting results: While one stream favors partitioned pricing another stream of studies suggests that the implementation of an all-inclusive pricing is more beneficial for the firm.

This leaves the ultimate question unanswered, which pricing strategy to choose in order to maximize consumer demand and profitability. In our study, we attempt to answer this question. More specifically, we assess whether partitioned or all-inclusive pricing with total costs being equal leads to higher aggregate demand. We examine this question among four distinct product categories in a large scale field experiment among 1,408 consumers. We further investigate the role of the existing pricing strategy which may serve as an external reference price to the consumers. For this purpose, we create for each product a scenario where all-inclusive pricing is followed by price partitioning and a second scenario where price partitioning is followed by all-inclusive pricing (i.e., a between-subjects design). We further include and analyze the effect of selected contingency variables such as perceived fairness on consumers’ evaluations of the two pricing strategies under study.

Our results show that consumers are indifferent between partitioned pricing and all-inclusive pricing as long as they have no reference pricing strategy in mind. That is, in the aggregate across all four product categories consumer demand does not significantly differ between partitioned and all-inclusive prices. This result changes, however, once consumers are exposed to a reference pricing strategy prior to evaluating the actual pricing strategy under study. In particular, if consumers’ are first exposed to an all-inclusive pricing, we find an increase in consumers’ purchase intention when switching to a partitioned pricing. If consumers are, however, first exposed to a partitioned pricing, we find a decrease in consumers’ purchase intention when switching to an all-inclusive pricing. All in all, our results show a significantly higher purchase intention for price partitioning compared to all-inclusive pricing in the reference price conditions. This finding is robust across the different product categories (hedonic and utilitarian products) and different price levels (high price and low price products) studied. We further find that the differences between partitioned and all-inclusive pricing can be attributed to consumers’ fairness perceptions of the respective pricing strategy.

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PRICE UNFAIRNESS AND SPILLOVER OF BLAME

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SUMMARY

Past literature has assumed that consumers implicate only sellers for charging them unfair prices (Campbell 2007; Xia et al. 2004), Fairness literature focused only on the fairness of prices or fairness of events (i.e., the situation is unfair or unacceptable) without focusing on a channel member that causes the unfairness. The implicit assumption is that the seller would be affected from these unfairness perceptions hence the behavioral intentions toward only the seller were measured in most of the studies (e.g., Blodgett et al. 1997).

Unfair events evoke emotions such as anger. Fairness theory (Folger and Cropanzano 2001) posits that when people face an unfair situation, they usually blame someone for their mistreatment. Fairness theory employs responsibility as the guide for blaming someone for an unfair event. More often than not, more than one actor may be perceived as responsible for an unfair situation, causing blame to spillover from sellers to other channel members. The blame spills over when the detrimental actions of a seller may be the result of inactions of another channel member. This perception takes precedence specifically when another member has the authority to restrict or prevent the damaging actions of a seller. Fairness theory (Folger and Cropanzano 2001) explains the spillover of blame by relying on a concept called sin of omission, which occurs when an entity with the proper authority does not act to prevent a negative outcome. Fairness theory explains how people blame someone for an unfair event based on counterfactual thinking. The fairness theory argues that people answer three questions to assign blame: “would have,” “could have,” and “should have” done. We tested our hypotheses in a hypothetical baseball ticket purchase situation online. For instance, the customer may answer these questions to assign blame to an auction website as follows: The customer would have been in a better situation if the auction website had enforced the procedures. The auction website could have enforced the procedures in a number of ways, such as, by withholding the money from the seller, by not allowing the seller to change the procedures, or by banning questionable sellers from trading. The auction website should have enforced the procedures because it is receiving a commission for its services. Our main research question is whether blame spills over from the seller to other channel members.

To test our hypotheses, we employed a 2 (Price discrepancy: Low, High) X 2 (Procedural fairness: Low, High) X 2 (Interpersonal fairness: Low, High) experimental design. Ninety-one undergraduate students were assigned to one of the eight conditions randomly. The respondents read scenarios where there was a low (high) price discrepancy between the price they paid and that the person sitting next to them at the game paid, the procedures of the online auction were violated (followed), and where the scalper treated them courteously (rudely). Then the respondents answered a questionnaire that includes the dependent variables and the manipulation checks.

We conducted five ANOVAs for the dependent variables: Blame toward the team, the scalper, other customers, themselves, and auction website. We found that procedural unfairness causes the respondents to blame the scalpers and themselves; interpersonal mistreatment causes customers to blame the scalper; and price discrepancy and interpersonal treatment jointly determine the blame toward the auction website. When customers experienced a low price discrepancy, they blamed the auction website more when they were treated with respect than when they were treated rudely. However, when customers experienced a high price discrepancy, they blamed the auction website more when they were treated rudely than when they were treated with respect. The three-way interaction was significant in predicting blame toward respondents themselves. When respondents were treated rudely and experienced a high price discrepancy, they blamed themselves at similar levels regardless of whether the procedures were adhered to. However, when respondents were treated rudely, experienced a low price discrepancy, they blamed themselves more when the procedures were followed than when the procedures were not adhered to.

Our findings support the hypothesis that unfair encounters with a seller may lead customers to blame other channel members such as the facilitator (auction website).
This finding may help company managers to pay attention to unfair situations in the distribution channel to avoid being implicated even though another channel member commits the detrimental behavior. In conclusion, this research shows that not only the seller but also other channel members may be blamed as a result of an unfair situation caused by the seller. References are available upon request.

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WHEN SHOULD RETAILERS OFFER GREATER CONTROL TO CONSUMERS?

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SUMMARY

Imagine Susan visiting an insurance company web site. This website gives her the ability to compare the rates of the sponsoring company against those of its competitors. Susan is pleased by the control which the website has given her, and decides to purchase insurance from the sponsoring retailer even though it isn’t the least expensive. Now imagine Robin visiting the same web site. Robin is confused by the various rates shown on the site. Robin would prefer to see only a few options, all of these choices only serve to confuse her. She is displeased by the control which the offering retailer has given her, and decides to purchase insurance from a competitor, which has a simpler site. In both cases, greater control was offered to customers but in Susan’s case it led to a positive evaluation while in Robin’s case, a negative evaluation. When should a retailer offer greater or lesser control to customers?

This study seeks to identify the circumstances under which a retailer’s strategy of giving greater control to consumers (i.e., consumer empowerment; Harrison, Waite, and Hunter 2006; Hunter and Garnefeld 2008; Wathieu et al. 2002) leads to a more positive evaluation of that retailer’s offerings. Retailers can offer consumers greater control in a number of ways including letting them specify product features, access competitors’ prices online, or communicate with other consumers (Hunter, Harrison, and Waite 2006; Wathieu et al. 2002). But when would it benefit retailers to do so?

A number of factors are proposed to influence the relationship between increasing control and important marketing outcomes. Wathieu et al. (2002) suggest that three specific elements lead to positive consumer experiences when provided with greater control. These elements include (1) control of choice set composition, so that the consumer is not just given more alternatives which can lead to problems with self control, excessive regret or overload, but given flexibility in the choice context; (2) progress cues so that a consumer can repeatedly assess their progress in the choice task; this may be particularly important given that more control implies an extended choice process; and (3) information about other consumers; this may be particularly important because input from other consumers should enhance the experience of control in a relatively complex choice process. Based on this reasoning, four hypotheses are offered:

H1: The flexibility available in choice set composition will have a positive relationship with satisfaction and loyalty with a brand.

H2: The presence of progress cues will have a positive relationship with satisfaction and loyalty with a brand.

H3: Providing information from other consumers will have a positive relationship with satisfaction and loyalty with a brand.

H4: Flexibility in choice set composition, the presence of progress cues, and the provision of information from other consumers will interactively demonstrate a positive relationship with satisfaction and loyalty with a brand.

The aforementioned variables can be influenced by a retailer, but other variables that are specific to the customer, and thus less under the control of the retailer, should also impact the relationship between greater control and important marketing outcomes. The variables include: (1) individual differences in desire for control, which suggest some consumers may be more desirous of control relative to others (Burger 1979; Hunter, Harrison, and Waite 2006), and such consumers should have more positive evaluations under conditions of greater control and, (2) consumer involvement with the product; some research suggests that those involved with a product are more motivated to process information about that product (Celsi and Olson 1988), thus they should be in a better position to deal with the more complex choice situations
associated with increasing control. Therefore, two additional hypotheses are offered:

H5: Desire for control will enhance the relationship between greater control and (a) satisfaction with a brand and (b) loyalty with a brand.

H6: Involvement with the product will enhance the relationship between greater control and (a) satisfaction with a brand and (b) loyalty with a brand.

Fuchs, Prandelli, and Schreier (2010) find that increasing feelings of ownership (i.e., psychological ownership) mediates the relationship between consumer empowerment and willingness to pay and intention to purchase. They make this finding in a context where consumers are involved in new product development, but it is arguable to what degree other means of giving consumers greater control (e.g., checking competitors’ prices at a retailer’s website) will be mediated by psychological ownership. Thus, a final hypothesis is offered:

H7: The degree to which psychological ownership will mediate the relationship between greater control and (a) satisfaction and (b) loyalty will be lesser for control over processes relative to product control strategies.

The seven hypotheses are tested using a 2 (choice set flexibility) X 2 (progress cues) X 2 (access to consumer information) online experiment. Hypotheses one through four were analyzed using MANOVA, while hypotheses five through seven were examined using regression analysis. Only seventy-nine subjects successfully completed the experiment, limiting the usefulness of the results of this early study. However results offer support for some of the hypotheses, suggesting that further research is necessary to determine the strength of the findings. Such findings are important in helping retailers determine when giving more control to consumers is beneficial to the retailer. References are available upon request.

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WHEN RECEIVING A DISCOUNT SEEMS TO BE A LOSS: FAIRNESS IN AMBIGUOUS PRICE PROMOTIONS

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SUMMARY

This study explores cases of unfair price reductions in the form of discounts; we are intrigued by the notion that a discount can be considered unfair. Historically, there has been little real world applicability for such a study: Assuming that the regular price is not inflated and is a fair price to start with, a discount is in the consumer’s advantage and should be considered fair. In recent years, however, retailers have introduced variable, ambiguous discounts using “scratch cards,” similar to lottery cards. Unlike a gamble, SAS participants face no risk of losing money. Still, they may perceive a loss in the form of a lost discount (receiving less than the full amount) and have negative perceptions of the deal while still getting a discount or, at worst, paying the regular price. Due to the variable nature of their price outcomes, these scratch-and-save (SAS) discounts serve as tools for examining consumer fairness perceptions regarding legitimate retail pricing concerns.

In SAS promotions, a reference discount provides a basis for evaluating the outcome of the deal. It also serves as a mechanism for prompting inequality: It should prompt unfairness judgments by providing expectations and by establishing an assumed discount received by other parties, to which consumers can compare their own results. Much past research has been conducted in order to understand reference prices, but this study focuses on consumers’ reactions, regarding fairness, to deviations from reference discounts.

With regards to pricing alone, a change in price should intuitively be fair so long as the price is not increased. However, consumers may still perceive the deal as unfair if they believe the seller has taken advantage of them. Furthermore, past research finds that prices presenting the retraction of a bonus or deal, in order to return to a reference price, are regarded as fair; an automobile seller who ceases to give a $200 discount is seen to be acting fairly. If price reductions are fair and the retraction of a discount is also fair, it seems intuitive that a SAS discount should be fair as well. The SAS discount, however, introduces a savings range that includes a reference discount, and the reference discount possibly supersedes the reference price as the fair price. In that case, a worse-than-expected deal would be considered a loss. Effectively, consumers would perceive the price to be unfair while still receiving a discount. Finally, past research also demonstrates that consumers perceive fairness with a preferential or egocentric motive: consumers who are prompted to consider social fairness make large concessions in price negotiation, but without prompting for fairness, they pursue only the most personally advantageous price.

Across two studies, our research makes three important contributions. First, we find that, contrary to notions of equality commonly associated with fairness, consumers perceive the fairness of the discounts in an egocentric manner. A result poorer than the reference discount is reported as unfair, even when consumers still receive a deal. Enjoyment is also measured, as a comparison to fairness: Objectively, a poor outcome could be unenjoyable, but still be fair. It would be poorer than expected, but still adhere to the rules for the promotion. Therefore, we measure consumers’ enjoyment of the deal; the strong similarity between fairness and enjoyment suggests further evidence of egocentric fairness.

The second contribution is the confirmation of reference discounts. Given the historical rarity of variable discounts and their current prevalence, marketers can benefit from the observed existence of reference discounts, which are expectations separate from expectations of price. Additionally, the use of reference discounts along with different levels of inequality (such as 5% above or below the average, or 10% above or below the average) allowed us to observe severities of fairness perceptions, again, reported in a subjective manner. Notably, the diminished gain from beneficial outcomes is more severe than prospect theory describes. Whereas the loss function is steeper than the gain function according to prospect theory, our results show that the loss function is steep, and the gain function levels off. Outcomes are less fair as they become smaller than the average discount, but the fairness of progressively greater benefits to the consumer does not increase. The sharply diminishing gains from a beneficial outcome, then, are more egocentric than they are a manifestation of prospect theory.
Third, we uncover a peculiar consumer post-purchase behavior intention, or lack thereof. Although we manipulated the level of discount, and participants indicated unfair outcomes in cases of lower than expected discounts, consumers also reported no undesirable post-purchase behavior intentions. Participants exhibit egocentric fairness assessments by regarding lower than expected discounts to be unfair and unenjoyable, despite never suffering a loss; however, the outcome is shown to have no significant effect on post-purchase intentions. This unlikely outcome suggests a divorce between unfairness perception and behavior in ambiguous discounts.

Perhaps this result explains why retailers frequently use SAS type promotions, although they are likely to disappoint their consumers. Given a limited promotion budget, retailers are less likely to meet consumers’ discount expectations, yet the detrimental effects of the poor discount on perceived fairness and enjoyment are seemingly not severe enough to warrant undesirable post-purchase behavior. Despite the egocentric reports of fairness discussed earlier, consumers may interpret the SAS format as a game to an extent that their post-purchase intentions are more forgiving of a perceivably unfair outcome than they would be of product or service failures.

While some of the results delivered by these studies may appear intuitive, this paper establishes and rationalizes observations of internal reference discounts. With a beginning understanding of reference discounts in place, including consumers’ fairness and enjoyment responses, further work can be done to elaborate on these findings. Gathering consumers’ thoughts on how they believe results to be generated, and whether or not a procedure (instead of the outcome) of random results is fair, would make for a useful follow-up study. References for this study can be provided upon request.

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THE EFFECTS OF RETAILER SHRM PRACTICES UPON STORE SERVICE CLIMATE AND PERFORMANCE: A MULTILEVEL SEM EXAMINATION

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SUMMARY
In today’s economy, many businesses are focused upon improving and maintaining excellent customer service (Berry 1995). The interest in boosting service quality rests on the premise that customers who hold positive perceptions of an organization’s service quality will demonstrate greater loyalty to firm offerings, leading to improved organizational performance. In particular, research has shown that the ability of boundary-spanning frontline employees to deliver high quality service is positively associated with the favorability of customer evaluations of service encounters, higher satisfaction scores, loyalty and increased purchases (e.g., Borucki and Burke 1999). One area of keen interest has been the notion of service climate, 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 et al. 1998, p. 151). Service climate theory posits that to the extent employees perceive customer service is important to management, employee perceptions of service climate will be stronger. In turn, stronger climates for service should lead to more positive customer experiences.

Prior research on service climate has proceeded from both individual and organization-level analysis. At the individual level of analysis, researchers have reported relationships between employees’ idiosyncratic perceptions of their work environment and outcomes such as job satisfaction (Schneider and Snyder 1975), citizenship behavior (Moorman 1991), and job performance (Pritchard and Karasick 1973). When aggregated to the work-unit level, climate perceptions have been used to predict outcomes such as satisfaction, service quality and improved financial performance (Schneider and Bowen 1985). While researchers from each stream have made significant contributions, neither a micro- nor macro-approach alone can adequately account for service performance differences. Examining one level at a time precludes knowing whether factors at one level remain important in explaining performance after accounting for factors at the other. In addition, the effects of organizational characteristics upon climate perceptions have not received sufficient attention (e.g., Hackman 1992).

Conceptual Model
Building upon earlier work (e.g., Ferris et al. 1998), Bowen and Ostroff (2004) proposed that climate is a critical mediating construct in exploring relationships between HRM practices and organizational performance. In this multilevel study, we advance and test a series of hypotheses that advance their framework, providing greater clarity regarding the role of store managers in promoting psychological (i.e., individual) and work-unit climates. We propose that the effects of store manager commitment upon FLE service climate is mediated by FLE perceptions of retailer HRM practices. Although prior research largely suggests the effects of service climate upon financial performance are mediated by customer evaluations of the service experience, we also suggest that climate should influence financial performance over and above the effects of customer perceived service quality. Finally, we examine the moderating effect of store manager tenure upon the relationship between individuals’ perceptions of retailer strategic HRM practices and psychological climate for service.

Results
We assessed the soundness of our hypothesized model through a multilevel structural equation model. This approach offers many advantages, allowing multilevel researchers to: (a) account for the effects of measurement error at the within and between levels; (b) account for sampling error at the between level, and; (c) model complex nomological relationships at each level. Application of the multilevel SEM framework enabled us to take full advantage of our multisource data drawn from a national retailer, which included survey data from store managers, FLEs, and customers as well as objective store performance data.
We found broad support for most hypothesized relationships. The effects of store manager commitment upon service climate were fully mediated by FLE perceptions pertaining to store training programs, use of internal labor markets, and employee voice. In addition, service climate was positively related to customer perceptions of service quality as well as improvement in same store sales over the ensuing one year period, demonstrating that service climate effects financial performance in ways that may not be perceived by store customers. Finally, in assessing our proposed cross-level interaction, we find that the relationship between training and climate perceptions is in fact stronger for stores with more experienced managers. However, no significant moderation was found for use of internal labor markets or employee voice.

**Discussion**

This study makes several key theoretical, managerial, and methodological contributions to the climate for service literature. Our conceptual model extends earlier frameworks, linking store management characteristics to the establishment of stronger work-unit climates through the proper implementation of strategic HRM practices. Within the retail setting, a key challenge to establishing strong service climates is the high turnover rate amongst FLEs. Applying a novel analytic approach, our results show retailers may overcome such challenges through efforts to build stronger commitment amongst store managers. In addition, we show that such efforts may be rewarded by significant gains in same store sales. References are available upon request.

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AN EMPIRICAL INVESTIGATION ON CUSTOMER EVALUATION OF INDIVIDUAL RETAIL CHANNELS AND THEIR INTEGRATION IN A MULTICHANNEL SYSTEM

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SUMMARY

Multichannel retailing has grown tremendously during last decade, and nowadays customers are accustomed to use several channels when making a purchase. Therefore, both in retail practice and research, simultaneous use of multiple channels has attracted more and more attention (Konus, Verhoef, and Neslin 2008; Neslin and Shankar 2009). However, simultaneous use is only the first step in creating a customer-centric multichannel system that demands channel synergies rather than parallel retail formats (McGoldrick and Collins 2007). At issue is therefore not the degree of integration undertaken by a firm but rather the customer’s perception of the extent of integration and how the channels allow a complementary and differentiated use of the multichannel system in purchase processes (Verhoef, Neslin, and Vroomen 2007). As such, cross-channel use of multichannel systems should offer customers more uses and new uses of retail channels than one-channel systems (Berman and Thelen 2004; Verhagen and van Dolen 2009). Therefore, we expect that evaluation of individual retail channels and perception of cross-channel synergies as a result of channel integration will have positive effects on psychographic variables, such as image or trust. Thus, a positive perception of individual retail channels as well as of an integrated channel portfolio should lead to favorable image of the retailer and should increase trust in the retailer. Furthermore, we suggest that image and trust are antecedents for loyalty formation and a prerequisite for customers to utilize the individual channels as well as to combine various channels according to their individual preferences and needs.

In our study, an empirical survey using an online questionnaire was devised to target multichannel shoppers. We conducted an undirected addressing of participants on several independent internet pages and newsletters, to obtain a wide range of diverse target groups. Besides, a variety of sectors (apparel, books, groceries, and cosmetics) were covered and multichannel systems with a range of differing characteristics were chosen. A sample of N = 981 customers who were familiar with the multichannel system of a retailer, i.e., at least three channel types (retail outlets, traditional catalogues and internet shops), were used in the data analysis.

We measured the evaluation of the individual channels of the multichannel system and the dimension of the evaluation of the perceived integration of the channels within the multichannel system separately for outlets, catalogues and internet shops. As dimensions of the retail mix, merchandise selection, price/value relationship, customer advice, information, design of the shopping environment, general services, accessibility of the channels, and opening times were regarded (see Pan and Zinkhan 2006). The overall evaluation of the individual retail channels was conceptualized as a formative construct based on customer’s perception by calculating an index (weighted average of channel evaluations). We conceptualized the evaluation of perceived integration of the channels using the adequacy-importance model. Because of the formative nature, the complexity of this construct, and the difficulty of collecting direct evaluations of integration processes in a multichannel system, the two-component perspective of this model (“objective impression,” “importance of attribute”) is appropriate to evaluate the perceived channel-integration (Eastlick and Feinberg 1999). Customer’s likeability, i.e., the sympathy for a retailer (Keller 1998), and appreciation of a multichannel system were chosen as indicators of image (Dick and Basu 1994; de Ruyter, Wetzels, and Kleijnen 2001). Selnes (1998) suggests an one-dimensional global trust-assessment as the most reliable way to measure trust. Following this view, in our analysis trust was measured as a reflective approach using a direct assessment of customer’s trust relating to each individual channel and the multichannel system as a whole (Sirdeshmukh, Singh, and Sabol 2002). Customer loyalty to the multichannel system was measured applying a formative approach. The intention to recommend a channel to family and friends was used as the indicator of loyalty (Andreassen and Lanseng 1997; Chaudhuri 1999). We collected loyalty toward each individual channel of the multichannel systems. Customer’s willingness of a differentiated use of a multichannel system, i.e., browsing and buying in different channels of a retailer’s multichannel system was measured by using a formative approach. We employed
one item to measure the participants’ actual channel-using behavior, which includes the use/purchase frequency in each available channel, e.g., how often a customer uses a catalogue for buying or just for browsing. A second item measured the cross-channel usage in terms of using one channel to collect information but another one to purchase.

To test the hypotheses of our model we conducted Partial Least Squares (PLS) regression. The $r^2$ values of trust ($r^2 = .474$), image ($r^2 = .387$), loyalty ($r^2 = .206$), and differentiated use of multichannel system ($r^2 = .291$) as the Stone-Geisser-Criterion which assesses the predictive quality of the model (Q$^2$ values: trust = .326, image = .387, loyalty = .151, differentiated use of multichannel system = .291) indicate a satisfactorily model specification (Chin 1998). The estimated path coefficients were all positive and significant. In particular, the findings show a relatively strong impact of customer’s evaluation of individual channels on retailer’s image ($\beta = .537$) as well as a smaller effect on customer’s trust ($\beta = .277$) in the retailer. In contrary, customer’s evaluation of perceived channel integration has a much stronger positive effect on trust ($\beta = .319$) toward the retailer compared to the impact of this construct on the retailer’s image ($\beta = .140$).

Overall, the results of our study indicate that linkages between retail channels positively affect customer loyalty (image $\rightarrow$ loyalty: $\beta = .402$; trust $\rightarrow$ loyalty: $\beta = .085$) and verify the importance of establishing a well-integrated – “seamless” – multichannel system. These findings show also the high relevance of a customer oriented and well-integrated multichannel strategy, as the positive effects of cognitive processes of trust and image formation have a direct positive effect on customer behavior (image $\rightarrow$ differentiated use of multichannel system: $\beta = .395$; trust $\rightarrow$ differentiated use of multichannel system: $\beta = .100$). Generally, the results of our study indicate that a retailer should have a strong focus on customers’ perception and evaluation of individual channels as well as on the perception of channel integration for an effective and efficient multichannel system. References are available upon request.

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THE INTERPLAY BETWEEN PSYCHOGRAPHIC AND SOCIO-DEMOGRAPHIC FACTORS ON CONSUMERS’ ATTITUDE TOWARD PRIVATE LABEL BRANDS

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SUMMARY

This paper investigates the interrelationships between various psychographics and socio-demographics for profiling private label consumers. Researchers agree that consumers in different stages of family life cycle make different shopping decisions based on their socio-demographics. Such differences are important to marketers because they influence consumers’ reactions to marketing strategies (Slama and Tashchian 1985). Extant research on private label brands has attempted to profile the private label brand consumers on a variety of psychographic variables. These include studies focusing on price and value consciousness (Ailawadi et al. 2001; Batra and Sinha 2000); quality perceptions (Richardson et al. 1996); brand and store loyalty (Ailawadi et al. 2008; Burton et al. 1998); deal proneness (Ailawadi et al. 2001; Burton et al. 1998); product involvement, search and risk assessment (Batra and Sinha 2000) and last but not the least, socio-demographic characteristics (Richardson et al. 1994). While researchers have noted the importance of socio-demographic characteristics (Batra and Sinha 2000; Burton et al. 1998), the concept only gets a fleeting mention in the overall methodology, analysis and interpretation. On the other hand, while psychographics are undeniably important, many consumer products and services companies primarily, or even completely, focus on socio-demographics (Baltas 2003). Socio-demographics are important to managers because they are one of the most readily available data, and can also be applied to segmentation issues with relative ease in comparison to other segmentation variables (Diamantopolous et al. 2003). Despite the importance of the socio-demographic factors in overall managerial decision-making (Baltas 2003), most academic studies appear to offer an ambiguous value to socio-demographic characteristics for segmenting and targeting private label brand consumers (Kalyanam and Putler 1997).

Our framework proposes direct influence of six psychographics (General deal proneness; Price related deal proneness; End-of-Isle displays; Impulsiveness; Smart-shopper self perceptions: Brand loyalty) on the attitude toward private label brands. We also measure the direct influence of socio-demographics on attitude toward private label brands. The key focus of our model is to investigate the interplay between psychographics and socio-demographic factors mentioned above. The study uses established scales for the above-mentioned psychographics. A self-administered structured questionnaire was used with a final usable sample of 296. Respondents were recruited using a mall-intercept at three different well-known supermarkets.

With regards to general deal proneness, our study reveals the attractiveness of deals for high income consumers. This finding is contrary to prevailing views about consumer demographics and deal proneness in the extant literature (see Richardson, Jain, and Dick 1996) and actually reflects the current market trends (Nielsen 2010). Our study makes an important contribution to the literature by highlighting the changing relationship between the affluent consumer groups and their attitude toward private label brands. Thereby, the study corroborates the business evidence on the growing acceptance of private label brands across a wide spectrum of consumer socio-demographic segments. The non-significant effect of price related deals appear to indicate that if private label brands are available on a price-related deal such as a discount, it may actually be a turn-off for customers. There seems to be a limit to consumers’ willingness to go for cheaper alternatives with doubts about the quality creeping in and influencing the purchase intentions. Given the growing competition for shelf space between private label and national brands, visual prominence achieved through end-of-aisle display in contemporary retailing practice is becoming increasingly important (Delise 2010). However, in academic research, this phenomenon has received negligible attention. We find that end-of-aisle displays are seen as one of the strongest predictors of attitude toward private label brands. The research findings in our study also reveal the significance of end-of-aisle displays across the demographic characteristics of age, income and education.

Our findings relating to impulsiveness and socio-demographics suggest that low income and low education consumers are highly impulsive. This is consistent with the temporal discounting theory (Green et al. 1996) where lower income and low education consumers demonstrated
a greater degree of temporal discounting. Our findings suggest that smart-shoppers are less impulsive, thereby also empirically supporting the findings of Burton et al. (1998). From the socio-demographic perspective, we find that older consumers are more savvy shoppers. The high income and high education shoppers perceive themselves to be smart-shoppers as opposed to low income and low education shoppers. The study findings also capture the changing nature of consumer shopping basket wherein the loyalty is toward what provides the best value for money. With regards to socio-demographic groups, significantly strong relationship between brand loyalty and attitude toward the private label brands was observed among old and young consumers and consumers with high income and high education. Perhaps this is a reflection of the current economic conditions where consumers are seeking value and shedding their social risk inhibitions in the selection of private label brands. The use of private label brands appears to be more of a “badge of honor” in volatile economic conditions, as consumers are consciously moving away from status seeking conspicuous consumption of branded goods.

The findings highlight the need for private labels to move beyond price differentiation and move up the value chain. The study also provides insights relating to display strategies at store level, as well as avenues for psychodemographic targeting. The results show that the socio-demographic variables act as key significant moderators. In this regard, our study makes a conceptual, substantive and managerial contribution to the literature on private label brands. Conceptually, we build on and extend the previous work by focusing on the interplay between the psychographics and socio-demographics. Managerially, we suggest the cautious use of price-deals, vital importance of display strategies targeted at specific customer groups, and that retailers stand to gain much through psycho-demographic based targeting strategies. References are available upon request.

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IMPULSIVE BUYING: A QUANTITATIVE SYNTHESIS OF THE LITERATURE

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SUMMARY

Impulse buying is defined as a powerful and persistent urge to buy something immediately (Rook 1987). There is 50+ years of impulse buying research yet no quantitative summary of the literature exists. This study provides a quantitative synthesis of 55 impulse buying studies and examines the relative effects of key antecedents on impulse buying using the Kruskal-Wallis non-parametric procedure. While many researchers have developed various models pertaining to different aspects of impulse buying behavior, none have developed a comprehensive framework for the entire body of work. Thus, we propose a framework that incorporates independent impulse buying variables into three categories: dispositional, situational, and sociodemographics.

In addition, the literature review revealed that three primary constructs have been used to measure impulse buying and individual traits: (1) self-reported measures of impulse buying, (2) observed impulse buying behavior, and (3) impulse buying tendency. Some studies used only one of these constructs to measure impulse buying while other studies opt to two or more constructs to assess impulse buying. Of the self-reported measures used for impulse buying, most are an adaption of Rook and Fisher (1995), Beatty and Ferrell (1998), or Puri (1993). In addition, the majority of impulse buying tendency measures used throughout the examined studies are an adaption of Rook and Fisher’s (1995) scale. For the purposes of this study, the measures have been aggregated to focus on two distinct dependent measures: (1) impulse buying tendency (IBT) and (2) impulse buying (IB).

First, it is clear that considerable effort has been exerted to pinpoint IBT and what antecedents have the most influence on it. When comparing the impact of both situational and dispositional variables on IBT using mean rank, past research has found dispositional variables to have a more consistent impact than situational variables. However, there are twice as many dispositional effects than situational effects reported in the studies included in this meta-analysis. Hence, research appears to have focused much more on the influence of dispositional variables on IBT in comparison to situational variables.

An interesting finding for IBT is that a substantial number of the situational effects stem from positive social influence which our results indicate is also the most influential on impulse buying. The results appear to be consistent with the intuition that if someone exhibits a high level of IBT then the situational influence of others has a greater impact than these influences would exert on someone with low levels of IBT.

For IBT, the effects for interactions between situational and dispositional variables show the greatest mean rank but results suggest more research is needed on these interactions given that only three interaction effects were reported in the studies included in this meta-analysis.

Next, the culmination of research using IB as the dependent variable offers a clearer picture of what researchers have discovered. Antecedents of IB have been investigated at almost twice the rate of IBT. The results for IB indicate that the reported interactions between situational and dispositional variables have the greatest explanatory value. Clearly, research in the IB field has unequivocally demonstrated that specific situations coupled with chronic IB traits produce the most likely instances of IB. Retail managers undoubtedly can benefit from this summary by understanding if they can influence the situation surrounding a purchase, they can have the greatest impact on those consumers who are predisposed to IB.

For the main effects on IB, the weighted correlations are equal for both situational and dispositional variables. However, dispositional variables appear to have slightly less variation in results which is reflected in the higher mean ranking. The studies used in the meta-analysis indicate that dispositional variables: IBT, motivational influences, and psychographics are primary contributors to IB behavior. It should be noted that the dispositional variable IBT discussed previously as a dependent variable is often incorporated as a determinant of IB. Our analysis indicates that it is the most influential of all dispositional variables but its influence on IB is exceeded by both positive social influence and negative affect. This meta-analysis confirms the research on IBT and its ability to explain dispositional inclinations toward IB. Situational
variables such as positive social influence, negative affect, and hedonic purchase are the most substantial contributors to IB. However, the literature has largely ignored interactions between these variables. IB theory would suggest that peer influence accompanied by extreme positive or negative moods might have a compounding effect.

For both IBT and IB, sociodemographics play a smaller role in the overall picture. Factors such as gender, ethnicity, and age haven’t been shown to consistently explain much of IB behavior or tendencies. Based upon our findings it appears that dispositional or situational factors likely play greater roles as indicators of IB. References are available upon request.

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ARE LOYALTY PROGRAMS EFFECTIVE? THE ROLE OF CUSTOMER-COMPANY IDENTIFICATION

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SUMMARY

Customer loyalty programs are an important tool of customer relationship management and have been adopted in a wide variety of industries to develop customer relationships, provide more value to customers, and increase profitability. Membership in loyalty programs has increased dramatically in the past decade. Despite the popularity of loyalty programs, some scholars question the effectiveness of loyalty programs in terms of generating customer loyalty.

Extant research has identified economic and psychological mechanism to understand how to improve the effectiveness of loyalty programs. Despite these achievements in the literature, a better understanding of how customer loyalty programs build customer loyalty to the company is still needed. One is how loyalty programs work through sociological mechanism to increase customer loyalty. The other is how program loyalty relates to company loyalty beyond the program loyalty.

In this study, we investigate how sociological mechanism of loyalty programs (customer-company identification) works to enhance customer loyalty to a company. The results show that customer perceive benefits from a loyalty program can enhance customers’ loyalty to that program itself directly (program loyalty) and loyalty to the company indirectly (company loyalty). The findings also show that developing customer-company identification is an important path to transform program loyalty to company loyalty which can reduce the company latent financial risk.

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OPTIMIZING RETAIL ASSORTMENTS WHEN CUSTOMERS “SATISFICE”

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ABSTRACT

This paper develops a framework for selecting retail assortments that are tailored to individual preferences, recognizing that customers often “satisfice” in their choice behavior. A data set derived from conjoint analysis of the responses gathered via a web based shopping assistant is used to illustrate the methodology and to derive insights regarding the sensitivity of the results to various assumptions.

INTRODUCTION

Recent work has detailed many reasons why retail assortment planning is so difficult for retailers (e.g., Mantrala et al. 2009) and how an information processing perspective can determine when larger retail assortments benefit customers (Boyd and Bahn 2009). The wide variety of available products, combined with limited display space and open-to-buy budgets make this a particularly complex decision for department and specialty stores. A poor assortment choice can result in significant lost profit due to late season markdowns on unsold items or lost sales opportunities to consumers whose preferred items are not in the assortment.

Various customer characteristics further complicate this decision problem: (1) heterogeneous preferences, i.e., customers may differ significantly in their preferences for product attributes and brands; (2) customers may change their preferences or be willing to “satisfice,” i.e., select less than their most preferred product to avoid the cost of additional search and product comparison; and (3) sales of the current assortment provides little information regarding customer preferences for an alternative assortment.

This paper analyzes and compares methodologies for assortment selection that combine heterogeneous customer preferences with satisficing behavior. Heterogeneous customer preference information, which can be gathered via the Internet or other types of market surveys, is becoming increasingly available. For example, the test data set used in our study was obtained from responses from over 2200 consumers, which were recorded by an on-line shopping assistant. Individual customer utilities for product attributes were then derived from the responses by conjoint analysis. These utilities are used in this paper as inputs for mathematical programming algorithms to determine the optimal product assortment, subject to retailer constraints such as assortment size and brand representation.

Empirical studies, which are discussed in the literature review, suggest that customer utilities may be imperfect predictors of future choice behavior for a variety of reasons. Thus, it is important to consider how retail assortments should be chosen when customers satisfice, as opposed to optimize, in their product selections. This paper develops alternative methods for assortment selection by assuming that customers choose randomly among a subset of the available products that are satisfactory.

These methods are illustrated using the customer preference data for DVD players, which shows the importance of considering customer heterogeneity and identifies robust approaches for selecting retail assortments.

LITERATURE REVIEW

There has been considerable research dealing with building retail assortments; however, only a small portion of it focuses specifically on optimizing assortments based on individual customer choice models. Three streams of marketing literature related to the retail assortment selection problem are: (1) customer purchase decision models, (2) product substitution models; and (3) assortment optimization models.

Customer purchase decision models: There is a broad literature on models for customers’ purchase choices among retail products. [See, e.g., Roberts and Lattin (1997); Wu and Ragaswamy (2003) for papers with extensive literature reviews.] Two relevant features for retail assortment optimization are (1) customers tend to reduce the set of products under consideration according to a sequential process (2) customers’ utility estimates are imprecise, and may be updated over time as a result of obtaining new information. The multinomial logit (MNL) and nested MNL (McFadden 1986) are commonly used models for customer choice probabilities. These models allow responses to given assortments to be predicted and compared, although they generally do not provide methods for assortment optimization.
Further, empirical research focusing on the customer purchase behavior (Carpenter and Lehmann 1985; Emmelhainz, Stock, and Emmelhainz 1981) has shown that customers choose compromise products when there are limited utility differences (Bucklin and Srinivasan 1991) and may substitute to adjacent items (for instance the next larger size) in an assortment (Kok and Fisher 2007; Smith and Agrawal 2000). One explanation for this is that customers are unwilling to spend the time and effort it takes to understand the tradeoffs between the narrow distinctions that separate the products, instead they make a “satisficing” decision (Simon 1955; Shugan 1980).

Product Substitution: Recent research papers have developed methods for choosing both assortments and product inventories based on specific models for product substitution when certain products are not available; van Ryzin and Mahajan (1999) Smith and Agrawal (2000), Cachon et al. (2005), Kok and Fisher (2007), Kalyanam, Borle, and Boatwright (2007). Additional research has addressed the short and long term impact of assortment reduction on category sales (Sloot, Fok, and Verhoef 2006) and the effect of product assortment changes on customer retention (Borle et al. 2005). In these formulations, all customers are assumed to share a common probability distribution of product preferences, which leads to a uniform expected attractiveness ranking for products across all customers. These formulations do not incorporate specific heterogeneities in customer preferences, which had significant impacts in our data analysis.

Assortment Optimization Models: A number of assortment optimization models have been developed that are also related to our work. Cachon et al. (2005) consider retail assortment optimization using a multinomial logit (MNL) choice model together with different assumptions regarding the perceived benefit and cost for the consumer to continue shopping at other retailers. Consumers’ utilities for products are random in this formulation, but all consumers are assumed to share a common probability distribution of product preferences. Chong, et al. (2001) developed a hierarchical market model for retail assortment planning for repeat purchase items. Due to the complexity of the resulting objective function, their method for optimization is a local improvement heuristic. McIntyre and Miller (1999) also developed and tested a hierarchical purchase decision model for retail items, and optimized over a small number of test assortments by enumeration.

This paper differs substantially from previous approaches in several ways. First, we include heterogeneous preferences across a large number of distinct customers. This differs from homogeneous probabilistic choice models based on the MNL, in which all customers have the same expected utilities. Arbitrary discrete customer segments have been included in some of the manufacturer product line selection models discussed above, but the retail assortment selection problem that we consider is structurally different, due to our satisficing assumption and because the overall set of products available to the retailer is fixed. Our optimization problem has significantly fewer integer variables and constraints, which allows exact solutions to be obtained for large numbers of customers and products. Additional sensitivity results and insights are also obtained as a result of applying our optimization models to an actual data set of customer preferences.

MODELING CUSTOMER PREFERENCES

First, define the utility $U_{ij}$ the net utility of customer $i$ for product $j$.

Similar to Cachon et al. (2005) and Green and Krieger (1985) we treat price as a product attribute that can be incorporated into the utility. This seems appropriate at the time of the retail assortment decision. Most products come with a retail price suggested by the vendor (MSRP), which retailers often discount in a prescribed way according to their respective marketing strategies. Even when periodic product price promotions are used during the course of the selling season, a single estimated average selling price is typically used by retailers for planning purposes at the time of assortment selection.

For our data set, product utilities $\{U_{ij}\}$ were derived from conjoint analysis of consumer responses to an interactive web survey of preferences for product attributes, but other methods of utility assessment could be used as well. Product utilities for each customer were then divided by the customer’s maximum utility across all the products available in the market. This defines a matrix $S$ of product preference levels by customer type

$$S_{ij} = \frac{U_{ij}}{\max_{k \in \Omega} U_{ik}}$$

where $i$ a customer type index $j, k =$ indices of particular products available in the market $\Omega =$ set of all products available in the market.

Clearly, these values satisfy $0 \leq S_{ij} \leq 1$, for all $i, j$. Satisficing is then based on a threshold model defined by

$$\theta_i = \text{the preference level such that customer type } i \text{ is “satisfied” by product } j \text{ if and only if } S_{ij} \geq \theta_i.$$
This definition gives rise to a 0,1 matrix \( X \) that specifies whether or not each product \( j \) is satisfactory for each customer \( i \), i.e.,

\[ X_{ij} = 1 \text{ if } S_{ij} \geq \theta_i \text{ and 0 otherwise, for all } i, j. \]

Thus, customer \( i \) will be “satisfied” by some product in the retailer’s assortment \( A \) if \( \max_{j \in A} X_{ij} = 1 \). Viewing the model structure in the context of search cost, this implies that customer type \( i \) will continue to search if the search cost is less than or equal to \( 1 - \theta_i \) percent of his or her maximum utility. Since the parameter \( \theta_i \) is difficult to estimate, our data analysis also tests the sensitivity of the optimal assortment to \( \theta_i \).

**SELECTING THE OPTIMAL ASSORTMENT**

This goal of this section is to derive insights regarding the following four questions:

- How do the optimal assortment, potential market coverage and gross profit change as a function of the customers’ willingness to accept substitute products?
- How much does the optimal assortment change as a function of the customers’ method of choosing among the satisfactory products?
- How much are unit sales and profit affected by the optimistic versus pessimistic expectations regarding the customers’ product choices?
- How much additional retailer selling effort can be justified to switch customers to the optimistic, i.e., best case, choice behavior?

Assortment selection methods for three alternative objectives will be developed.

**Maximizing Customer Coverage**

This method determines the assortment that satisfies the maximum number of customers, subject to the retailer’s constraints on assortment size, brand representation, budget, etc. To simplify notation, we assign equal weights to each customer type. If the weights are proportional to the number of customers of each type, this will maximize the total market potential of the assortment. The optimal assortment, subject to various constraints, can then be determined by integer programming.

Defining the following decision variables:

- \( y_j = 1 \) if product \( j \) is offered in the assortment and 0 otherwise;
- \( z_i = 1 \) if customer type \( i \) is satisfied by some product in the assortment and 0 otherwise, the integer programming problem is:

**Problem 1:** Maximizing the Number of Customers Satisfied

\[
\begin{align*}
\max & \sum_i z_i \\
\text{subject to:} & \quad z_i \leq \sum_j X_{ij} y_j, \quad z_i \leq 1, \quad \text{for all } i, \quad \text{and } \sum_j y_j \leq K \\
& \quad y_j = 0, 1 \text{ for all } j,
\end{align*}
\]

where \( K = \) maximum number of products in the retailer’s assortment. Note that a 0, 1 constraint for \( z_i \) is not required because this holds automatically when the \( y_j \) are 0, 1.

Additional retailer constraints can easily be added, such as

\[
\sum_j y_j Z_{kj} \geq 1 \text{ for brand } k, \text{ or } \sum_j d_j y_j \leq D, \text{ where}
\]

- \( Z_{kj} = 1 \) if product \( j \) is of brand \( k \), and 0 otherwise.
- \( d_j = \) the space required for product \( j \)
- \( D = \) total available display space for this category.

An open-to-buy budget constraint would have this same form.

**PROFIT MAXIMIZATION**

Maximizing revenue or gross profit are common objectives for assortment selection, but with satisficing these objectives become ambiguous. That is, if a customer is satisfied by more than one product in the retailer’s assortment, satisficing implies that it is not possible to predict which satisfactory product the customer will choose.

In this context, we develop two formulations that are called “optimistic” and “pessimistic” from the retailer’s perspective. In the optimistic or MaxiMax case, the customer always chooses the most profitable satisfactory product. This case can be viewed as the result of “perfect merchandising,” in that each customer is persuaded through advertising or in-store sales effort to purchase the most profitable satisfactory product. In the pessimistic or MaxiMin case, it is assumed that each customer chooses the retailer’s least profitable satisfactory product. This is analogous to the two person game interpretation of the seller’s problem discussed by Green and Krieger (1985). The retailer then determines a MaxiMin assortment strategy that optimizes against the customers’ worst case product selection, subject to the satisficing assumption. This determines the “most conservative” assortment for the retailer. In general, these two cases will result in assortments that are quite different.

The retailer may wish to consider both the current profit and the estimated future profit associated with customer type \( i \). Therefore, the profit contribution is defined as a weighted sum \( v_i(w) = w v_i + (1-w) F_i = value \text{ of selling product } j \text{ to customer } i \),

\[
\begin{align*}
v_i(w) = w v_i + (1-w) F_i
\end{align*}
\]
where \( w \) is a fixed weight with \( 0 \leq w \leq 1 \)

\[ m_j = \text{dollar profit per unit sale of product } j \]

\[ F_i = \text{future dollar value of satisfying customer } i \text{ with some product in the current assortment.} \]

Thus, the current profit depends on the product that is sold, while the future profit depends on the customer type. The case of optimistic product choices is formulated as follows.

**Problem 2. The Optimistic or MaxiMax Profit Formulation**

The decision variables are:

\[ y_j = 1 \text{ if product } j \text{ is offered in the assortment and 0 otherwise} \]

\[ Y_{ij} = 1 \text{ if customer } i \text{ purchases product } j \text{ and 0 otherwise.} \]

\[ \text{Max} \sum_{i,j} Y_{ij} v_{ij}(w) \]

subject to \( Y_{ij} \leq X_{ij} y_j \) for all \( i, j \), \( \sum_j Y_{ij} \leq 1 \), for all \( i \),

and \( \sum_j y_j \leq K \)

\[ y_j = 0, 1 \text{ for all } j. \]

This formulation will assign customer type \( i \) to the satisfactory product \( j \) in the assortment that provides the maximum profit contribution \( v_{ij}(w) \). The integer constraint \( Y_{ij} = 0, 1 \) is not necessary because it is satisfied automatically by the optimal solution.

We also consider the pessimistic product choice assumption, which results in the following formulation.

**Problem 3. The Pessimistic or MaxiMin Formulation**

In addition to the variables defined in Problem 2, let

\[ B = \text{a fixed bound that is greater than max } v_{ij}(w) \]

\[ V_i(w) = \text{the profit contribution obtained from customer } i \]

\[ \text{Max} \sum_i V_i(w) \]

subject to: \( V_i(w) \leq \sum_j X_{ij} y_j v_{ij}(w), \text{ for all } i, \)

\[ V_i(w) \leq X_{ij} y_j v_{ij}(w) + (1 - X_{ij})B, \text{ for all } i, j \]

\[ \sum_j y_j \leq K, y_j = 0, 1 \text{ for all } j. \]

For our numerical analyses, we computed only the two extreme cases, \( w = 0 \) and \( w = 1 \). Since we had no information on the retailer’s costs, we set \( m_j = \text{unit price for product } j \) and maximized revenue instead of profit. Problem 1 is actually a special case of these two formulations as indicated by the following lemma.

**Lemma 1.** For \( w = 0 \), and \( F_i = 1 \) for all \( i \), Problems 2 and 3 both reduce to Problem 1.

Proof: Note that \( v_{ij}(w) = 1 \) for all \( i, j \) in this case. Then defining

\[ z_i = \sum_j Y_{ij} \text{ in Problem 2 and } z_i = V_i(0) \text{ in Problem 3} \]

and using \( B = 1 \) as the bound for Problem 3, the result clearly follows. QED.

For comparison purposes, we also evaluate the optimal assortment that is derived from the multinomial logit (MNL) choice model, which has been analyzed in other studies (see, e.g., Miller et al. 2010, for discussion). This optimization assumes that the probability that customer type \( i \) chooses product \( j \) is proportional to . Thus, we have

**Problem 4. MNL Assortment Optimization**

\[ \text{Max} \sum_{i,j} Y_{ij} v_{ij}(w) X_{ij} e^{s_{ij}} \]

subject to: \( \sum_j y_j \leq K, \text{ and } y_j = 0.1 \text{ for all } j. \)

**OPTIMAL ASSORTMENTS FOR THE TEST DATA SET**

First, we solved Problems 2 and 3 to determine the optimal assortments and the expected revenues for the optimistic and pessimistic assumptions for \( \theta = 0.9 \) and 1.0. Four cases are illustrated in Figure 1. The y-axis corresponds to the objective function value, i.e., the total revenue based on the 2213 customers in our data set. Customers finding no satisfactory product in a given assortment generate 0 revenue.

For \( \theta = 1.0 \), the MaxiMax and MaxiMin cases are equivalent, as long as customers do not have multiple most preferred products. This occurred for less than one percent of the customers in this data set and is not significant in this graph. It is interesting to note that about two thirds of the maximum revenue can be obtained with roughly 12 products and half of the maximum revenue can be obtained with only 7 products when \( \theta = 0.9 \). The MNL assortment from Problem 4 is also included for comparison. Since not all satisfied customers purchase in the MNL case, this curve was rescaled upward to match the number
of purchases in the other curves. Thus, the difference between these curves illustrates the impact of different revenues per purchase.

The Max Utility or \( \theta = 1 \) case assumes that customers can only be satisfied by their top choice, and this gives the worst results in this instance. The rescaled MNL assortment curve falls below the other two curves initially, but it is higher than the MaxiMin assortment revenue for larger assortments. This is because large assortments in the MaxiMin case give customers more opportunities to choose a less profitable product. If one imagines a 45 degree tangent line to these curves that reflects the marginal cost of increasing the assortment size, this implies that the MaxiMax and MaxiMin assumptions with \( \theta = 0.09 \) will lead to smaller assortments than the MNL choice model, while the Max Utility \( \theta = 1 \) assortment size will be the largest assortment.

Cross Evaluating the Different Assortments

It is also interesting to evaluate the revenue that results when the “wrong” customer choice assumption is made. Figure 2 evaluates the revenue that results from the various assortments, when either the MaxiMax or MaxiMin choice rules are being applied. Thus, this comparison measures the “robustness” of the assortments when faced with the two opposite extremes of customer choice behavior. It is clear from this figure that the most significant sensitivity arises from whether customers actually choose according to the MaxiMax or MaxiMin rules. This is much more important than making the optimal assortment decision. Interestingly, the MaxiMin and MaxiMax assortments outperform the MNL assortment by a small amount, even when the polar opposite choice behavior occurs. But the key observation here is that it is more important to influence customers to make profitable product choices than it is to choose the best assortment.

Revenue Comparisons with Other Assortment Selection Methods

It is interesting to compare the gross profits, or in our case the total revenues, that result from using other possible assortments to those obtained from the solutions to Problems 2 and 3. For \( \theta = 0.90 \), Figure 3 compares three other alternative assortment selection methods, which are defined as follows:

1. Average utility – assuming a homogeneous market and developing assortments based on the average of the customer product utilities.
2. **Most preferred** – using customers’ rank ordering of products, rather than their net utilities to develop the optimal assortment.

3. **Max utility** ($\theta = 1.0$) – developing assortments based on market heterogeneity and optimization, but assuming that customers will accept only 100 percent satisfaction.

In each case, the methods were used to develop an assortment of size $K$, for the range of $K$ values shown in the figure. The (1) average utility method assumes that the assortment is obtained by averaging the satisfaction levels $S_{ij}$ across all customers and choosing the $K$ products that have the highest average satisfaction levels.

The (2) most preferred method chooses the $K$ products that are ranked first by the most customers. The (3) max utility method uses the assortment obtained from Problem 3 with $\theta = 1.0$, when the correct value was in fact $\theta = 0.9$. To compute the revenue for each of these assortments, it was assumed that customers select from the satisfactory products according to the pessimistic or MaxiMin criterion, i.e., they choose the lowest revenue acceptable product in the assortment using an acceptability threshold of $\theta = 0.90$.

In Figure 3, Assortment (3) does almost as well as the optimal assortment. That is, misestimating $\theta$ has less impact here, because the optimal assortment for $\theta = 1.0$ still takes into account the heterogeneity in customer preferences. Assortment (2), which is based on each product’s number of first place rankings as opposed to customers’ product utilities, performs considerably worse than (3), which assumes that customers can be satisfied only by their first ranked product. Assortment (1), which has been optimized for the “average” customer in the population, behaves by far the worst in Figure 3. This assortment ignores customer heterogeneity, in that all customers are assumed to be the average customer. The revenue increase obtained by switching from (1) to the optimal MaxiMin assortment exceeds 100% for assortment sizes in the range of 4 to 18 products in Figure 8. These results indicate that accounting for customer heterogeneity among customer segments is the most important factor in developing these optimal assortments. Cor-
FIGURE 3
Comparing Revenues for Assortment Methods with Pessimistic Satisficing

rectly accounting for satisficing further improves the results, and does not harm the performance of the assortment if customers actually do not satisfice.

Finally, we consider optimal assortments based on the “customer coverage” objective, corresponding to Problem 1. In Figure 4, we compare the percent of customers satisfied by various assortments for $\theta = 0.90$ and 0.99. The highest coverage is obtained with $\theta = 0.90$, when the assortment is optimized using Problem 1. The maximum coverage from Problem 1 is only slightly higher than the coverage obtained with the optimal assortment from Problem 2 for $\theta = 0.90$. Similar results hold for the corresponding assortments with $\theta = 0.99$. Thus, near maximal coverage can be obtained by using the solution of Problem 2 for this data set.

SUMMARY AND CONCLUSIONS

Retail assortment selection decisions are of crucial importance to successful retail merchandise planning. Our methodology begins with a database of customer attribute preferences, which allows customer utilities to be generated for new products as well as for existing products. The descriptive analysis of our customer database for DVD players demonstrates that a high degree of heterogeneity in customer preferences can occur and that it plays a key role in selecting the optimal assortment.

We used our solution methodology to determine the sensitivity of the optimal assortment and the corresponding revenues to optimistic and pessimistic assumptions regarding customers’ choices among satisfactory products. For our data set, the customers’ method for choosing among satisfactory products impacted the makeup of the optimal assortment, but the impacts on revenue were less significant. Similarly, misestimating the satisficing threshold $\theta$ led to a relatively small revenue penalty. This robustness of the optimal assortment solution is a very desirable feature, since parameters such as the satisficing threshold may be difficult to estimate precisely. On the other hand, it was demonstrated that ignoring customer heterogeneity in developing the optimal assortment led to
a substantial decrease in the potential revenue derived from the assortment. While these outcomes may differ for other data sets, the modeling structure we have developed provides a way of assessing these sensitivities and measuring their relative impacts on the corresponding solutions in other product categories.

Our approach permits a large number of discrete customer segments, whose respective preference structures can vary in arbitrary ways. This allows it to accommodate consumer preference data that is collected by interactive websites. In addition to determining optimal assortments, these models provide the basis for strategic decision making by providing the retailer with: (1) the relative benefit of expanding or contracting the assortment; (2) the potential added value of marketing efforts designed to shift customers toward purchasing more profitable products, i.e., moving customers from the pessimistic product choices to the optimistic product choices; and (3) determining the relative gross profit contributions from different customer segments.

Our mixed integer, linear programming optimization model can accommodate a wide variety of retailer requirements for the assortment selection. For example, it may be important to: (1) carry a particular brand because of a long-term contractual relationship; (2) provide some level of assortment stability across time for customers; (3) stay within a given budget or space constraint; or (4) carry products with the full range of price points to promote the image of a category killer. Assortment optimization can be achieved subject to these kinds of restrictions by adding appropriate constraints to the formulation.

It is hoped that the current effort will spur additional research on this problem. Specifically, future research might examine: (1) the relationship between potential and actual revenue by including the effects of competing retailers’ assortments; (2) optimal weighting of market segments to reflect a given retailer’s target customer groups; and (3) comparing the performance of the optimal assortments to existing assortments that were developed intuitively.
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THE IMPACT OF MULTICHANNEL ASSORTMENT INTEGRATION ON CUSTOMER CHOICE

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SUMMARY

Spurred by the expansion of the Internet as a new selling channel and the immense growth of digitalization technologies in general, multichannel management has become an important topic in research and practice (Ansari, Mela, and Neslin 2008; Rangaswamy and Van Bruggen 2005). Recent studies report that more than 80 percent of U.S. retailers and more than 90 percent of the most successful retailers use two or more channels to distribute their products and services to customers (DMA 2005; Kilcourse and Rowen 2008). Accordingly, numerous researchers devote increasing attention to issues of multichannel management (e.g., Neslin et al. 2006; Neslin and Shankar 2009).

A topic of central interest for every multichannel retailer is to which degree distribution channels of a particular retailer should be integrated (Dholakia et al. 2010; Zhang et al. 2010). Multichannel integration exists when different distribution channels of the same company are consistent in terms of retail mix elements (e.g., assortment and price). There are important arguments in favor and against multichannel integration (Berry et al. 2010). While industry experts and marketing researchers argue that integration increases customer satisfaction and trust and helps to avoid customer confusion and frustration (Micros 2007; Wolk and Ebling 2010), others contend that channel characteristics and costs are sufficiently different to warrant differing retail mix decisions (Zhang et al. 2010). Market studies and a survey among channel managers, at least, indicate that channel integration is not yet realized at retailers, with about 70 percent of managers saying they have not fully integrated their channels (Accenture 2010; Business Wire 2010; Marketing Weekly 2010).

To date, only few research studies have been concerned with multichannel integration, leaving several issues open for investigation (Neslin et al. 2006). For instance, Berry et al. (2010) presume that low levels of channel integration negatively affect customer attitudes and their purchase behavior. Zhang et al. (2010) argue that multichannel retailer should draw on the strengths of each channel in that they carry a larger assortment in the Internet than in bricks-and-mortar stores. Sousa and Voss (2006) develop a conceptualization of service quality in a multichannel setting which includes the dimension of integration quality. Among the few empirical studies, Bendoly et al. (2005) find that channel integration defined as the use of multiple modes of fulfillment for mutual support of customers, can reduce negative outcomes of out-of-stock situations in store. However, despite this notable progress, extant research does not empirically study the impact of multichannel integration on customer choice.

The contributions of this article are twofold: First, we investigate the effects of multichannel assortment integration on customer choice using an experimental setting. Channel assortment integration denotes customers’ perceived level of consistency between assortments in different channels offered by the same company. Assortment selection is generally considered among the most important determinants of channel and retailer choice (Hoch, Bradlow, and Wansink 1999; Verhoef, Neslin, and Vroomen 2007). As our dependent variables, we consider three important customer choice constructs, namely perceived choice, exploration, and choice confidence, which cover different facets of a customer’s choice process (Bettman, Luce, and Payne 1998; Howard and Sheth 1969). We conduct a role-playing experiment using a nationwide representative sample of 1,082 customers and find that multichannel assortment integration positively influences all three choice constructs. This finding underscores the need for retailers to consider offering consistent assortments across channels.

Second, we investigate assortment relations as well as customers’ personal need for structure and involvement as potential moderators of the impact of channel assortment integration on customer choice. While assortment relations refer to customers’ perceived similarity between assortment items (Henderson and Quandt 1958; Kotler and Armstrong 1996), personal need for structure is defined as a person’s “preference to use cognitive structuring as a means to achieve certainty” (Bar-Tal, Kishon-Rabin, and Tabak 1997, p. 1158). Our experimental results indicate that different interactions between channel assortment integration and assortment relations are at work for each choice construct and that the effectiveness of channel assortment integration depends on
customers’ need for structure and their level of involvement. Overall, our moderators explain why different multichannel companies are more or less successful and why different customers make different choices at varying channel integration levels (Berry et al. 2010). References are available upon request.
A NATURE-INSPIRED APPROACH TO RETAIL STRATEGY
INTRODUCING SWARM INTELLIGENCE TO STORE TYPE PORTFOLIO MANAGEMENT

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SUMMARY

Diversification is an important marketing strategy that provides an operational way to address heterogeneous markets. Firms strive to make market-driven, empirically determined diversification decisions and develop portfolios of optimally diversified offerings. In retailing, diversification of store formats is increasingly common. Retailers develop and operate multiple store types to better satisfy heterogeneous shopping patterns and habits of their customers. A key challenge for retail strategists is to identify the best combination of alternative store types that would maximize customer satisfaction. There can be no doubt that store-type portfolio management is an issue of paramount importance for retailing. However, the empirical literature has only just begun to address this strategic issue.

The present paper considers a novel, biologically-inspired method for diversifying store-type portfolios. It determines optimal diversification of retail stores through a model of cooperative behavior and collective intelligence in swarms. More specifically, we apply Particle Swarm Optimization (PSO), an approach derived from natural intelligence, to conjoint data on store attribute preferences. The proposed method not only addresses the issue of optimal store diversification for multi-store retailers but also suggests localized diversification strategies for multi-store, multimarket firms. In particular, our PSO algorithm finds the optimal combination of store formats as well as the spatial distribution of store formats across different markets. To illustrate the approach, we use a conjoint experiment to collect preference data from two different markets. Then, we apply the PSO algorithm to our store-type selection problem to find optimal store combinations.

PSO is a biologically-inspired optimization framework that creates computational intelligence by exploiting simple analogues of collective behavior found in nature, such as bird flocking and fish schooling. PSO mimics nature in exploring collective problem solving without centralized control. More specifically, the PSO algorithm works with a population (swarm) of particles (birds) that collectively move on the d-dimensional real space in search of the global optimum. The PSO algorithm begins with a random placement of the particles on the problem space, and an evaluation of their fitness (performance) on the objective function. Thus, each particle obtains a location and a performance score. In the PSO algorithm, each particle communicates its current performance to other particles, knows the best performing particle of the swarm, and remembers its own past best performance. An iterative procedure follows where each particle moves on the search space by following both its current personal best position (solution) as well as the position of the best particle of the swarm with some random permutations. When all particles have completed their move, their fitness is evaluated and the algorithm proceeds to the next iteration. Thus, the swarm, like a flock of birds or a school of fishes collectively foraging for food is likely to move close to an optimum of the fitness function. The optimization process terminates after a predetermined number of iterations, or when a convergence criterion has been met. It is worth noting that the search in the collective system of swarm intelligence is driven by cooperation among candidate solutions. Individual agents interact locally and follow simple rules that create patterns of intelligent group behavior through self-organizing processes.

We run our PSO algorithm to find optimal solutions for one, two, or three different store types in the entire Dataset and each region separately. The empirical analysis illustrates the complexities associated with store diversification strategies and the need for data-driven decisions. In a unified framework, the proposed procedure provides key insights to strategic retail management such as optimal configuration of each store type, optimal mix of store formats in terms of consumer demand and local adaptation of store-type portfolios. It is demonstrated how store diversification meets the heterogeneous customer preferences and how localized portfolio solutions address differences between market areas. For example, the optimal store-type portfolios differ between the local markets suggesting that localized diversification strategies are necessary for multimarket and multinational retail operations. The adaptation to local market condi-
tions is a rather natural extension for this bio-inspired framework where the interaction of marketing mix with market environment is explicit and parallels the adaptability of biological organisms and processes to environmental variation.

This study employs a biological metaphor derived from collective systems. To the best of our knowledge, this is the first empirical application of swarm intelligence in retailing. As such, the novelty of this study is twofold and resides in both the managerial problem that it addresses, and the research methodology that it applies. We hope that the preceding discussion demonstrates the potential of using biological models in retailing and will stimulate research in this emerging and exciting field.

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SUMMARY

Firms are increasingly emphasizing digital/Internet marketing as an important component of their promotional mix – and social network marketing has become a crucial aspect of that digital presence. Many companies now incorporate such vehicles as Twitter, YouTube, and Facebook product pages in an attempt to generate company interest and pass along product information. But little is known regarding the specific consumer responses to word-of-mouth (WOM) activity that constitute the essential component to such a strategy.

This research investigates how source, network, and message/content factors affect how consumers respond to a WOM communication in an online social network. Using a survey and an experiment, we examine the drivers of “awareness,” “knowledge,” and “liking” of a product-related page, as well as purchase intentions and pass-along behavior. Our findings have important implications for marketers in terms of how to most effectively motivate WOM communication in online social networks, in order to generate optimal diffusion of product information.

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UNDERSTANDING CONSUMER ACTIVE PARTICIPATION IN HEALTHCARE VIRTUAL COMMUNITIES

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SUMMARY

The internet has become the most popular destination for medical information. A 2007 study by Burst Media reports that 45 percent of U.S. adults consider the internet their primary source for healthcare information. Healthcare virtual communities (VCs) provide medical information and facilitate social interaction users. These communities attract consumers in different roles, namely as patients, caregivers and as family members coping with the illness of others within the household. Despite the popularity of healthcare VCs among consumers, they have not attracted the attention of marketing academicians to date. We believe that the multifaceted nature of healthcare VCs make them a fruitful context for understanding how social networks and commercial relationships are likely to evolve.

This article aims to illuminate the nature of VCs by addressing three research questions. First, we focus on active participation within healthcare communities as distinct from participation intentions and engagement, which have been the focus of prior research (Bagozzi, Dholakia, and Pearo 2007). Second, we evaluate the determinants of active participation within healthcare VCs. While researchers have argued and demonstrated that knowledge sharing is a critical motivator of participation within VCs (Koh and Kim 2004), very little is understood about the different types of knowledge consumers seek within VCs and their relative importance in motivating active participation. Our study addresses this gap by distinguishing between diagnostic advice and solution advice as motivations for consumers to actively participate in VCs. Third, we examine the implications of VC participation and evaluation for related entities beyond the VC (e.g., skepticism toward doctors and drug companies). Studies of brand communities suggest that community members often strengthen group identity through criticism of external entities (Muniz and O’Guinn 2001).

We draw on uses and gratifications (U&G) framework developed by communications researchers to guide our framing of consumer motivations to actively participate. Developed to study audience motivations to engage in radio and television media (Katz 1959), the U&G framework holds that individuals derive cognitive benefits of information understanding, socially integrative benefits through strengthening ties with others, personally integrative benefits through strengthening credibility, status and confidence, and hedonic or affective benefits through pleasurable experiences (Nambisan and Baron 2009). The U&G framework suggests that individuals may be attracted to a website or VC by the value of information content and by the processes and resulting experiences of using the VC (Stafford, Stafford, and Schkade 2004). We have observed from reviewing healthcare VCs that consumers are motivated to actively participate in healthcare VCs by two cognitive or learning related benefits: diagnosis of health issues they are experiencing and gaining solution advice to their health problems. We also observe, consistent with prior studies of VCs, the presence of socially integrative motivations, specifically the need for social identification with others facing a common health challenge. Consumers also experience personal integration by actively participating in healthcare VCs by means of frequent commentary and advice that may enhance self-confidence and self-esteem as predicted by the U&G framework. Finally, the emerging literature suggests that online communities are an essential source of social benefits. We examine emotional social support experiences as a personally integrative motivation for consumers becoming active participants in healthcare communities. Thus, our framework proposes four evaluative consequences of consumer involvement in healthcare VCs. We examine consumer overall satisfaction with online communities resulting from their total experience. We also examine consumer loyalty to online health communities in the form of anticipated negative emotions.

Respondents were recruited using an online panel from a commercial market research supplier and included consumers who frequently used the internet, and either suffered from a health condition, or took care of someone who does. After excluding ineligible respondents, and respondents who were not frequent users of VCs we ended up with 270 usable responses. New measures were developed for diagnostic advice, solution advice, active participation, skepticism toward doctors and skepticism toward patients, and measures from the literature were used for social identification, emotional support, overall satisfaction and negative anticipated emotions. All items loaded cleanly on intended constructs and the measurement model provided an acceptable level of fit for the data to allow further testing using structural equation modeling.
Our findings indicate diagnostic advice directly impacts overall satisfaction along with active participation. Also the customer-to-customer relationship aspects (customer identification and emotional support) of the VC motivate customers to participate, resulting in increased customer satisfaction. These findings may indicate that customer satisfaction evaluations of VC are disproportionately based on the quality of information found within the web site and less on relational and supportive aspects of the community. If we consider the level of anticipated negative emotions from leaving the VC as an indicator of web site ‘stickiness,’ we may conclude from these results that customer satisfaction does not increase web site “stickiness.” Emotional support is the main driver of stickiness within healthcare VCs. Holistically, our results suggest that there is a knowledge oriented cognitive stream, consisting of diagnostic advice leading to overall satisfaction leading to reduced skepticism toward doctors and drug companies. In parallel to this knowledge stream exists an affective communal stream, involving consumer identification with the healthcare VC, leading to increased consumer-to-consumer emotional support. Emotional support leads to increased skepticism toward doctors and drug companies and also to higher expectations of negative emotions from leaving the VC. Our finding that participation in healthcare VCs influence perceptions beyond the community holds significant implications for future research on VCs.

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PASCAL’S WAGER: THE PROMISED OR DELIVERED BENEFITS OF BRAND-SPONSORED VIRTUAL BRAND COMMUNITIES

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SUMMARY

With the exponential growth of consumers using social networking sites such as Facebook, firms are driven to figure out how to exploit this new marketing medium in such a way as to add value to their brand or to further corporate goals. There is much excitement about the potential to reach millions of consumers in a nimble medium at dramatically lower costs and effort. Whether firms are realizing real return or speculating on its potential requires a greater understanding of the implicit model guiding the sponsorship of Virtual Brand Communities (VBC). Using a grounded theory approach, this research examines the implicit model that is driving the investment in VBCs from the perspective of a global, multinational firm noted for its innovativeness in social media and from senior marketing executives engaged in social media consulting for agencies. The derived conceptual model demonstrates the positivity bias about the value of VCBs while related literature elucidates some of the particular challenges in achieving this. Our research suggests VBCs inside various Facebook communities may derive value by fostering positive consumer interactions that entice existing members to recruit new members to the brand community on the firm’s behalf. This research is intended to understand the explicit or implicit model that underlies senior marketing executives’ beliefs about creating value through such communities. Without a conceptual model, firms are apt to make little headway in exploiting VBCs to generate brand value. The conceptual model is developed through interviews with executives from a global, multinational brand acknowledged for its leadership in VBCs and from senior marketing consultants who advise Fortune 1000 companies on their social media presence. These are integrated with existing literature from other forms of online and traditional media to offer an actionable framework for practitioners and academics alike. The result is a value-based framework to explore the relationship between social media activities, consumer experiences and the subsequent sharing that occurs with others previously outside the VBC.

The model begins with the notion that social media activities are the cornerstone of the community. For context, social media activities may be a game, a video, a Flash interaction, an opportunity to contribute an opinion, a contest, audio, a specialized application, or any other content that would be interesting to a consumer. To attract consumers to a VBC, these activities must represent an “offer” that consumers somehow find desirable. Consumers may interact with the content being pushed at them in one of three ways: (1) one-way consumption – for example, viewing video clips, listening to audio bytes or reading text, (2) two-way participation – for example, playing a game or participating in a naming contest with other members, (3) contribution – for example, posting an opinion, rating content.

As a consumer interacts with an offer, an experience is generated within the consumer. Such experiences may next form a basis for brand preferences or affinity. For example, if a consumer views an interesting video clip on the VBC, this creates an experience within the consumer that is somehow hereafter tied to the brand. Consistent with traditional media effects, the goal of marketing efforts, then, from the firm’s point of view is to move consumer up a brand affinity hierarchy from instigating a social media offer. Common goals include increasing awareness, comprehension or interest.

Next, sharing with others is a bi-product of increasing engagement by the consumer. Overt sharing that occurs outside of a VBC can take the form of relating a preference for the brand, endorsing the brand or even inviting others to endorse the brand with an action. Thus, our research suggests when sharing takes the form of a recommendation to another person to visit the VBC, then a new brand relationship is possible. From the firm’s perspective, new brand relationships are a positive and strategic marketing outcome highly desired by the firm. Finally, given these relationships are acquired at low or no cost, VBCs are an extremely attractive business initiative to the firm.
CONSUMERS UN-TETHERED: A MULTI-MARKET STUDY OF MOBILE MARKETING ACCEPTANCE

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SUMMARY

This study examines factors influencing consumers’ acceptance of un-tethered, or mobile, marketing across three influential markets. Considering the highly personal and private nature of the mobile device, we draw upon the technology acceptance theory and incorporate three individual-level characteristics, namely attachment, innovativeness, and risk avoidance, as antecedents to attitudes toward mobile marketing. We also investigate how permission-based acceptance influences the link between consumers’ attitude and participation in mobile marketing activities. Focusing on Generation Y consumers, we empirically test the model using data from U.S., China, and Europe. Findings show both cross-market similarities and differences. Perceived usefulness, consumer innovativeness, and personal attachment are found to directly influence attitudes toward mobile marketing in all three markets. In China and Europe, risk avoidance also negatively influences attitude toward mobile marketing. Depending on the market, innovativeness, risk avoidance, and attachment also serve as moderators, to weaken the effect of perceived usefulness on mobile marketing attitude. Furthermore, permission-based acceptance strengthens the relationship between attitude and mobile marketing activities. The results also confirm the uniformly prominent role of ease of use in affecting usefulness perceptions. Research and managerial implications of these findings are also presented. References are available upon request.

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PAY-WHAT-YOU-WANT PRICING FOR MOBILE PHONE APPLICATIONS: THE EFFECTS OF SOCIAL INFORMATION AND PRIVACY ASSURANCES

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SUMMARY

Pay What You Want (PWYW) pricing has become a popular pricing strategy, and has attracted increasing interest from both academics and practitioners in the recent past (Kim et al. 2009). Yet, few studies have directly examined consumer behavior when sellers use this pricing across various products and distribution channels. In this study, we apply the theories of social norms, reference prices, and privacy assurances to test various factors that affect consumers’ willingness to purchase and pay (WTPP) for mobile applications in a PWYW condition. The use of smart phones (cell phones with advanced capabilities for ecommerce and personal productivity) has reached nearly 20 percent of all cell phone users in the U.S. (AdMob 2010) and expected to grow to almost two thirds of U.S. residents by 2015. The rise of smart phones is symbiotic with the meteoric growth of the app ecosystem. Recent reports suggest that the apps market is slated to touch approximately $15 billion by 2015 (Gartner 2009). It is our conjecture that app designers can creatively activate social norms to positively influence mobile users’ intent to purchase an app and willingness-to-pay (WTP) than what they originally intended. The conceptual core of the paper is based on the rich stream of research pertaining to social norms and social influences (e.g., Cialdini et al. 2004). The research model and the hypotheses in this study are built on this platform and supported by multi-disciplinary theories on reference prices (Muzumdar et al. 2005; Dholakia and Simonson 2005), and network effects and privacy calculus (Culnan and Armstrong 1999; Laufer and Wolfe 1977). Two experiments with about 1200 consumers show that social information positively affects WTPP while reference prices negatively affect willingness to pay. In this, consumers tend to be greatly influenced by social information from local groups when compared to global groups. Further, privacy assurances significantly enhance consumers’ willingness to pay. We discuss the implications of these results for theory and practice. References are available upon request.

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THE CO-PRODUCTION OF MARKETING COMMUNICATIONS DISTRIBUTED THROUGH PERSONAL TECHNOLOGY: A SERVICE CUSTOMIZATION PERSPECTIVE

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SUMMARY

Marketing messages disseminated through personal mobile devices and media are receiving increased interest from marketers (Hennig-Thurau, Malthouse, Friege, Gensler, Lobschat, Rangaswamy, and Skiera 2010; Shankar and Balasubramanian 2009), but consumer acceptance of these messages has been underwhelming and is still in the early stages of growth (eMarketer 2010; Honeywell 2010). Some consumers associate a lack of perceived control, perceived risk, and an intrusion of their privacy if they are to open up their personal space to marketers (Deighton and Kornfeld 2009). A possible solution for firms to alleviate these concerns is to treat these promotional messages as service offerings that are important and of high involvement to consumers.

Promotional marketing communications distributed through personal technology and media, such as mobile devices and social media, are becoming more like a service when executed in personal technology-mediated channels (Prahalad and Ramaswamy 2004). Consumers now have the ability to co-produce promotional messages and co-create value through the customization of these messages with technology (Etgar 2008). Consumers co-producing marketing communications seems like a stark contrast to traditional promotional messages disseminated through mass media, such as television commercials, radio broadcasts, and print media. However, customization strategies for firms to proactively enable consumers to customize characteristics of promotional messages disseminated through personal mobile devices and media may increase consumer acceptance. Thus, in contrast to traditional thinking, some forms of promotional messages have become services and will be better accepted by consumers if treated as such by marketers.

The purpose of the current paper is to recognize that marketing communications and promotions disseminated through personal mobile devices and related media need to be treated in a way prescribed by services marketing theory. In effect, promotional messages delivered to mobile devices and media serve as supplementary services (as defined in Fassnacht and Koese 2006) that support a firm’s core product offering. While the service dominant logic (SDL) has suggested that goods are engulfed within a service framework (Vargo and Lush 2004), the current study introduces theory to suggest that advertisements, promotional messages, and coupons are also engulfed within the services framework when viewed through the lens of personal mobile devices and media. Drawing from research in SDL, service customization, and other related literature streams, a detailed examination of customization is discussed and propositions are suggested. References are available upon request.

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DOES MAKING CONSUMERS CREATIVE IMPROVE BRAND EVALUATIONS? EXPLORING THE ROLES OF CONSUMER CREATIVITY IN ONLINE MARKETING COMMUNICATIONS

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ABSTRACT

Tipp-ex, a distinctly old-school product, executed “A hunter shoots a bear” creative game on You Tube and created an interactive and creative experience for the participants. The video plays and then asks participants whether the hunter should shoot the bear or not. Upon choosing an option, the participant is brought to the brand channel where the “Subservient Chicken”-esque features begin and the participant dictate the story. This execution not only brings ten million-plus views and the associated buzz attest to that, but also allows participants sufficient creative freedom to write and rewrite the story themselves – simple, fun, addictive, easy to share and linked to the product benefit. – Pu and Que 2004.

INTRODUCTION

As an open and interactive advertising platform, the Internet provides ample opportunities for consumers to participate in firms’ online marketing communications (Bruner and Kumar 2000; Doren et al. 2000; Liu and Shrum 2009; Macias 2003; Singh and Dalal 1999). In particular, in recent years, an increasing number of corporations have been encouraging consumers to unleash their creativity and contribute to firms’ participate in online marketing activities. These consumer-participated online advertising programs put a heavy emphasis on consumers’ creativity in producing innovative ideas or output, e.g., in the case of Dell, a graffiti that designed by consumers use Dell virtual keyboard. By letting consumers unleash their creativity through the participation of program activities (e.g., graffiti), these programs aim to make a better brand impression with consumers who appreciate the fun experience of producing their own creative ideas in the online platform provided by the brand.

Despite the rising popularity of these online advertising programs that encourage consumer creativity, evidences about their effectiveness as a marketing tool are largely anecdotal. There are virtually no academic studies that have investigated this interesting online advertising phenomenon in a rigorous manner. To fill this void in the extant knowledge about online advertising programs, this study draws upon creativity theory and advertising theory (especially the attitude-towards-advertising literature) to find out whether making customers creative can indeed improve attitude toward the brand; and if so, what is the underlying mechanism for this to occur?

The concept of consumer creativity is not new by itself. Yet past studies about consumer creativity pay more attention to consumers’ innovative behaviors in solving product consumption related problems, e.g., in using different food ingredients to make a special dish (Finke et al. 1992; Jay and Perkins 1997; Treffinger et al. 1994). More recently, consumer creativity studies often focus on how consumer creativity could be applied in designing and developing new products (Burr 2004; Moreau 2005). To a large extent, extant studies on consumer creativity have focused on antecedents to and boundary conditions surrounding creativity of consumers in a product consumption context. The concepts and theories developed from this stream research provide the theoretical foundation for our study, which positions consume creativity in a non-product consumption setting.

The second stream of research that is of pertinence to our investigation is the attitude-toward-the ad literature (MacKenzie et al. 1986), which posits that consumers’ positive attitude toward an advertisement will lead to enhanced evaluation of the brand featured. Reiterating the point, Brown and Stayman (1992) find that ad likeability can result in brand liking as the ad viewer’s arousal carries over from advertisements to brands. In the domain of Internet marketing, the premise about consumers’ fondness of a marketing communication vehicle can be transmitted to liking of the brand has also been corroborated. For example, scholars have demonstrated that firms’ web sites can serve the same communication purposes as advertising. Hence, if a website is well liked, visitors to the website may be more receptive to the website’s contents, including its advertisements (Stevenson et al. 2000; Bruner
and Kumar 2000). Extending this line of logic to online advertising programs that incorporate consumers’ creative contributions, it is conceivable that if consumers enjoy the creative process in the platform enabled by the brand, they may carry over liking of the creative activity to appreciation of the brand that facilitates their creative endeavors.

The rest of the paper is structured as follows. The conceptual argument of this paper is elaborated in next section II, which begins with an analysis of online advertising programs that feature the creative participation of consumers. It then reviews consumer creativity and attitude-toward-ad theory literature and proposes our main study hypothesis about the positive effect of consumer creativity on brand evaluation in online marketing communications that encourage consumer creative efforts. In section III, we describe the design of a laboratory experiment that tests our general hypothesis. Section IV discusses the results of our experiment. The paper concludes with implications and suggestions for further research in section V.

CONCEPTUAL FOUNDATION

A striking feature of online advertising programs that feature consumers’ creative participations is its heavy emphasis on letting consumers become creative participants in these programs that are delivered in a variety of format. For example, in the Tipper-ex YouTube program, consumers can freely decide story lines for the brand’s advertising. Dell (China) decided to take a different approach: it asked consumers to use virtual Dell keyboards to draw online graffiti, and the best production as judged by an expert panel would receive the grand prize. Given the laptop model being promoted is named “Dell Graffiti,” this advertising program seems to have a perfect fit. Li-Ning, the largest domestic sports apparel brand in China, set up an online showroom with virtual wardrobes consisting of Li-Ning brand clothing; each contestant in the game can pick up any clothing item from the wardrobe and create a mix & match for the virtual model. Again, the best creative dressing could win a prize. It should be noted that none of these consumer creative activities is situated in a consumption context and the participants are typically rewarded for their creativity and engagement.

In our study setting, consumer creativity can be further categorized into three types: (1) Creativity for the brand: In which consumers suggest possible uses, new ideas and new ads (e.g., Tipper-Ex’s YouTube commercial), (2) Creativity by the brand: In which consumers’ creative endeavors are enabled by the “brand,” either itself or its digital manifestations, such as Dell’s keyboard graffiti competition, (3) Creativity with the brand: In which consumers’ creative actions have no direct linkage to the brand, (e.g., when the brand is a background icon).

CONSUMER CREATIVITY

Creativity is considered to be an important personal trait for human beings for many decades. In trait psychology, researchers have investigated outstanding artistic or scientific achievements, hoping to find the common genes or personality from the extremely small group of elite (Barron 1968; MacKinnon 1961, 1962, 1965; Welsh 1975). Creativity of consumers has been an intriguing topic for marketing researchers since the early 1980s (Hirschman 1980, 1983). After almost three decades of consumer creativity research, the prevailing view holds that consumer creativity is not a trait bestowed upon a chosen few, but it is the ability to generate novel mental content for solving many common problems and meeting basic human needs (Burroughs and Mick 2004; Moreau and Dahl 2005).

The notion that creativity can pop up even in mundane daily activities suggests that consumers may exhibit creativity in consumption context, which is considered to be one of the most basic and important social roles for human functioning. In daily consumption – context, consumer creativity is regarded as an individual’s problem solving capability which could be applied toward solving consumption-related problems, as a result of hierarchical cognitive development of consumers. Consumer creativity shares the same two characteristics of novelty (e.g., originality, uniqueness) and appropriateness (e.g., usefulness, effectiveness) with other types of creativity (Gardner 1993; Sternberg and Lubart 1999; Amabile 2001). Moreau and Dahl (2005) believe that novelty and appropriateness are the function of creative cognition or thought in a consumption solution context. It is the extent to which creative cognitive processes are utilized in developing a solution that determines the likelihood that a more creative idea or product will materialize (Ward 2001). There are three basic stages in the creative cognitive processes: to construct a cognitive image of the problem, stimulate divergent thinking for internal generation of alternatives, and facilitate convergent thinking for generation of alternative solution strategies.

With regard to the antecedents to consumers’ creativity ability, Hirschman (1980; 1983) focuses on the personal psychological factors such as modernity (a multi-faceted construct that includes openness to new ideas and tolerance for others), cognitive complexity (the number of attributes or linkages used to define a concept), seeking new experiences, inter-concept networks, and the repertoire of consumption situations. Hirschman considers that the intelligence is a prerequisite or determinant of creativity. On the other hand, Moreau and Dahl (2005) emphasize that external factors like input restriction, input requirements and time constraints influence consumers’ information processing strategies, and in turn, influence the creativity of the outcomes produced. Burroughs and
Mick (2004) combine the internal and external factors and adopt the well-known person-situation perspective (Higgins 1990) to illustrate the main and interactive effect of situational factors (i.e., time constraints, situational involvement) and personal factors (i.e., locus of control, metaphoric thinking ability) on customer creativity.

Although the antecedents of consumer creativity and cognition process have received highlighted attention in consumer psychology community studies, little work has examined the consequences of making consumers creative in the marketing context. Studies have explored the participants’ affective responses from their creative engagements in a consumption-related context, such as accomplishment, satisfaction, pride, confidence, self-esteem and self-efficacy (Burroughs and Mick 2004; Dahl and Moreau 2007). Nevertheless, it is not clear whether these affective responses will hold up in a non-real-consumption scenario, such as online advertising programs that encourage the creative participation of consumers. Furthermore, while these affective responses are important, firms are more interested in knowing whether these affective responses can be translated into affective responses toward the brand – yet this is never explored in the extant consumer creativity literature Attitude toward advertisement (or Aad).

In advertising research, Mitchell and Olson (1981) is the first to point out the importance of the attitude toward advertisement or $A_{ad}$ construct, which was defined as a predisposition to respond favorably or unfavorably to a particular advertising stimulus (MacKenzie et al. 1986). A large body of research supports the notion that $A_{ad}$ influence brand attitude or $A_{brand}$ in the dual mediation mechanism: direct effect and indirect effect via brand cognitions (Homer 1990; Brown and Stayman 1992). It also induces a lot of researchers to extend the $A_{ad}$ construct in other marketing communications settings: Attitude-toward-pictures (Mitchell and Olson 1981), Attitude-toward-the-site (Chen and Wells 1999, 2002), and Attitude-toward-sponsorship event (Speed and Thompson 2000).

In this study, we extend the $A_{ad}$ construct to online advertising programs that feature consumer creativity. We argue that consumers’ creative participations in these programs may engender positive feelings about the creative activity, which may subsequently translated to affective responses toward the brand. Our first argument for this supposition is based on the literature on consumer play. Consumer researchers have highlighted the importance of consumer playful activities (e.g., hobbies, leisure activities, creativity) (Holbrook et al. 1984). This line of research suggests that these playful activities can have a positive effect on consumers’ self-esteem and thus may lead to positive feelings (Csikszentmihalyi 2000). Our second argument is based on the Persuasive Knowledge Model (Friestad and Wright 1994), which posits that consumers possess knowledge about marketers’ influence strategy and tactics and they may develop skepticism toward advertising. On the other hand, consumer creative participation in firms’ online advertising programs is often carefully packaged as fun, creative activities. Thus, in this scenario, consumers are less likely to apply their Persuasive Knowledge Model. As a result, the associative path between positive feelings about the creative activity and positive feelings about the brand should be easier to establish. Therefore, we propose our general study hypothesis that consumers’ attitude toward the creative activity will positively affect their attitude toward the brand. We test our study hypothesis by running a laboratory experiment, which is elaborated next.

**STUDY DESIGN**

Two experiments were run using similar procedures as outlined below. Before running the laboratory experiments, we conducted a focus group interview with seven participants. All of them are staffs or students from a university in Hong Kong. They were asked to visit the web site of Dove (China), where they could compose or play music with virtual music keyboards (decorated as chocolate bars). After completing this creative activity, participants were asked about their feelings and reactions. Majority of them mentioned their positive feelings about the music-composing activity and the Dove brand. Exemplary comments include: “I can feel a sense of jubilation upon task completion,” “I like the brand a little more,” “Singing is different from listening to a song.” This focus group study provides initial evidence supporting our conceptualization and it also provides directions for us to select the right experiment stimuli.

As alluded before, there may be three types of consumer creativity when it comes to online advertising programs that feature consumer creativity. In this study, we focus on the 3rd type, i.e., creativity task has no direct connection to the brand. Specifically, we choose an online advertising program for New Zealand kiwi fruit, in which consumers are asked to create a virtual wish card using the graphical elements provided by the web site (see Figure 1 for a screen shot of the web site).

We recruited the participants via an email announcement system which broadcasts information to the university students in Hong Kong. We confirmed that every participant meet our criterion with pretests. For a HK$50 gift certificate of a local supermarket, 67 university students were randomly assigned to our two experiment conditions evenly. Of the participants, 52 percent were female, 95 percent aged between 18–27 year. In the “creativity” condition, we asked participant to create a “wish card” using the kiwi fruit as a background and
supplied symbols, and write one’s own wishes (Appendix A). Participants were told that their “wish cards” will be judged by a panel for its creativity in design and content, and the winner will receive HK$300 extra. In the “no creativity” condition, we asked participants to read the symbols provided and recorded the words in a no creative sense. Then one winner will be randomly selected to receive HK$300 extra (this step is necessary to control for equal study motivation, but of course not creativity motivation).

Procedure

In the beginning of the experiment, one of the researchers gave a five-minute talk to the study participants about the requirements and instructions, and told them the purpose of research was to conduct a market testing for some food instead of true intention. Next, all participants completed a questionnaire consisting of a variety of items related to the questions on familiarity measures of and attitude measures toward a variety of 15 food items (including the focal New Zealand kiwi fruit). Immediately after the creative activity, the two groups’ participants were asked to evaluate the activity itself such as enjoyable, refreshing, attractive, dynamic, and pleasant (Bolls and Muehling 2007), brand attitude (bad/good, negative/positive, unattractive/attractive), and manipulation check questions, and demographics. As a final precaution, at the end of the experiment, participants were asked to write down what they felt the specific purpose of the study was. After checking their answers, it was found that none of the participants identified the actual intention of our research.

STUDY RESULTS

Manipulation Checks

Participants indicated the degree to which they agreed with the following statement on a 1 (strongly disagree) to 7 (strongly agree) scale: I was trying to be more creative in developing my “wish card,” and we found the participants indeed felt a higher creative engagement under the creativity condition than the no creativity one \( M_{\text{no creativity}} = 4.55; M_{\text{creativity}} = 5.65; p = .001 \). In addition, there is no difference between the experimental group and the control group on the prior brand attitude and familiarity. We also checked by asking participants to indicate the degree to which they agreed with the following statement on a 1 (strongly disagree) to 7 (strongly agree) scale: “I was trying to be more creative in developing my ‘wish card.’” We also found a higher creative engagement in the creativity group.

Results

The Cronbach’s Alpha for brand attitude was 0.95 and the scale showed very high reliability. As predicted, participants in the creativity condition have more positive feelings toward the brand attitude \( M = 7.07, SD = 1.3 \) than those who are in the no creativity condition \( M = 6.47, SD = 2.07, p = .16 \). Although prior brand attitude is different, after the manipulation check, the mean value of brand attitude in the creativity group is higher but no significantly higher than the no creativity group. In order to eliminate the effect of prior brand attitude as much as possible, we respectively calculate the mean differences for prior and subsequent brand attitude in the two groups, an independent sample t-test revealed that the mean differences of brand attitude in the two groups are significant different \( p < .01 \).

Discussion

Study 1 provides preliminary evidence that the creative activity leads to more positive responses toward the brand attitude. Although prior brand attitude is different and the subsequent brand attitude is not significantly different, the direction and the degree of brand attitude changing in two groups is correct. The possible reasons may ascribe to the small sample size \( N = 67 \) and the high value of prior brand attitude in the creativity group. Therefore, in order to elucidate our prediction and explore underlying cognitive mechanisms, we conducted study 2 to further test our general hypothesis.

Study 2

The second study follows similar procedures as in study 1, except that instead of examining measures of change in brand attitudes, we only compare consumers’ attitude in two conditions after completing the creative activity in the Kiwi web site. Furthermore, the no-creativity condition used a slightly different manipulation as we increased task completion time for participants (e.g., by asking them to find words from a longer poem).

Manipulation Checks

We detected no difference between the experimental group and the control group on the prior brand attitude and familiarity. We also checked by asking participants to indicate the degree to which they agreed with the following statement on a 1 (strongly disagree) to 7 (strongly agree) scale: “I was trying to be more creative in developing my ‘wish card.’” We also found a higher creative engagement in the creativity group.

Results

An independent sample t-test revealed that a significant difference of subsequent brand attitude emerged in the two conditions \( M_{\text{no creativity}} = 6.63; M_{\text{creativity}} = 7.08; p < .05 \). As predicted, participants in the creativity condition
display a more positive attitude toward the brand than those who are in the no creativity condition. Moreover, we conducted a mediation effect testing using the Braon and Kenny (1986) method. Among those participants in the creativity group, we found that the creativity condition both positively affect brand attitude ($β = .46, p < .05$) and activity attitude ($β = .46, p < .01$), and activity attitude also has a positive effect on brand attitude ($β = .56, p < .01$). After the activity attitude was controlled, the creativity condition no longer affected the brand attitude ($β_{cc} = .01, p > .9$). The effect of creativity condition on brand attitude was completely mediated by activity attitude (measured by items relating to appealing, pleasant, dynamic, attractive, enjoyable, refreshing, and recommending to friends; Cronbach’s Alpha = .962).

**Discussion**

Study 2 further supports our hypothesis by demonstrating that when individuals participate in creative activities, they feel very close to the brand activity and be more easily inspired by CPOMC, which would then produce the positive attitude toward the brand. By elucidating the underlying mediating process, the results support our assertion that the effect of creative activities on the brand attitude is mediated by the attitude toward the activity itself.

**GENERAL DISCUSSION**

Our goal in this study was to illuminate the possible outcomes of creative CPOMC in non-problem solving and non-consumption context. Two studies demonstrated that consumers’ attitude toward brand was more positive when they participated in creative CPOMC, and this positive relationship was fully mediated by the attitude toward CPOMC. These findings confirmed that creative CPOMC could evoke consumers’ creative thinking and further cultivate positive responses toward the advertising campaign and brand.

**Theoretical Implications**

Building on consumer creativity theory and brand attitude literatures, we explore the effectiveness of consumer creativity in non-consumption context. A large body of consumer creativity in marketing domain have explored how the participants’ feeling response aroused from their creative engagement in real consumption-related context, such as accomplishment, satisfaction, pride, confidence, self-esteem and self-efficacy (Burroughs and Mick 2004; Dahl and Moreau 2007). Yet these findings may not be applicable to contexts where consumers may evoke positive responses in creative activities and then transfer these positive affections to the target brand.

Second, we extend the $A_{ad}$ construct in the CPOMC context. Brand attitude research believes that $A_{ad}$ influence brand attitude or $A_{brand}$ in the dual mediation mechanism: direct effect and indirect effect via brand cognitions (Homer 1990; Brown and Stayman 1992). Since then, a large body of research extends the $A_{ad}$ construct in other marketing settings: Attitude-toward-the-site (Chen and Wells 1999, 2002), Attitude-toward-sponsorship event (Speed and Thompson 2000). By exploring the mediation effect of CPOMC, we further extend the applicability of $A_{ad}$ construct in the online advertising program that features consumer creativity.

**Limitations and Future Research**

The study focuses only on the 3rd type of consumer creativity, which is unrelated to the brand. It will be worthwhile to investigate other two types of consumer creativity, i.e., creativity for the brand and creativity by the brand. In addition, while we have found that attitude toward the creative activity itself can affect attitude toward the brand. We have not uncovered the underlying psychological mechanism for this to occur. We are designing studies that tap into the psychological processes of consumer creative participation, e.g., self-esteem and flow state. The studies are currently underway.

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THE PRICE OF INTERACTIVITY: THE EFFECT OF INTERACTIVITY ON WILLINGNESS TO PAY MORE FOR DIGITAL INFORMATION PRODUCTS

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SUMMARY

In the same way that commerce has been transformed through the Internet, information consumption has recently seen two major transformations: the transformation of physical media from paper to computer screens, as well as the transformation of readers into computer users. To understand today’s information consumer, we need to study their behavior not just as consumers of traditional information products, such as books, magazines, and newspapers, but also as users of computer systems. One of the key ways that digital information media differ from print media is the potential for interactivity. Little existing research appears to examine the role of interactivity in the context of digital information products (Kirk 2010). As publishers begin to move beyond more static digital information products, such as those typically found on e-readers like an Amazon Kindle, to more interactive digital information products being implemented on tablet computers, it is important to understand whether consumers may be willing to pay more for information in an interactive form than in a static form, and if so, under what conditions.

There are multiple reasons that consumers may be willing to pay more for interactivity in a digital information product. First, it is possible that interactivity in digital information products may be able to reduce search costs (Liu and Shrum 2009), especially in a goal-directed context, thus offering consumers an incentive to pay a higher price. The unique co-creation of value (Payne, Storbacka, and Frow 2008) resulting from interactivity in digital information may also be a reason for consumers to be willing to pay more. While a printed book or magazine is provided to consumers as is, in the case of interactive digital information products, consumers customize the product to their needs by interacting with it. Further, information can also be viewed as a service (Watson, Pitt, Berthon, and Zinkhan 2002). Shared responsibility in a service context has been shown to increase a consumer’s willingness to pay more (Sierra et al. 2009) and people who customize their service environments tend to perceive increased value as a result of their enhancements (Mathwick, Wagner, and Unni 2010).

However, two key variables may moderate the impact of interactivity on willingness to pay more. First, the education literature suggests differences between “digital natives,” defined as people born after 1980, and “digital immigrants” (Prensky, 2001, 2005). Digital natives, having come of age in a world where interactive digital technologies are woven into the fabric of their lives, may have greater expectations of interactivity when they consume information than those of digital immigrants, and expectations of interactivity have been shown to affect consumer response to interactivity (Sohn, Ci, and Lee 2007).

At the same time, the perceived usefulness of print products may also play a role. Digital natives who perceive print products to be useful may be likely to pay more for the addition of interactivity due to the potential for reduced search costs (Liu and Shrum, 2009) and increased comprehension (Macias 2003). On the other hand, interactivity imposes a cognitive load (Ariely 2000; Liu and Shrum 2009) which may outweigh the potential benefits of interactivity for digital immigrants, especially at the higher levels of central processing (Petty, Cacioppo, and Schumann 1983) that might be associated with an increase in perceived usefulness in a utilitarian context. Digital immigrants may also perceive that interactive digital information products are more risky than their static counterparts, especially if usefulness is important, and Chaudhuri and Aboulnasr (2007) suggest that perceived risk negatively affects consumers’ willingness to pay more for an innovation. Thus, the effect of perceived usefulness of print products on willingness to pay more for interactivity might be moderated by digital immigrant status.

Methodology

Digital textbooks were chosen as the study medium, with 2 levels of interactivity (high and low, within subjects) x 2 levels of digital immigrant status (immigrant and native, between subjects) design. One hundred fourteen students at five northeastern universities participated in the study. Digital immigrant status was operationalized using age, with participants born before 1980 (above age 30) considered to be “digital immigrants” (Prensky 2001, 2005) and participants aged 24 or younger considered to be “digital natives.”

Students participated by taking an online survey which included questions regarding textbook purchase habits and perceptions, an interactivity manipulation, a measure of price perception, and demographic questions. Following interactivity scholars (e.g., Sohn, Ci, and Lee 2007), two levels of interactivity were created (low and high) by providing product descriptions of a simple digi-
tized e-textbook (low) and an e-textbook that also offers interactive graphics, video, and pop-up windows. The price perception measure from Folkes and Wheat (1995) assessed expected price, fair price, and reservation price (the maximum a participant would be willing to pay), and perceived usefulness of textbooks was measured with a 5-item 5-point scale created for the study. All manipulation checks and construct validity and reliability were successfully assessed, and appropriate control variables were included.

**Analysis and Results**

The results of a paired samples t-test indicate a positive effect of interactivity on price perception. However, these results are moderated by the digital immigrant status of the participant and the perceived usefulness of textbooks. Among digital natives, regression analysis indicates the effect of perceived usefulness of textbooks on price perception from interactivity is positive and significant, while for digital immigrants, it is insignificant. These results suggest that at high levels of perceived usefulness of textbooks, digital natives are willing to pay more for interactivity in textbooks than digital immigrants. The results of this study may have implications for both textbook publishers as well as providers of digital information more broadly. Sources are available from the author upon request.
TIME LAGS OF DIGITAL ADVERTISING MEDIA: DIFFERENCES BETWEEN EXISTING AND NEW CUSTOMERS

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SUMMARY
To marketing researchers and practitioners advertising effectiveness and accountability are topics of continuous interest (e.g., Clark 1999; Rust et al. 2004; McDonald 2010). Many studies have analyzed the parameters of advertising effectiveness by showing which ads work when, for which consumer, and under what circumstances (e.g., Shamdasani et al. 2001; Tellis et al. 2005). Researchers have shown that traditional advertising media, such as TV, radio and print, have both short-term and long-term effects (Naik and Raman 2003; Vakratsas and Ma 2005) and that long-term effects vary by type of advertising medium and can continue, as in the case of newspapers, for more than a week (Berkowitz et al. 2001a). Moreover advertising should be target group specific, e.g., in terms of the chosen advertising medium, in order to achieve the highest impact (Iyer et al. 2005; Reutterer et al. 2006).

With the advent of the internet and its growing importance as a place to do business, online advertising has become a topic of increasing interest to academic research (e.g., Ha 2008; Kim and McMillan 2008). In the past decade, internet advertising has grown beyond simple banner advertising to include new advertising models and online media/channels (e.g., on-demand advertising like advertisement on search engines and price comparison website advertising) that make better use of the internet’s unique potential for interaction between consumer and advertiser (Rappaport 2007).

However, research on the effectiveness of these particular online advertising channels is still rare; even though online shops are available 24/7 and it’s not more than a click between online shop and online advertisements, it is not clear whether online advertising leads to immediate purchases or has an effect only in the long run. Especially online there is a higher level of competition because millions of websites in the world are competing for success in the same marketing area. Therefore it’s necessary to retain existing customers (ECs) and constantly acquire new customers (NCs) but it is unclear which online advertising channels have the strongest impact on each of those groups if long term effects are taken into account.

In the present study, we therefore address the following questions: What are the long-term and short-term effects of different online advertising channels on sales? How do those effects differ for existing versus new customers? Which advertising channels have the strongest impact on each of those target groups?

We look at the sales effect of search engine marketing (SEM), banner advertising (BA), coupon/loyalty advertising (CLA), and price-comparison advertising (PCA) using a sample of 2.8 million purchases and over 1.1 million individual customers. The data spans a period of 365 days and was obtained from the .com-website of a leading online-platform for used and antiquarian books. Based on the established elaboration likelihood model and a framework from Vakratsas and Ma (2005) we develop our hypotheses.

H1a: SEM has the longest carryover effect of the four channels.
H1b: PCA has the shortest carryover effect of the four channels.
H1c: CLA and BA have a carryover effect between the two extremes.
H2a: CLA has a stronger positive sales effect on ECs than on NCs.
H2b: PCA has a stronger positive sales effect on NCs than on ECs.
H2c: SEM has a positive sales effect on NCs and ECs.
H2d: BA has a stronger positive sales effect on ECs than on NCs.

The model used to estimate carryover effects of advertising is based on the direct aggregation approach derived from Srinivasan and Weir (1988) and works as described in Herrington and Dempsey (2005). It delivers a separate -values for the carryover effect of each advertising channel and is complemented by model (1). Besides the four advertising channels two seasonal dummies (D1, D2) are part of model (1), which is estimated using GLS and Stata 11.

\[ S = a + \beta_1 BA + \beta_2 CLA + \beta_3 SEM + \beta_4 PCA + \beta_5 D1 + \beta_6 D2 + u \]  \hspace{1cm} (1)
Model (1) was run two times: once for existing and once for new customers.

Our estimation results indicate that hypotheses 1a–1c are supported since SEM has the longest carryover effect ($\lambda_{\text{NC}} = 0.65; \lambda_{\text{EC}} = 0.80$) and PCA the shortest ($\lambda_{\text{NC}} = 0.15; \lambda_{\text{EC}} = 0.05$). The $\lambda$-values of SEM correspond to a 90 percent duration interval of 5.3 days for NCs and 10.3 days for ECs. In other words, 90 percent of the cumulative effect of a unit impulse of SEM (PCA) advertising takes place within 5.3 (1.2) days for NCs and 10.3 (0.8) days for ECs. Only by using the direct aggregation approach with separate $\lambda$-values for each advertising channel that we employed here, instead of a one-size-fits-all $\lambda$ for all channels together, it is possible to identify the appropriate carryover effect for each channel.

Our calculations show that in the analyzed sample, all else being equal, banners and CLA are working better to target existing customers whereas PCA is better suited to attract new customers. CLA is three times more effective for ECs than for NCs, when all cumulative effects (i.e., long-term and short-term effects together) are taken into account. Although those results might vary by e.g., product category or ad content, our contribution is the approach of how to consider time-lags and long-term advertising effects when analyzing the target group specific effectiveness of different online advertising channels. On top of this general marketing research can profit from our results because the approach can also be used for offline and mixed offline/online environments to improve marketing mix decision. References are available upon request.

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GLOBAL BRAND EQUITY, MULTISTAKEHOLDER RELATIONS, AND FIRM PERFORMANCE

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SUMMARY

The focus of marketing has evolved beyond the customer to include a broader set of stakeholders (Ferrell et al. 2010; Greenley and Foxall 1998; Maignan et al. 2005). This is particularly true in the context of global business and marketing because of the emergence of several key paradigms. First, the landscape in which global organizations compete has been reshaped (Menon and Menon 1997). The notion of global citizenship demands that firms address and balance the interests of multiple stakeholders (Waddock and Smith 2000). In particular, global companies interact with a broader set of stakeholders, dispersed over multiple countries, and confront heightened societal expectations and media scrutiny regarding their human labor practices and environment impacts with respect to the markets in which they operate (Zyglidopoulos 2002; Polonsky and Jevons 2009). Furthermore, as interactions and coordination among global customers and other stakeholder groups increase, firms’ actions toward other non-customer stakeholders increasingly determine how customers perceive global brands (Maignan and Ferrell 2004). Lastly, the emerging brand logic views global brands as being dynamic and evolving through social processes and recognizes the role of all stakeholders in this brand value creation process (Merz et al. 2009). These factors suggest the relevance of conducting more inclusive stakeholder analyses that is cognizant of how different stakeholder relations may affect brand value and firm performance in the global marketing and branding context.

Traditionally, brand equity has been viewed as the “set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers” (Aaker 1991, p. 15). This traditional view of brand equity places more emphasis on customers (e.g., Atilgan et al. 2009). Based on the new stakeholder focus perspective, however, brand equity can be considered as assets that represent outcomes of the relationships of the firm with its stakeholders (Jones 2005; Van Durme et al. 2003). Research on the impact of stakeholder relations mostly focuses on firm performance (e.g., Luo and Bhattacharya 2009) and customer aspects such as customer satisfaction (Luo and Bhattacharya 2006), reputation protection (Peloza 2006), and reduced (product) costs (e.g., Berman et al. 1999). However, research that views brand equity as a mediating mechanism for relationships between stakeholders and firm performance is scant. In addition, scholars have argued that the success of stakeholder strategies is contingent on various organizational factors (Ferrell et al. 2010; Neville et al. 2005); yet little research explores the role of firm specific strategic factors in the performance implications of stakeholder relations.

To bridge the gaps in extant literature, this research investigates the mediating effect of brand equity linking multi-stakeholder relations and firm performance; and also explores the moderating role of strategic emphasis on brand equity. First, with its multiple stakeholder analysis, this study represents an important step in enlarging the scope of brand equity and improving knowledge with regard to how specific stakeholder relations may affect brand equity. Second, this research highlights the role of brand equity as one of the mechanisms through which stakeholder relations affect firm performance. Third, by examining the moderating role of strategic emphasis, this study advances understanding of stakeholder relations by placing the impact in the broader context of the firm’s business strategies and the resources thus created. Finally, by analyzing global brands domiciled in different countries, this study offers a global context that is different from previous literature.

The data for the empirical analysis include the ratings of multi-stakeholder relations provided by an independent evaluation agency from 2004 to 2007. The data were augmented with the brand equity estimates from Interbrand’s “Most Valuable Brand” listing, published annually in BusinessWeek. The measures for firm performance and other control variables were derived from COMPUSTAT database. This research employs the systems of equations technique (Shaver 2005) to test the mediation and moderation effects.

The results of the empirical analysis suggest that brand equity mediates the effects of multistakeholder relations on firm performance. In addition, supplier and environmental factors also play a key role in generating brand equity. The findings indicate that the effect of specific stakeholder strategies on brand equity appears to be moderated by firm capabilities. In particular, firms with a high R&D emphasis tend to extract greater brand equity through environmental strategies. The firms with a
high emphasis on advertising appear to be better positioned to extract branding benefits from investments in secondary stakeholder relations.

Stakeholder demands are now perceived as opportunities for firms (Carroll and Shabana 2010). One practical implication for global managers is that brand equity can be used as an opportunity platform for firms to create profits through managing various stakeholder relations. However, it should be noted that not all firms are equally effective in transferring stakeholder investments to tangible returns through the branding routes. In practicing stakeholder strategies, managers should be cognizant of prioritizing the areas that match well with firm resources and capabilities. Also, managers should not assume that traditional customer product strategies such as product differentiation and customer relationship management would lead to gains in brand equity. As shown in the study, strong customer relations are not necessarily related to greater brand equity. The reason for the lack of association might be that firms in the global leadership position may all have a strong customer orientation and similar ability to deliver quality products and manage customer relationships. Hence, to compete in the global marketplace, it is important for brand managers to monitor competition in other non-customer stakeholder areas.

With the new stakeholder focus view, managers should monitor and measure brand value by adopting a process-based, multistakeholder oriented approach. In other words, managers should choose multiple metrics across various stakeholder groups and evaluate brand value in a dynamic manner. The traditional customer focused measures may not sufficiently account for the brand value co-created by relationship building activities toward other stakeholders and may overlook the long-term impact of activities that are less related to products and/or customers.
CAN A COMPANY’S REPUTATION INFLUENCE THE EFFECTS OF SHARE PERFORMANCE ON INVESTOR REGRET?

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SUMMARY

Companies are concerned to avoid investors reacting to a poor performance by selling their shares and thus influencing their share price; particularly in an era of market volatility. Understanding how investors react to share performance is an issue for corporates and researchers alike. Both are also interested in how non-financial issues may influence share price. Prior work on investor decision making has shown however that the financial performance of a share provides a logical explanation of investor attitudes, specifically the key measure of investor regret. The purpose of this paper is to identify whether corporate reputation might mitigate the effect of actual performance on investor attitudes. While the potential impact that corporate reputation might have on stock prices has been noted (Davies et al. 2003; Fombrun 1996) no prior study has considered its influence in empirical work on investor attitude.

Initial qualitative research was conducted among the members of four investment clubs to explore and identify what factors might be important in understanding investor decision making and attitudes such as regret. ‘Investment clubs are small groups of 10 to 15 people who meet monthly to invest in a jointly held stock portfolio, much like do-it-yourself mutual funds’ (Harrington and Fine 2006, p. 14). The notes made during the observations of the investment club meetings were transcribed and analyzed using content analysis. Corporate reputation emerged as the strongest factor from the analysis (145 out of the total 234 items of discussion) followed by share price performance with only 34 items. This suggested that both factors should be important in understanding investor attitudes and behavior and that reputation might be more important than previously thought. It was decided therefore to test the following proposition: Investor regret is negatively related to corporate reputation.

The primary purpose of the quantitative phase of the research was to explore the extent to which investor regret can be predicted by the corporate reputation of the invested company, controlling for share performance and investor demographics. Respondents to the survey were active, individual investors in the share market. After piloting with eight respondents a questionnaire was administered via e-mail and in person to 37 investors who had previously agreed to participate in the research and who met the screening criteria. Each was asked to nominate two shares in their portfolio, one that had outperformed their expectations and one that had underperformed their expectations and to complete separate questionnaires on each. Complete data on 68 shares were obtained. Seventy-three percent of the respondents were male and 27 percent female, reflecting the male dominance in share investment. The research proposition was tested using hierarchical multiple regression (enter procedure) where the dependent variable was investor regret and the independent variables were the controls of share performance, age, and gender and the three dimensions of corporate reputation. The controls (i.e., variables known to influence investor attitudes) were entered in a first block and the three dimensions of reputation (the test variables) in the second as mean scores to assess whether there was any additionality in predicting regret having first accounted for the variance explained by the controls. In the final model the controls of age, gender and share performance all proved significant. The addition of reputation added significantly to the prediction of investor regret but only through the dimension of Agreeableness (trustworthy, honest etc.). The standardized coefficient for Agreeableness was similar to that for share price performance, tending to support the results of the qualitative phase when reputation emerged as a more significant issue than might have been expected. Prior work on factors likely to influence investor decision-making suggests that reputation is an issue but certainly not as influential as actual or expected performance (Nagy and Obenberger 1994).

In the qualitative phase of this research the role of corporate reputation for investor decision emerged in research in a real life setting (the meetings of investment clubs). The significance of reputation was confirmed, again in a real world setting, in quantitative work where actual investors rated shares that they themselves owned. The higher the company (the shares of which have been invested in) is rated on the agreeableness dimension, the lower the investor regret, irrespective of actual performance. Thus it is in the best interest of companies to build their corporate reputation and come across as more agreeable among their investors. Companies that rank high on this attribute are seen as more trustworthy, an attribute which becomes particularly significant when facing regret. Being seen as socially responsible or at least not irresponsible, trustworthy and open are all traits of agreeableness that appear relevant to this context. Companies
need to assess whether their financial corporate communications contribute positively to investor opinion and to see such an assessment in the context of these findings.

This research reported here has its potential limitations. The qualitative work involved only four investment clubs in one country and during one period in time. There may be factors unknown to the researchers that promoted reputation issues in this sample. The research design used the observation of group decision making to deduce issues of potential relevance to the individual investor, thus ignoring the influence of group dynamics. However the significance of reputation was then assessed in a quantitative survey and observation was only possible in the group context. The sample of investors researched in the quantitative phase is small and made use of convenience sampling. However as the objective here was to test for association using regression and not to quantify the percentage of investors having a certain view for example, using a convenience sample should not invalidate the results. Common methods variance is often an issue in regression where the apparent association of two variables is due in reality to the way the respondent responds to the research instrument. Correlations of the order of 0.2 can be due to such effects. To reduce such effects this research made use of different Likert scales, labels and layouts in the questionnaire (Lynch, Chakravarti, and Mitra 1991). As the standardized beta for Agreeableness is above .4 the result is unlikely to be due to common methods variance. References are available upon request.

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HOW TO BEST ALLOCATE MARKETING MIX RESOURCES FOR LOCAL AND FOREIGN BRANDS IN DEVELOPING COUNTRIES

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SUMMARY

The effects from marketing mix elements on constructs of consumer’ behavioral intentions are well established. By focusing on eight relationships (price, advertising, quality, distribution for the exogenous variables and intention to repurchase/intention to recommend for the final endogenous variables), the current article attempts to extend this research in three areas: First, drawing on the accessibility-diagnosticity framework (Feldman and Lynch 1988) as well as on theories of disconfirmation of expectations (Oliver 1980) and cognitive psychology (Folkes 1988) we introduce a model with two mediators (brand image and satisfaction). This opens the opportunity to shed light on competing or complementary driving forces of consumers’ intentions. Second, two subgroups are investigated in more detail: local brands and foreign brands. From differences in this multi-group analysis we infer on a moderating country of origin effect, which has not been proven before for similar relationships. Third, recent studies have identified a demand for research papers that investigate marketing mix models for products (de Matos and Rossi 2008) and that examine all four marketing mix elements simultaneously (Ataman et al. 2010). The subsequent study is a contribution to those two areas. With regard to practical contributions, the study offers valuable insight for brand managers on which marketing mix elements to stress for local and foreign brands respectively in order to reach maximum impact on consumers’ behavioral intentions.

Since country of origin effects have been proven to be more distinct in developing countries (Batra et al. 2000), the proposed model is tested with data from China. For data collection market research was conducted in three Chinese cities in 2010. Twenty-five different FMCG products (12 Chinese brands, 13 foreign brands) were investigated with about 30 respondents per brand. For the analysis, Structural Equation Modeling with the Partial Least Squares Method (PLS) was chosen for two reasons: the applicability for the analysis of small sample sizes, which might be of use for further subsamples in the future and the exploratory nature of the proposed multi-group approach (Chin and Newsted 1999).

After completing the commonly accepted reliability and validity assessments, the following major findings are supported: When comparing the two mediators of our study, brand image is found to have a stronger effect (comparing $f^2$) for foreign brands, whereas satisfaction has a stronger effect for local brands. In addition, the robust halo effect of brand image makes the consumer perceive the effect sizes of marketing mix elements as relatively less variant for foreign brands.

Perceived price is found to have no effect on repurchase intention for local brands. The reason is a suppression effect due to a negative indirect effect of price on brand satisfaction. One possible explanation is the insecurity of consumers, which is induced by a large number of local brands and a blurred position of brands in the market. Accordingly, the status and the perceived quality that consumers derive from price (indicator role of price) undershoot the monetary sacrifice, rendering the consumer unsatisfied. Foreign brands, however, are perceived differently. Due to a better established market position, reasonable or even attractive prices have a positive effect on repurchase intention. This argument is supported by the finding that perceived quality has a significantly stronger relationship on repurchase intention for local brands than for foreign brands since the expectations are lower. In short, to induce the consumer to develop repurchase intentions, perceived quality is a driver for local brands, whereas perceived price is a measure for foreign brands.

For the relationship from perceived price/quality on recommendation intention no significant differences for Chinese brands and foreign brands were detected. For both groups price has no effect on recommendation intention, while quality has a significant effect. This might be due to social pressure and the concept of face: to avoid being seen as a stingy person, price recommendations are avoided, while an advice for excellent quality will not lead to any embarrassment.

Advertising is found to have a significant indirect effect (mediated by brand image and brand satisfaction) on the intentions to repurchase/recommend for both product groups. As established in numerous contributions, advertising reinforces the consumer’s brand-related beliefs and attitudes and as a result contributes to strong brand loyalty (Shimp 1997).

Distribution is found not to have a significant effect on repurchase/recommendation intention for local brands.
Foreign brands, on the contrary, show a significant indirect effect on both the intention to repurchase and recommend. In the literature (Frazier and Lassar 1996) there are arguments to organize distribution in terms of exclusivity or availability, thus here the mediators represent competing driving forces. Since foreign brands are often positioned in higher priced segments and thus distributed selectively they profit from a halo effect on brand image. For Chinese brands, customers seem to be already used to purchase goods without wasting time and effort and thus their satisfaction threshold is not crossed; as a result there is no significant effect on behavioral intentions. References are available upon request.

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EFFECTIVE CO-BRANDING BETWEEN TWO FIRMS: A GAME THEORY PERSPECTIVE

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ABSTRACT

This paper uses models and constructs from game theory (GT) to analyze the formation and operation of co-branding (CB) between two firms. The study shows CB does not necessarily bring a win-win outcome for partnering firms. Indeed, strategic moves of each firm and the interdependence between the two firms affect the performance of co-branding.

INTRODUCTION

This paper extends theoretical constructs and models from game theory (GT) to study the building, maintenance, and evolvement of co-branding (CB) between two firms.

This study illustrates that CB is significantly shaped by two factors: the selection of the co-branding partner and the maintenance of partner relationship. First, a firm that intends to set a co-brand alliance must carefully select its potential partner. Second, after the co-brand is built, some necessary efforts must be made to ensure effective and efficient operation of CB. This study also discusses that CB does not necessarily bring a win-win outcome for both firms due to each firm’s opportunistic behaviors.

The paper first reviews related theoretical definitions, constructs, and models of CB and GT. Second, the study details the way these models and theories can be applied to study strategic concerns such as asymmetric information, the free rider problem, and spill-over effects related with CB. Third, the paper uses GT to address two fundamental issues: selecting the right partnering firm and effectively monitoring each firm’s strategic move after the CB is built. Finally, the study illustrates research orientations of applying GT to study CB.

CB AND ITS INFLUENCING FACTORS

Previous studies define CB as a strategy or a marketing activity that intends to capture the synergism of combining two brands into a new brand or brand alliance in domestic or international market (Rao and Ruekert 1994; Simonin and Ruth 1998; Blackett and Boad 1999; Washburn, Till, and Priluck 2000; Leuthsser et al. 2003; Ueltschy and Laroche 2004; Bengtsson and Servais 2005). Examples of CB include “Intel Inside,” Amazon-Visa, and Shanghai-Volkswagen.

In this study, CB means to establish a new brand or brand alliance between two firms engaged in an interactive process. CB matters because it may help firms increase market share, advocate new brands, and achieve economic efficiency. However, these benefits are impacted by many factors.

Super-Additivity of Cooperation

Super-additivity indicates that the value of the combined A and B is no less than the sum of the separate value A and value B (Dixit and Skeath 2004). In mathematics, it is represented as $V(A+B) \geq V(A)+V(B)-V(AB)$, where $V(AB)$ is the correlated value between $V(A)$ and $V(B)$. In CB, super-additivity means to create value surplus by the cooperation of two firms or brands (Doz and Hamel 1998; Leuthsser, Kohli, and Suri 2003; Bengtsson and Servais 2005). One study says that “because brand names are valuable assets, they may be combined with other brand names to form a synergistic alliance in which the sum is greater than the parts” (Rao and Ruekert 1994). As this paper will show, CB does not guarantee super-additivity if each firm’s strategic moves are not well-coordinated.

Strategic Concerns of Firms

According to some studies, CB is built because of one firm’s or both firms’ strategic goals to increase competitive advantage (Porter 1998; McCarthy and Norris 1999; Darby 2006; Pina and Trapp 2008). These goals include avoiding tariffs or non-tariffs of market entry, reducing risks and uncertainties, and circumventing target countries’ bans on capital mobility. The strategy may also increase brand equity of low-end or less famous brand (Vaidyanathan and Aggarwal 2000).

Differences Between Firms or Between Products

The difference between CB firms, such as high-equity or low-equity, affects the performance of CB. This paper also assumes that the product feature of the two partnering firms may also affect CB payoffs. Generally, if the two firms’ products are a complement to each other, then CB can create a “complementary advantage” for both products. However, if the two products are substitute for each other, then the net benefit of cooperation may not necessarily be positive (Doz and Hamel 1998; Venkatesh et al. 2000).
Signaling the Quality of New Products

CB can give signals to potential consumers via the mechanism of association. That is, when consumers are not familiar with the newly built co-brand they have to find some information from their past experiences with related products, or consumers may connect their perceptions of the ingredient or one partnering brand with the co-brand, which often increase consumers’ collective identity of the new product (Rao et al. 1994; Grossman 1997; Bengtsson and Servais 2005).

In addition, CB can enhance partnering firms’ economic efficiency from two perspectives: scope and scale. Economic scale means that the increasing size of business will more effectively utilize each firm’s endowment. The scope of economy means that the firm successfully extends to new business areas.

CB may also generate some problems. Ueltschy and Laroche found that CB can be a win-win strategy for two high-equity brands but it can be dangerous for high-equity brand when high-equity brands co-brand with low-equity brands. Chang also showed that CB may not be a win-win strategy when economic, legal, and cultural factors of partnering firms are incorporated into the CB model (Chang 2008 and 2009).

Thus, this paper tries to show that the brand equity of original brands does not necessarily make CB a win-win strategy for both participating partners, and it will not always be harmful for high-equity brands when they co-brand with low-equity brands. The overall performance of CB and the benefits allocation between the two partnering firms will be determined by strategic moves taken by each firm.

GAME THEORIES AND THE STUDY OF CO-BRANDING

Previous studies employed GT to study several aspects of marketing issues (Herbig 1991). GT has been applied by marketing scholars to examine negotiation and bargaining (Roth and Schaumaker 1983; Neslin 1983; Bard 1987), competitive behavior (Karnani 1984; Herbig 1991), innovation (Park 1987; Hippel 1988), pricing and bidding (Goretsky 1987), market strategy and market share (Karnani 1985), advertising/promotion, market channel/channel of distribution (Eliashberg and Steinberg 1987), product marketing, and vertical and horizontal CB (Varadarajan 1986).

Since the early 1990s, marketing study has become increasingly interested in CB’s influences on consumers, the building of CB, and various forms of CB (Rao and Ruekert 1994; Hillyer and Tikoo 1995). Some studies found different results of CB, including the win-win outcome for the strong-strong firms but the asymmetric outcome for strong-weak firms (Oliva et al. 2006). Stackelberg model was also employed to study CB between manufactures and retailers, showing that a leader-follower moving arrangement can help the two firms attain maximum payoffs (Jorgensen et al. 2001; Ching-Shih et al. 2009). Chang examined three levels of strategic goals of CB: market share, brand extension, and global branding (Chang 2008). At the first level, the goal is to increase market share. For example, HP merged with Compaq and extended its laptop/desktop market share to compete with IBM. Level two “attempts to broaden and extend the brand based on current market share.” For example, BMW merged with MINI to extend its brand image in the compact car market. Level three is to achieve global brand image. For example, Sony and Ericsson formed a joint-venture in the telecommunication industry to compete with Nokia and Motorola internationally (Chang 2008).

It seems that the current literature lacks intensive studies on the formation and evolution of CB although some of GT topics such as signaling (Keller 2007), competitive behavior, and negotiation touched games in CB.

This study borrows frameworks from game theory to explain the strategic and dynamic features of CB and to explain the interdependence between CB firms. According to game theorists, standard GT has at least three functions in exploring cooperative or non-cooperative activities between individuals or groups: explanation, prediction, and prescription (Dixit and Nalebuff 1991). The following constructs and theoretical models are crucial to understanding the formation and evolution of CB.

Zero and Non-Zero Sum Games

Games are differentiated into zero-sum and non-zero sum by measuring net benefits for all game players (Romp 1997; Dixit and Skeath 2004). Non-zero sum game means that the final result of the game will be win-win or at least the net benefit of the game is positive even if some individual game players receive negative payoff. Zero-sum game means that one player’s gain is at the expense of the other game player and the total net benefit for the game will be zero.

Co-Operative Games and Non-Cooperative Games

Non-cooperative games mean that both game players have conflict interests and the inter-firm cooperation is impossible or cost forbidden (Romp 1997). Cooperative games mean that game players have some common interests which can be maximized by the players’ cooperation (Romp 1997).
Co-operative games may bring a win-win result for every game player if there is no defect (Jorgensen et al. 2001; Dixit and Skeath 2004). However, when it is poorly coordinated, co-operative activities may also bring non-cooperative result as showed by the Jim and Della case. This case shows that goodwill in cooperative games cannot secure a higher payoff. Thus, even if each firm in CB tries to act for the common interests, effective coordination is still necessary.

Prisoners’ Dilemma

In games, when each player wants to protect his own interests he may choose the strategy that best suit his goal. However, the collective outcome is that each game player will get the worst payoff due to their strategic moves. This situation is called prisoners’ dilemma (Dixit and Skeath 2004). Nevertheless, information coordination and the well-built reciprocity among game players may partially alleviate this problem. In CB, when each partnering firm just tries to retain or increase its own interests at the expense of the CB, then the CB will be a disaster for each firm.

Asymmetric Information and the Unbalanced Power of Decision-Making

Increasing studies have evidenced that firms face incomplete information and thus they have to make decisions in an imperfect rationality (Machina 1987; Dixit and Skeath 2004). However, each firm may own different levels of needed information which leads to the problem of asymmetric information (Akerlof 1970). For example, firm A may have more useful information than firm B even if both firms have incomplete information. Assuming each firm has the same power in dealing with given information, asymmetric information will affect the discrepancy of decision power between the two firms. In the process of CB, most likely the firm in host country may have more local information than its partners. A firm wants to build a co-brand in a new product area may often find its potential CB partner have more information of the new product than itself.

Asymmetric information may also be deliberately produced by game players. For example, firms may intentionally hide some particular information or give misleading information (Crawford and Sobel 1982; Hippel 1988). In the early stage of CB formation, both partners may exaggerate the real information of its financial situation or product quality in order to serve their self interests. If we define CB seeker as a “buyer,” and the potential partner as the “seller,” then most likely the “seller” has more information than the “buyer,” a situation of asymmetric information which may lead to an inefficient CB alliance. The specific problems in building CB related with asymmetric information are Adverse Selection and Moral Hazard, which will be detailed later. In the maintenance of CB, asymmetric information problem may still exist. One example is that each partner may work opportunistically and the other firm cannot detect it, leading to inefficient CB.

Repeated Games and Trust Building

According to GT, repeated games, whether finite or infinite, will force game players to act accordingly to agreed rules (Romp 1997). The reason is that the other player will revenge on you if you defect in this round (Axelrod 1984). Moreover, repeated game helps game players better understand their partner with updated information (Dixit and Skeath 2004). Thus, repeated plays may force CB firms to abide rules.

The Free Rider Problem

CB may also leads to unbalanced effort of each firm. One firm may share the benefits with its partner but to keep its burden of the overall CB cost low. When it is difficult to measure each firm’s effort, the free rider problem will arise, meaning that some players only enjoy the benefits from CB without proportionate contributions (Olson 1970). When one firm notices the other firm avoid its duties, it may also reduce its effort. The final scenario will be the Prisoners’ Dilemma (Harding 1982) and result in the degrading of the co-brand alliance. In such a case, effective coordination of the cooperation, such as punishment or reward, is a must for a successful CB.

Opportunistic Behaviors – Hold-Up and Shirking

Opportunistic behavior means that each firm moves to maximize its self-interest. Such move may often violate contracts and undermine partners’ interests. Opportunistic behaviors include hold-up and shirking (Williamson 1979, 1983). Hold-up means one player asks the other to add investment to the co-business or its previous investment will be wasted. In CB, it may also mean that the partnering firm asks the other to invest more than it really needed. This may happen in cross-country CB when it is difficult for firms to measure the real cost occurred in another country. Shirking means that game players avoid work or duty in collective actions to reduce individual cost. In CB, when it is difficult for partnering firm to monitor each other’s performance, each firm has the incentive to shirk its responsibilities at the expense of common interests – the payoff of the CB.

Expectation and Behavior Adjustment in CB

As Axrold in his masterpiece pointed out that the best policy for individual players to keep its partner on the right track is the “Tit-for-Tat” strategy (Axelrod 1984). If the CB is implemented step by step like repeated games, then
each partner will examine what the other is doing and adjust its next move (Roth and Schaumaker 1983). Hence, to avoid certain revenges from its partner, the firm has the incentive to not act opportunistically. The expectation and adjustment of each partner in CB thus helps to form reciprocity between the two firms.

In addition, GT models can be used to classify the multidirectional effects, which can be negative, positive, or both, of CB on parent brands or other targets.

**Extensive Effect (or Love-Me-Love-My-Dog Effect)**

When customers have a positive/negative image on parental brands, they may also transfer that image to the co-brand (Aaker and Keller 1990; Low and Fullerton 1994; Balachander et al. 2003). Thus, when selecting CB partner, focal firm must evaluate customers’ impression on the partner.

**Recursive Effect and Projective Effect**

The former measures CB’s spill-over effect on brand equity of parental or original product brands (John et al. 1998; Simonin et al. 1998; Morrin 1999; Klink and Smith 2001); the latter means that CB helps the two firms extend new products/services in the future when current CB is successful.

**Self-Contradictory Effect**

Such effect was first introduced by economist Ronald Coase in the so-called Coase Conjecture, indicating that monopolists sometimes have to compete with themselves in selling durable goods to consumers (Coase 1972), implying that the co-brand may compete with original brands in terms of investment, market share, and customer loyalty. This effect requires CB designers balance short-term and long-term interests to avoid making co-brands that will be in conflict with parental brands.

**STRATEGICALLY ESTABLISHING EFFECTIVE CB: THE GAME OF SELECTING THE RIGHT PARTNER**

In practice, GT helps firms select right partners and reduce uncertainty and opportunistic behaviors after the co-brand is built. As mentioned already, asymmetric information or information gap between the two firms often destabilize brand alliance because it provides the well-informed firm with more opportunities to seek its own interests at the expense of the other firm.

To reduce opportunistic behaviors of the more-informed firm, it is advisable to design approaches to reducing information gap between the two firms. First, employ the strategy of Screening and Signaling, meaning get the right partner with limited information (Spence 1973). Some studies often mention the role played by signaling in marketing (Keller 2007). However, in reality signaling only passively shows information to others and it still needs the firm actively seeking information it needs (Dixit and Skeath 2004, p. 266). Hence, in CB when firms need to elicit information credibly from the more-informed player they must design some devices to screen needed information. The devices may include direct communication (or “Cheap Talk”) with the target or to evaluate all information supplied by the target gauged on some parameters such as financial burden, performance history, and willingness to cooperate, designed by the seeking firm (Farrell and Rabin 1996). Second, find direct information about potential partners. For example, the firm that wants to build a co-brand relationship with other firm should evaluate the potential partner’s history, reputation, and business context.

Finally, indirect information may also help game players better know their potential cooperators. Potential partners’ information may only be acquired indirectly. For example, with limited historical data of the potential partner we have to use Bayesian calculation to update our evaluation. In addition, the word-of-mouth may also be an indirect way of getting related information (Venkatesh et al. 2000).

**EFFECTIVELY MANAGING CB: INCORPORATE FIRM’S STRATEGIC MOVES**

To increase effectiveness and efficiency of CB, this study suggests several strategies and internal coordination intend to reduce firms’ incentive to defect by altering the motives and pay-offs of CB firms and hence affect the performance of CB.

Increasing formality of contract is one of such strategies. According to a study, “formality reflects the degree to which an agreement is subject to highly defined conditions” and also it may “redefine the power relations between parties to create greater balance” (Bucklin and Sengupta 1993). This means high contract formality helps to reduce uncertainty and increase monitoring power of the contract.

**Repeated Games and Trust Building Through Try-Out**

GT argues that repeated games help game players stick to the game rule because each betrayal will meet revenges from other players (Axerold 1984). Repeated games also help game players better understand each other and facilitate game players’ trust building. In CB,
this paper suggests transforming the grand CB project into several small projects, which increases times of replay and helps CB firms build trust gradually. The strategy reduces potential betrayal of CB players because the possible loss resulting from the betrayal and the defector’s payoff has been piecemealed into smaller amounts.

**Risk Deposit or Specific Investments**

GT studies show that when game players perceive that they will be severely punished if they are to be detected to behave opportunistically, their incentive to defect can be reduced (Williamson 1983; Buckling and Sengupta 1993). In CB, each player may be asked to invest money in some specific projects that cannot be transformed into other uses. This strategy limits game players’ power to exit and increases their commitment to the co-project (Hirschman 1970).

**Promises**

This means to promise before the formation of CB what the reward or punishment will be in response to CB activities. Promises can be compellent or deterrent (Dixit and Skeath 2004). Compellent promises are those that encourage doing something, while deterrent promises are those that discourage some particular behaviors. The crucial point here is to let potential defectors know that you have the will and capacity to revenge on defections (Schelling 1960). Promises can also be in the form of Premium Price, meaning to increase the expected payoff of CB and thus partially reduce each CB player’s incentive to default (Nagle and Holden 2002, pp. 84–104).

Finally, when it is expected that the total CB payoff is much larger than the cost to maintain CB, it is suggested to internalize uncertainty by merging (Alchian and Demsetz 1972; Chang 2009).

**USING GT FOR FURTHER CB STUDIES: A RESEARCH ORIENTATION**

This study may provide several interesting areas for further study of co-branding and marketing alliance that may generate real managerial benefits.

First, when one firm is going to select co-branding partners, GT helps it consider a variety of factors, which can be economic, cultural, social, organizational, and strategic, that may affect the performance of CB (Roth 1995; Steinhilber 2008).

Second, a broader measurement of CB is also necessary. For example, we can measure at least three relationships of CB: the product-product relationship, the brand-brand relationship, and the product-brand relationship. All these relationships may affect strategic moves of each firm and shape the final form and efficiency of CB.

Third, it may be very interesting to study why some less efficient CB still emerge and exclude alternatives. Arthur Brian’s QWERTY model may help us examine the mechanisms leading to the formation and development of inefficient co-brandings (Arthur 1989). This model shows that the self-reinforcing mechanism of first game mover through “path dependence” will exclude the competition from rivals. In CB, especially those cross-nation CBs, the first CB may also have more power to obstruct the emergence of new CBs. For example, the first CB firm may ask the host country to rule out the entry of new CBs from potential competitors; or the first CB has already dominated the market and it will be difficult for potential CB to enter the market.

Finally, as for the study of CB formation, we conventionally classify strategic decision making into a binary category: to be or not to be (Crawford and Sobel 1982; Farrell and Rabin 1996). Instead, we can set the co-branding selection into an interval or continuous scale. That is, the choice of a particular partner or a co-branding strategy may be based on intervals such as cooperate on low end, intermediate end, or high end product, or “we do not accept the partner’s offer, we partially accept it, or we totally accept it.” This reclassification of partners and CB strategy may affect the final efficiency of the CB.

**CONCLUSIONS**

This paper reviews the building and evolvement of co-branding (CB) between two firms by using game theory (GT) frameworks.

This study finds that CB does not necessarily bring win-win outcomes for the two participating firms even if both firms matched well to each other. This study shows that the performance of CB mainly depends on two factors: the selection of CB partner and the maintenance of CB. This paper tries to use GT models to analyze factors, especially strategic behaviors of partnering firms, which may affect CB. Finally, research and managerial implications of this study are also discussed. In sum, by using GT models this study explores behavioral aspects of establishing, maintaining, and developing CB.
ENDNOTES

1 In O. Henry’s novel, Jim sold his watch to get the money to buy a comb for Della, but Della also sold her beautiful hair to buy a golden chain for Jim’s watch. Without effective coordination of each one’s move, the final result is awkward in economic sense (Dixit and Nalebuff 1991).

2 Finite repeated games may still result in defection in the last round if game players know when the last round of game will happen. But if the last round is uncertain to all game players, then finite repeated games will approximately be the same as infinite repeated games (Luce and Raffia 1985).

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THE INFLUENCE OF BRAND EXPERIENCE AND CONGRUITY ON THE EVALUATION OF DIFFERENT TYPES OF CO-BRANDING STRATEGIES: AN ANALYSIS IN THE CONTEXT OF TOURISM BRANDS

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ABSTRACT

The present study employed schema congruity theory (Mandler 1982) and anchoring and adjustment theory (Tversky and Kahneman 1974) to analyze evaluations of co-branding strategies. An online experiment (N = 657) was conducted in the context of tourism brands. In line with hypotheses, co-branding alliances with a moderately incongruently positioned co-brand in regard to the core brand were rated more favorably than congruently or incongruently positioned co-brands. Moreover, findings indicate – in accordance with hypothesis – that personal brand experience has an impact on the anchoring effect of the core-brand in a co-branding alliance with touristic brands.

INTRODUCTION

In today’s world, where customers are presented with endless choice and prolific product options, companies struggle to gain mindshare and market penetration while confronted with the raising demand for cost reductions and more efficiency. Companies need to face the challenge by creating brand awareness, brand affinity and a positive brand image. One possibility comes in the form of co-branding strategies. They enable companies to create marketing synergies and therefore serve as an opportunity to reduce marketing costs. At the same time, co-branding strategies are proven to increase brand awareness, brand perception and brand image. When it comes to planning a successful co-branding strategy companies have to make two crucial decisions: first, the choice of a suitable co-branding partner and second, the choice of a suitable co-branding strategy. Co-branding entities can only form an alliance if they are perceived as fitting brands and therefore serve as an opportunity to reduce marketing costs. At the same time, co-branding strategies are proven to increase brand awareness, brand perception and brand image. When it comes to planning a successful co-branding strategy companies have to make two crucial decisions: first, the choice of a suitable co-branding partner and second, the choice of a suitable co-branding strategy. Co-branding entities can only form an alliance if they are perceived as fitting brands and therefore, are accepted as suitable co-branding or one brand partners respectively. In practice and in the branding literature companies on the outlook for co-branding partners choose between two strategies, both in regard to brand strength: brands with similar brand strength are represented equally in naming and visual identity, we call it independent co-branding. On the other hand, it is possible that one brand clearly takes the leadership position in a brand alliance thus the brands are represented differently in naming and visual identity. The core brand then functions as the main brand whereas the co-brand takes the role of a sub-brand, we call it integrated co-branding. Hence, companies should define which strategy is preferred respectively which role the core brand should play before going into negotiation with possible co-branding partners.

In order to be able to make this decision, it is important to understand on what premises individuals form their decisions and judgments. Anchoring and adjustment theory (Tversky and Kahneman 1974) explains the cognitive processes that influence customers’ evaluations of co-brands. In accordance with anchoring and adjustment theory (Tversky and Kahneman 1974) individuals form images about stimuli on initial assessments of another stimulus. They use reference points to anchor the image. In the case of co-branded identities, the established images of constituent brands are integrated into a new identity, of which consumers must form an impression (Esch et al. 2009). Hence, the degree to which the core brand and the co-brand are congruent or linked by similar associations seems to be an important factor regarding to anchoring information and perception of the new co-branding construct (form an impression). Whether people will favor co-branding entities more when the co-brand bears a position that is congruent (i.e., closely related), moderately incongruent (somewhat distantly related), or extremely incongruent (unrelated) to the core brand, has yet to be discussed.

Intuitively, it might seem that people would judge co-branding entities more favorably when the core and co-brand are congruent in their positioning. Consistent to this intuitive appeal, there is a widely accepted concept in brand communication as to match brand meaning to consumer’s knowledge and perceptions of the brand. There is substantial empirical and conceptual research on the brand consistency concept (Park et al. 1986; Keller 1993; Lange and Dahlén 2003). According to this research it is crucial for companies to identify and manage consumer’s brand schemata in order to develop and establish consistent and relevant brand communication (Gutman 1982; Reynolds and Gutman 1984; Ratchford 1987; Rossiter et al. 1991). It is believed that the brand messages are then more likely to be persuasive, appealing and
comprehensible (Rossiter et al. 1991; Keller 2003; Brannon and Brock 2006; Petty and Wegener 1998).

However, schema-based research indicates that moderately incongruent stimuli may elicit more positive judgments and may lead to more favorable responses (Mandler 1982; Thompson and Hamilton 2006; Fiske et al. 1987; Meyers-Levy et al. 1994; Meyers-Levy and Tybout 1989). Hence, those results from research on the schema congruity theory challenge the traditional way of brand communication. Matching the brand message to consumer’s mind may not be the most effective communication. Applied to co-branding entities these findings have an impact on choosing branding partners.

This paper seeks to address two basic questions in the context of choosing a co-branding strategy in the context of tourism brands. Employing the anchoring and adjustment theory (Tversky and Kahnemann 1974; Esch et al. 2009) and schema congruity theory (Mandler 1982; Keller 2003) the paper analyses what factors influence the evaluation of two types of branding strategies. More specifically, this paper adds to the existing literature, investigating the influence of geographical distance on the core brand’s anchoring effects and the influence of brand positioning in terms of incongruity (i.e., congruent, moderately incongruent, and extremely incongruent) on the evaluation of suitable co-branding partners.

First, this paper describes the theoretical background of schema congruity theory and the anchoring and adjustment theory and derives according hypotheses. Second, procedures and results of an online experiment that tests these hypotheses are reported. Finally, these results are discussed in the light of the literature on co-branding and managerial implications are explored.

THEORETICAL BACKGROUND AND HYPOTHESES

Schema Congruity Theory

Schema congruity theory has its roots in cognitive psychology (Crockett 1988). It is a hybrid of schema and congruity theory (Peracchio and Tybout 1996). According to Fiske and Taylor (1991) people tend to simplify reality by organizing and storing information and knowledge in form of schemata (memory-based cognitive structure). Whenever new information is processed individuals evaluate this information according to the existing schemata. This allows for faster and easier evaluations because there is no reevaluation needed. Schemas not only contain cognitive information but also include attitudes and emotions toward the schema (Fiske 1982; Fiske and Pavelchack 1986). Schema theory has been applied in marketing research, to study several aspects of consumer behavior (Sujan 1985; Stayman et al. 1992; Goodstein 1993; Boush and Loken 1991; Park et al. 1991). Research has shown that consumers’ schemata greatly affect the way they process information and respond to persuasive communication. Especially brand schemata have proven to be the most relevant schemata when it comes to purchase decisions (Sujan and Bettman 1989). They combine the knowledge of all brand attributes, functional as well as symbolic, in relation to their abilities to satisfy customer needs (Wansink and Ray 1996; Brannon and Brock 1994, 2006). The brand schema is an organized network of all beliefs, emotions, and associations customers attach to a specific brand and its attributes (Aaker 1991; Brannon and Brock 2006; Sjödin and Törn 2006).

Congruity theory examines how confirmation or disconfirmation of expectations affects individual response such as evaluations. When new information is encountered that is congruent with prior knowledge structures, new information is easily assimilated. Incongruent information, however, challenges the prior knowledge structures and resolves in extra cognitive processing (Hastie 1980; Srull et al. 1985).

The schema congruity theory examines the congruity of a schema applied to new information and its impact of processing and evaluating this information. Schema congruity is achieved, when the new information matches the schema and therefore, little cognitive processing is required (Hastie 1980; Srull et al. 1985). If the schema and the information produce a mismatch, known as schema incongruity, greater cognitive processing is needed in order to reconcile the incongruent information.

In relation to research on schema incongruity, Mandler (1982) has provided the most detailed explanation on the effects of schema incongruity. He postulates that the level of incongruity has a crucial impact on the evaluation of the new information. Similar to the schema studies Mandler proposes that schema incongruity increases cognitive effort and arousal. Schema congruent information is processed easily and creates a positive effect. On the other hand, incongruent information can also be overlooked because it is too familiar and causes no emotional response and does not stimulate arousal. Incongruent information requests increased cognitive effort which can lead to negative effects when the incongruent stimulus cannot be reconciled with the schema. When presented with a moderate incongruity cognitive efforts are increased and individuals take pleasure in reconciling with the activated schema. Mandler hypothesizes that if individuals can successfully accommodate information, their evaluation will be more positive due to increased arousal. Hence, moderate incongruity can be reconciled with the original schema, which requires extra mental effort and also produces a sense of satisfaction when resolution is achieved. Therefore, co-branding alliances are most likely rated more favorably when the co-brand
has a moderate incongruent position in regard to the core-brand. People are likely to resolve moderate incongruities by implementing relatively minor revisions of existing knowledge (Meyers-Levy et al. 1994). The increased cognitive stimulation as well as the psychological reward produced by successfully resolving the incongruity is predicted to result in considerably more favorable responses than those produced by congruent information.

Applying schema congruity theory to a co-branding strategy leads to the following hypothesis:

H1: If the co-brands’ positioning is moderately incongruent with the core brands positioning, the brand cooperation as a whole will be rated more favorably than a brand cooperation with a congruent or extremely incongruent co-brand positioning.

**Anchoring Theory**

The anchoring theory refers to the assumption that individual’s judgment of a stimulus is based on the assessment of an initial stimulus (Tversky and Kahnemann 1974). In this context, the majority of anchoring effects have been tested for explicitly provided anchors and for numeric judgments under uncertainty. For example, in one of the classic anchoring studies, individuals were given an explicit, arbitrary number between 0 and 100 and were asked subsequently to estimate the percentage of African nations in the United Nations (Tversky and Kahnemann 1974). Results indicated that the estimated percentage was a biased judgment, influenced by the initial value given (Esch et al. 2009).

Subsequent research in the area of consumer behavior over the past years has shown that individuals can also self-generate anchors, and when presented with a product bundle, they may use the most important product in the bundle to anchor their judgment about the bundle as a whole (Epley and Gilovich 2001; Yadav 1994).

In the context of co-branding the same principle applies: Therefore, when an individual is confronted with two brands one of the brands serves as anchor and influences the perception of the co-brand. In other words, when confronted with the judgment of a stimulus (e.g., co-branded product or service) individuals tend to anchor their judgment on available information or knowledge. When confronted with two stimuli individuals tend to perceive one of the stimuli as anchor (e.g., core brand as anchor in reference to the co-brand).

According to the brand equity model (Keller 1993, 2003) specific brand-related factors determine which of the brand serves as an anchor. The model focuses on how brand knowledge is represented in consumer memory. Brand knowledge is conceptualized as a node in memory with brand associations linked to it. Brand awareness, representing the strength of the brand trace in memory, serves as a determinant of what brand will be an anchor. Esch et al. hypothesized that the judgment of a brand alliance combining two brands with different levels of awareness will be distorted toward the brand with the higher awareness. Hence, judgments related to the brand with the higher awareness (core-brand) will serve as heuristic for judging the brand with the lower brand awareness (co-brand).

This paper proposes that the customers use of this heuristic depends on his or her experience with the core- and the co-brand. Experience with destination brands depends on geographical distance, since brand experience can only be gained by visiting the destination (tourism brand). If geographical distance is small, people are more likely to have made prior personal experiences with the brands. Additionally, it is proposed that the link between the core- and the co-brand must be stronger (i.e., with integrated co-brands) the less experience a customer has with the brand in order for the anchoring heuristic to be effective. Therefore, the following hypotheses are proposed:

H2a: If experience with the co-brands is little anchoring effects are more effective with strongly linked co-brands (i.e., integrated co-brands).

H2b: If experience with the co-brands is extensive anchoring effects are more effective with less strongly linked co-brands (i.e., independent co-brands).

**ONLINE EXPERIMENT**

To test the hypotheses an online experiment was conducted. The experiment was administered employing a 3 (type of co-branding: single brand, independent co-brand, integrated co-brand) by 2 (geographical distance: larger geographical distance; small geographical distance) by 3 (congruency of brand positioning: congruent, moderately incongruent, and incongruent positioning of co-brand and core brand) between and in-between subjects design. Types of co-branding and geographical distance are between subjects while congruency of brand positioning is within subjects.

**Sample and Procedures**

The online experiment was conducted in October and November 2010. Participants of an online panel in Switzerland and Germany were contacted per e-Mail and invited to participate in an online survey. A sample of 657 individuals participated in the study (354 German participants, 303 Swiss participants). The survey was part of a project with the goal to define possible co-branding partners for the new brand strategy of a touristic brand. In line
with the scope of the project four conditions for taking part in the survey were defined: the monthly average income had to be more than 4'000 Swiss Francs (about 4000 US$), participants had to be older than 25 and they had to have an overall interest in culture and tourism of > 4 on a 7 point Likert scale (1 = not at all interested in culture and tourism; 7 = very interested in culture and tourism). As a total sample (N = 657) participants were 56.3% male and 42.8 female. Age ranged between 25 and over 65 years (Mean = 55; Median = 55; SD = 1.40). All analyses were conducted using SPSS statistics version 18.

Participants were randomly assigned to one of the three experimental groups. The experiment was set in the context of destination brands. In the introduction participants were informed that they would be asked to rate different ads for tourism destinations. The experiment consisted of three parts: In the first part participants were asked to rate the core-brand, in the second part they rated different destination brands (according to the experimental group designed as single brand, independent co-brand or integrated co-brand). In the last part demographical data was collected.

Measures

Different tourism destination brands in central Switzerland were chosen for this experiment. The destination of Lucerne was chosen as the core-brand. Lucerne is suitable to serve as a core-brand for a co-branding strategy because of its extensive national and international brand awareness (Trip Advisor Survey 2010). Additionally, three destinations were chosen to test different levels of congruity for brand positioning: The destination of Mount Rigi, Glasi Hergiswil, and the cruising boat company for Lake Lucerne (SGV). The destination of Mount Rigi is one of Switzerland’s favorite excursion destinations with a panoramic view of the Alps, hiking and paths, skiing, nostalgic steam trains and a great variety of events. Glasi Hergiswil is a glass manufacturer that offers a variety of events related to traditional glass blowing, a museum and a gift shop. The cruising boat company for the Lake Lucerne offers a variety of standard and special cruises on Lake Lucerne. The according control measures will be explained further below.

Independent Variables

In order to manipulate the type of co-branding strategy two different ads and a control were designed for each destination co-brand in accordance of the hypotheses. Figure 1 depicts an example for each type of co-branding strategy tested plus the control group (A = example integrated co-brand; B = example for independent co-brand; C = control group – single brand).

In order to measure the congruity of brand positioning the positioning of all involved brands was measured on four dimensions that represent the identity of the core-brand Lucerne on a 7-point Likert Scale. Subject indicated for the core-brand and each of the three co-brands whether they evaluate the brand as exciting, hospitable, historically and culturally positioned and unique in its diversity. Geographical distance or experience with the brand was represented, employing subjects from Switzerland (extensive personal experience with the brands, small geographical distance) and subjects from Germany (little personal experience with the brands, large geographical distance).

Dependent Variables

In order to measure the evaluation of the co-branding strategies subjects were asked to indicate whether their image of the brand was positive (positive brand image), whether they liked the brand (brand affinity) and whether
they were interested in visiting the destination (interest) on a 7-point Likert Scale (1 = I totally disagree; 7 = I totally agree).

RESULTS

Control Measures

The means of the evaluation of the four dimensions reveal that – as assumed – for both groups (Switzerland and Germany) Mount Rigi is evaluated most incongruent, SGV most congruent and Glasi Hergiswil as moderately incongruent. Table 2 provides a summary of the according means.

To test the hypotheses a 2 (type of co-branding: integrated co-brand; independent co-brand; control group (single brand)) by 3 (brand congruency: congruent; moderately congruent; incongruent) between-subjects ANOVA on the evaluation was employed.

Congruity of Brand Positioning

Results for Switzerland reveal that the co-branding options were rated more favorably only in the case of moderately incongruently positioned brand (Glasi Hergiswil) evaluating brand image (Mco-brand_Glasi = 6.08 vs. Mcontrol = 5.69 and Mintegrated_co-brand_Glasi = 5.81, F(2,300) = 4.05, p < .05) and for evaluating brand affinity (Mintegrated_co-brand_Glasi = 4.87 vs. Mcontrol = 4.77 and Mco-brand_Glasi = 4.38, F(2,351) = 6.67, p < .01). As in Switzerland, results for interest in visiting the destination were not significant in Germany (Mco-brand_Glasi = 4.15 vs. Mcontrol = 4.19 and Mintegrated_co-brand_Glasi = 4.25, F(2,351) = 0.10, n.s).

The analyses confirm Hypothesis 1, indicating that only co-branding strategies with moderately incongruent positioned co-brands lead to positive effects in the evaluations. Note however, that different co-branding strategies lead to positive evaluations.

Personal Experience with Co-Brands / Geographical Distance

Post-hoc tests reveal that for the Swiss Sample the independent co-branding strategy is rated significantly

### TABLE 1

<table>
<thead>
<tr>
<th>Core-Brand</th>
<th>Mount Rigi</th>
<th>Glasi Hergiswil</th>
<th>SGV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucerne</td>
<td>Incongruent</td>
<td>Moderately</td>
<td>Congruent</td>
</tr>
<tr>
<td></td>
<td>CH</td>
<td>G</td>
<td>CH</td>
</tr>
<tr>
<td>Exciting</td>
<td>5.74</td>
<td>4.90</td>
<td>5.19</td>
</tr>
<tr>
<td>Hospitable</td>
<td>5.54</td>
<td>5.32</td>
<td>4.78</td>
</tr>
<tr>
<td>historically and culturally positioned</td>
<td>6.24</td>
<td>5.58</td>
<td>4.96</td>
</tr>
<tr>
<td>unique in its diversity</td>
<td>5.66</td>
<td>4.48</td>
<td>4.72</td>
</tr>
<tr>
<td>N</td>
<td>303</td>
<td>354</td>
<td></td>
</tr>
</tbody>
</table>

Note: Evaluations were assessed on a 7-point Likert scale (1 = I do not agree at all; 2 = I totally agree); M CH= Mean Switzerland; M D = Mean Switzerland; N = cell size.
more favorable than the control group (single brand) on the dimension of brand affinity and brand image ($p < .05$). Post-hoc analyses for the German sample indicate that the integrated co-branding strategy is rated more favorably than the independent co-branding strategy ($p < .05$).

These analyses confirm Hypothesis 2a indicating that with less experience (German sample) with the co-brands the integrated co-branding strategy leads to the anchoring effect of the core-brand. On the other hand, if experience with the co-brands is extensive (Swiss sample) the independent co-branding strategy leads to anchoring effects. This finding confirms Hypothesis 2b.

Table 2 provides a summary of measures and descriptives of the according means.

**DISCUSSION**

Mandler (1982) first proposed that schema incongruity results in increased cognitive efforts and arousal. Especially the degree of incongruity is crucial to the rating and liking of compositions respectively information. Moderate incongruity has proven to be the most successful form of incongruity for individuals take pleasure in resolving a certain amount of dissonance. The studies from Meyers-Levy et al (1994) have confirmed that moderate incongruity results in more favorable responses due to the stimulation and a sort of excitement. Individuals tend to mildly adjust their knowledge when confronted with moderate incongruity so as to close the gap and reduce the incongruity. Our findings confirm those predictions for co-branding strategies in a touristic context. The results show that co-brands with a moderate incongruent positioning, in regard to the core-brand, result in a favorable rating of the independent co-branding alliance. Whereas, the combination of congruent and extremely incongruent co-brands does not result in significant findings. These findings indicate that moderately incongruent co-brands convey the most potential for a co-branding strategy with independent co-brands.

Additionally we could confirm our hypotheses that brand experience has a crucial impact on the rating of the co-branding strategy. The more personal experience individuals obtain with the brands (in regard to rating co-branding strategies) the more anchoring effects take place in favor of independent co-branding strategy. If brand experience is not obtainable individuals fall back on heuristics and anchoring takes place in favor of the integrated co-branding strategy for the core-brand is perceived as stronger brand (anchor). These findings add to existing literature on anchoring and adjustment effects.
MANAGERIAL IMPLICATIONS

The type of co-branding has an impact on the search for suitable co-branding partners. When a company is applying an independent co-branding strategy it should be on the lookout for a partner with a moderately incongruent brand in regard of the positioning of the core brand. Further, companies with brands in a touristic context should bear in mind that brand experience has a direct impact on the evaluation of a co-branding strategy. Since brand experience with touristic brands can only be gained by visiting, customers who are farther abroad will anchor their evaluation of co-branding strategies. Therefore, integrated co-branding strategies prove to be successful for those customers.

LIMITATIONS AND FURTHER RESEARCH

Similar to all research endeavors, this study does have its limitations. It remains to be investigated why the effects hypothesized can only be found for brand liking and brand affinity but not in regard of interest for visiting the destination.

Another general limitation has to do with the context of the study. The study is set in the context of tourism brands. Further research is needed to explore these effects for consumer brands or other services.

In spite of its limitations, this research helps to better understand the risks and success factors in finding suitable partners for co-branding projects.

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BRAND DEVELOPMENT: THE EFFECTS OF CUSTOMER CO-CREATION AND SELF CONSTRUAL ON SELF-BRAND CONNECTION

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SUMMARY

This research seeks to explore brand co-creation as an innovative brand development approach and a unique experience for consumers. It is suggested that involvement in brand co-creation influences self-brand connection and this preposition was empirically tested. The results of an experimental study confirm that participation of customers in brand co-creation leads to an increased level of self-brand connection. This study has important managerial implications by demonstrating that during turbulent times, companies can reduce their expenses on new brand development projects as well as establish a strong connection between consumers and a brand before the brand is launched to the market.

To date, brand development has been studied from a limited perspective on “how to” design successful logos and brand names (Lehmann and Keller 2006; Christodoulides 2008). Representatives of the brand design/research stream are traditionally considered mainly by consultants and managers as the active creators of a brand identity and image that would then be projected to consumers (Lowrey and Shum 2007; Henderson and Cote 1998).

In contrast to new brand development outsourced to brand consultants and advertising agencies that cost hundreds of thousands of dollars (Keller and Lehmann 2006; Keller 2008), customer brand co-creation may become a valuable strategy as well as a unique and meaningful consumer brand experience (Prahalad 2004). It may ensure the successful launch of new brand due to the fact that it was originated by prospective customers, who envision new brand and become loyal to it from the start of its introduction to the market (Payne et al. 2008). Moreover, these enthusiasts of brand co-creation may spread positive WOM and accelerate the speed of brand growth.

Scholars paid limited attention to the option of customers being active participants in brand development. Few studies that considered brand co-creation described the successful stories of service co-creation (Boyle 2007) and car share experience (Payne et al. 2008). Current research seeks to fill the gap by exploring the concept of brand co-creation and examining empirically the influence of customer co-creation in brand development on self-brand connection.

Following definition of NPD co-creation by O’Hern and Rindfleisch (2009), customer brand co-creation is defined as a collaborative activity in which customers actively contribute to the creation of brand identity and image as well as idea, information, product, service and experience offered under particular brand. In accordance with this definition two aspects of the brand are considered: (1) intangible attributes of brand identity, brand image and brand personality, (2) marketing offer in a form of product, service, experience, idea, or information.

Self-brand connection is defined as personal connection between an individual and a brand such that consumer has included the brand in his or her self-concept (Escalas and Bettman 2003). The proposition that customer participation in brand co-creation influences self-brand connection is based on the Social Exchange Theory (SET; Emerson 1976). According to SET, individuals are interested in establishing and developing relationships. The effort people make in building relations is considered to be an investment. These investments are perceived as resources that one gives to the relationship and will not be able to retrieve in the case of ending it. The brand co-creation is a highly involving and unique type of activity in which consumers invest time, creative ideas, and emotions. People make substantial efforts to think about brand, its values, its benefits and relating it to self-concept. An individual will feel more positive about a relationship with another party in the case of considerable investment. Thus, it is expected that in case of brand co-creation consumers will form stronger self-brand connection than in case of absence of such efforts.

This study attempts to answer the following research questions: (a) how does the customer’s brand co-creation influence self-brand connection; how does self-construal influence the relationship between customer brand co-creation and self-brand connection?

The experimental setting was designed for the study. The 2 (customer brand co-creation assigned vs. not assigned, manipulated) * 2 (self-construal, independent vs. interdependent identified and assigned to a group) factorial between subjects design was arranged for the experiment. One hundred eight participants from an American public university were involved. Subjects were randomly assigned to the experimental or control group. Scenario realism was assessed to ensure the quality of stimulus materials.
H1 stated that there is a positive relationship between co-creation and self-brand connection and in the case of the co-creation task, there will be a significantly higher level of self-brand connection perceived than in case of non co-creation task. The results demonstrated that co-creation led to a significantly higher level of self-brand connection than in case of non co-creation (M co-creation = 4.350, M no co-creation = 3.833, F = 11.333 (1,180), p = .001). H2 predicted a positive relationship between self-construal and self-brand connection and that people with schematic interdependent self-construal will report higher self-brand connection perceived than individuals with schematic independent self-construal. The effects on self-brand connection for subjects with schematic independent self-construal did not significantly differ from those with interdependent self-construal. In Hypothesis 3 the interactive effect of co-creation and self-construal on self-brand connection was stated and no support found.

The research goal of this project was to examine the interrelationship of customer brand cocreation, self-construal and self-brand connection using the Social Exchange Theory. It was empirically demonstrated that consumers exposed to a new brand name and asked to engage in co-creation, report a higher level of self-brand connection. Brand connection was recently stated to be “one of the most fertile topics in contemporary consumer research” (Rindfleisch, Burroughs, and Wong 2009). Most studies concentrated on the nature and quality of relations between consumers and the brand that they may know and/or own for a considerable period of time. Current research explores how a brand that is to be or is in the very beginning stage of establishment on the market can attract potential customers and build relations, thus overcoming entry barriers.

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LUXURY BRANDS IN A TUMULTUOUS GLOBAL ECONOMY: THE CRUCIAL ROLE OF CUSTOMER PERCEIVED VALUE

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SUMMARY

Introduction

In today’s turbulent economy, marketing managers need to constantly improve their understanding of the complexity and dynamics of a customer’s value perceptions. As the highest level of prestigious brands encompassing several physical and psychological values (Vigneron and Johnson 1999), the management of luxury brands addresses various aspects of customer perceived value. However, in a luxury brand context, the prevalence of low-cost counterfeits may lead to a reduction of the perceived quality and exclusiveness of the genuine product, could potentially erode consumer’s confidence in the brand, and destroy the brand equity (Green and Smith 2002; Staake et al. 2009; Wilke and Zaichkowsky 1999; Zhou and Hui 2003). Therefore, it is critical for luxury researchers and marketers to understand the reasons why consumers buy genuine luxury brands, what they believe real luxury is, and how their perception of luxury value affects their buying behavior. Incorporating relevant theoretical and empirical findings, the aim of the present study is to examine the antecedents and outcomes of luxury value as perceived by consumers. Our paper is structured as follows: first, we analyze existing literature on the luxury concept and its elements; second, we develop a conceptual model focusing on the value-based key drivers of luxury perception; and third, to explore the various dimensions and effects underlying the perceived values of luxury brands, we present the methodology and results of our empirical study. Based on a structural modeling approach, we identify the most important effects of the perceived luxury of a brand on consumer perceived value in terms of the customer’s economic, functional, affective, and social evaluation of a brand. Finally, the results of our study are discussed with regard to future research and managerial implications.

Conceptualization and Main Results

Starting from an integral customer perceived value concept our paper shows the proposed model for investigating the relationship between luxury brand perception and customer perceived value. For the purposes of our study, we follow the insights of Wiedmann, Hennigs, Siebels (2007, 2009) who developed and investigated an integrated conceptual framework of consumers’ luxury brand perception based on ten key elements. To measure the customer perceived value and the underlying dimensions of consumers’ luxury value perceptions against the background of the multidimensional model, this study used already existing and tested measures (i.e., Dubois and Laurent 1994; Richins and Dawson 1992; Tsai 2005) and generated further items resulting from exploratory interviews with luxury consumers. To investigate the research model, an Internet survey with a snowball sampling method was developed in Germany. It was organized using an Internet form sent to selected web pages and private customers via personalized emails with the invitation to actively contribute to the survey. In winter 2010, a total of 287 valid questionnaires were received. Using a PLS–PM approach, the overall model assessment shows that the estimation model is reliable and valid according to the criteria associated with the formative and reflective outer model as well as the inner path model. In sum, the results provide full support of our hypotheses with highest effects on the perceived affective and social value of the given brand; particularly driven by the consumer’s materialistic and hedonistic needs.

Conclusions

Particularly in today’s turbulent economy, where the availability of low-cost counterfeits may lead to a reduction of the perceived value of the genuine luxury product, it is critical to understand the reasons why consumers buy luxury brands, what they believe real luxury is, and how their perception of luxury value affects their buying behavior. Based on an integral customer perceived value concept encompassing economic, functional, affective, and social components, we conceptualized luxury brand perception as being formed by ten indicators that influence the impact of luxury brand perception on all dimensions of luxury value. For marketing managers, our study may form the basis of a structured understanding of the perceived value of the luxury aspect associated with their brand. With regard to economic, functional, affective, and social value dimensions, marketers might be able to address and improve purchase value for luxury consum-
ers, who may differ in their value orientations and prefer that a certain brand satisfy either their cognitive or emotional needs. Based on deeper insights related to the question of why consumers buy their luxury brands, marketing managers may elicit more sales from their target consumers by adequately addressing their value perception. References are available upon request.

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THE IMPORTANCE OF BRAND HERITAGE: DELIVERING VALUE TO CONSUMERS IN TURBULENT TIMES

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SUMMARY

Introduction and Background

In a tumultuous global economy characterized by high dynamics, uncertainty and massive consumer disorientation, consumers tend to prefer brands with a heritage because these brands are perceived to be more credible, trustworthy, and reliable. The heritage aspect of a brand adds the association of depth, authenticity and credibility to the brand’s perceived value. With reference to consumers to whom heritage is meaningful, the heritage of a brand can result in an intensified brand loyalty and the willingness to accept higher prices (e.g., Urde, Greyser, and Balmer 2007). In both marketing research and practice, the study of brands with a heritage as part of their corporate brand identity has gained growing interest (Brown, Kozinets, and Sherry, Jr. 2003b; Liebrenz-Himes, Shamma, and Dyer 2007). In contrast to an historical overview that is grounded only in the past, traditions and brand heritage embrace not only the time frame “the past,” but also “the present,” and “the future.” Born and nurtured over decades or even centuries, heritage brands have had the time to build a meaningful past and having a heritage helps to make a brand relevant to the present and prospectively to the future. A brand that is infused with a heritage stands for authenticity, credibility and trust and can provide leverage for that brand, especially in global markets (Aaker 1996; George 2004).

Conceptualization

As stated above, heritage helps to make a brand more authentic, credible, and trustworthy and can provide leverage for that brand. Additionally, a brand with a heritage creates and confirms expectations about future behavior to stakeholder groups and makes a promise that the brand will continue to deliver on these commitments (e.g., Aaker 1996; George 2004). For this reason, the brand heritage construct can add consumer perceived value and can minimize consumers’ buying risk (e.g., Muehling and Sprott 2004; Stewart-Allen 2002). This additional value can be an important driver for the construct buying intention, which has been analyzed in different empirical studies (e.g., del Rio, Vázquer, and Iglesias 2001; Faircloth, Capella, and Alford 2001). In order to enhance current understanding of value perception in view of a heritage brand, the question of what really adds value in consumer’s perception is defined in this paper through the existence of four latent customer perceived value dimensions. In the current study, a consumer’s perceived heritage of a brand is expected to influence the economic, functional, affective, and social responses toward the brand. Therefore, we suggest that brands that are infused with heritage have a positive influence on all dimensions of customer value perception. Against this background, the following research hypotheses were developed in relation to the foregoing discussion:

H1: Brand heritage has a positive effect on the perceived economic value of a brand.

H2: Brand heritage has a positive effect on the perceived functional value of a brand.

H3: Brand heritage has a positive effect on the perceived affective value of a brand.

H4: Brand heritage has a positive effect on the perceived social value of a brand.

Conclusions

In our study, we used PLS structural equation modeling for examining the drivers and outcomes of brand heritage (including formative and reflective measures) and so empirically tested our hypotheses. In sum, the results provide full support of our hypotheses. Particularly in turbulent times and purchase decisions that are associated with certain risks, the heritage aspect provides consumers with a feeling of security and well-being. Furthermore, in a tumultuous global economy characterized by high dynamics, uncertainty, and massive consumer disorientation, consumers tend to prefer brands with a heritage because these brands are perceived to be more credible, trustworthy, and reliable. The heritage aspect of a brand adds the association of depth, authenticity and credibility to the brand’s perceived value. References are available upon request.
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ABSTRACT

The purpose of this study is to analyze the direct effect of perceived risk dimensions on perceived value dimensions in relation with two brand image level—high and low image. As a result, it was found that there is a negative relationship between perceived risk and perceived value. In addition, the affect of perceived risk dimensions differ for high and low brand image.

INTRODUCTION

Value creation is often a part of organizations’ mission statements and objectives and is shown significant interest by the academic researchers and practitioners (Sweeney and Soutar 2001). It is one of the most important factors of gaining competitive advantage since it is an important indicator of repurchase intention, brand loyalty intention and consumer satisfaction (Woodruff 1996; Petrick et al. 1997; Chapman and Wahlers 2000; Sirohi et al. 1997; McDougall and Levesque 2000). The Marketing Science Institute has included the definition of “perceived value” in its list of research priorities for 2006–2008 (Sanchez-Fernandez and Iniesta-Bonillo 2007, p. 427). The concept of “consumer value” is accepted as a fundamental issue to be addressed in every marketing activity (Holbrook 1994, 1999).

In the literature, consumers’ value perceptions are modeled within two perspectives—utilitarian and behavioral (Jayanti and Ghosh 1996). In the utilitarian approach, it was argued that the perceived value is a result of comparisons among different price structures such as advertised selling price, advertised reference price and internal reference price (Thaler 1995). In these studies, the perceived value equation is reached as a sum of acquisition value and transaction value. On the other hand, behavioral approach treated the perceived value construct as a more comprehensive construct and attempts to explain it by not only price variations but also by other factors. Therefore, “perceived value” is determined as a multidimensional construct that consists of interrelated dimensions such as perceived price, quality, benefits and sacrifice (Holbrook 1994, 1999; Sheth et al. 1991; Sweeney and Soutar 2001). To measure perceived value, Sweeney and Soutar (2001) developed PERVAL scale consisting of four value types; (1) functional value (price/value for money), (2) functional value (performance/quality), (3) emotional value and (4) social value.

One of the antecedents of perceived value is “perceived risk,” which is found as negatively effecting the consumers’ value perceptions (Agarwal and Teas 2001; Sweeney et al. 1999). Perceived risk is defined as “... the amount that would be lost (i.e., that which is at stake) if the consequences of an act were not favorable, and the individual’s subjective feeling of certainty that the consequences will be unfavorable” (Cunningham 1967, p. 37). It can be viewed as an expectation of loss. Consumers’ risk perceptions rise as the certainty about this expectation increases (Mitchell 1999). In the consumer behavior literature, perceived risk is conceptualized as a non-monetary aspect of price and hence as an element of perceived sacrifice (Lai 1995; Snoj et al. 2004). In that context, it is modeled as having a mediating effect on the relationship between perceived quality and perceived value (Agarwal and Teas 2001, 2004; Snoj et al. 2004; Sweeney et al. 1999). In the studies examining the relationship between risk and value perception, perceived value is measured as “value-for-money” and the effects of financial risk and performance risk on “value-for-money” were tested.

This study examines the direct effect of perceived risk dimensions (social, financial, psychological, performance, time, and physical risk) on perceived value dimensions (monetary, social, emotional and functional value). This study may contribute to the literature in two ways: First, it attempts to develop a multidimensional approach in relation with the value and risk perceptions and second, it measures the perceived brand risk and demonstrates the brand image level effect on the relationship between perceived risk and perceived value.

CONCEPTUAL FRAMEWORK

Perceived Value

In the customer value research, buyers’ perception of value “represent a trade-off between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price” (Monroe and Chapman 1987, p. 193). On that basis, Monroe and Chapman (1987) conceptualized perceived value as below:

$$\text{Perceived Value} = \frac{(\text{Perceived Benefits})}{(\text{Perceived Sacrifice})}$$

where perceived benefits are a function of perceived quality and perceived quality is a positive function of price; perceived sacrifice is a positive function of price.
Thaler (1985) developed a model on consumer choice rooted on utility theory, psychophysics and cognitive psychology and defined perceived value as a function of acquisition utility and transaction utility. Acquisition utility “is based primarily on non-monetary costs involved in a purchase and encompasses the subjective benefits derived from a purchase” (Jayanti and Ghosh 1996, p. 8). On the other hand, transaction utility depends on the “perceived merits of the deal” (Thaler 1985, p. 205). Transaction utility is a monetary measure of utility and hence more objective, while acquisition utility is a non-monetary measure of utility and hence more subjective. Through that approach, value is defined as a function of transaction utility and acquisition utility. In that model, Thaler (1985) replaced the utility function in economics with the value function in prospect theory (Monroe and Chapman 1987). However it is not that simple to measure value perception (Zeithaml 1988). Because first of all, value perception is subjective and it has different meanings held by consumers. Secondly, consumers do not carefully calculate the give and get components as opposed to the assumptions of utility models. Zeithaml (1988, p. 14) defined perceived value as “the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given.” Dodds, Monroe, and Grewal (1991) suggested that while forming perceptions of value consumers use extrinsic cues (i.e., price, brand name, and store name) to form perceptions of product quality and perceptions of monetary sacrifice. Teas and Agarwal (2000) expanded the Dodds at al. (1991) model by including country-of-origin effect as another extrinsic cue.

The definitions considering perceived value as a trade-off between quality and price represents a one-dimensional “value-for-money” conceptualization (Sweeney and Soutar 2001). Sheth, Newman, and Gross (1991) developed a broader theoretical framework and determined multiple consumption value dimensions for different choice situations. They suggested five value dimensions (social, emotional, functional, epistemic, and conditional value) in relation with the perceived utility of choice and decision levels (buy-level product level-brand level). In that context, Sweeney and Soutar (2001) developed a four-dimensional perceived value model:

1. Functional value (price/value for money) is the utility derived from the product due to reduction of its perceived short term and longer term costs (In this present study, this dimension was named as monetary value).

2. Functional value (performance/quality) is the utility derived from the perceived quality and expected performance of the product.

3. Emotional value is the utility derived from the feelings or affective states that a product generates.

4. Social value is the utility derived from the product's ability to enhance social self-concept.

**Perceived Risk**

In a purchasing situation, consumers perceive a certain degree of risk involved in the decision to purchase a particular product or brand (Stem et al. 1977). Perceived risk concept was firstly defined by Bauer (1960, p. 24) embedded in that “consumer behavior involves risk in the sense that any action of a consumer will produce consequences that he/she cannot anticipate with anything approaching certainty, some of which are likely to be unpleasant.” Cunningham (1967, p. 37) conceptualized perceived risk in terms of two similar components which are: “...the amount that would be lost (i.e., that which is at stake) if the consequences of an act were not favorable, and the individual’s subjective feeling of certainty that the consequences will be unfavorable.” The amount at stake is a function of the importance or magnitude of the goals to be attained, the seriousness of the penalties that might be imposed for non-attainment, and the amount of means committed to achieving the goals (Cox 1967). Perceived risk was also defined as an “expectation of loss.” The more one is certain about this expectation, the greater the risk for the individual (Stone and Winter 1987). In explaining consumer decisions, perceived risk is a commonly used concept. Because firstly, it is a powerful concept explaining the consumer decision-making, since consumers are more often motivated to avoid mistakes than to maximize utility in purchasing (Mitchell 1999). Secondly, it stimulates information search and risk-handling behavior of the consumer (Dowling 1986). Thirdly, consumers are risk averse and select brands on the basis of minimizing expected loss (Peter and Ryan 1976).

Perceived risk was determined as a multidimensional concept including six dimensions (Roselius 1971; Jacoby and Kaplan 1972; Stone and Gronhaug 1993; Mitchell and Kiral 1999):

1. Social risk is the perception about that the brand/product chosen may affect the others’ thoughts. It results from the thought that friends or family might think that the purchase made is a poor choice.

2. Psychological risk is the perception about that the brand/product chosen might not fit well with the buyer’s self-image or self-concept.

3. Physical risk is the perception about that the brand/product chosen might not be safe or might be harmful or injurious to health.
4. Performance risk is the perception about that the brand/product chosen might not perform well or work properly.

5. Financial risk is the perception about that the brand/product chosen might cause a money loss either because it won’t work at all, or because it costs more than it should to keep it in good shape.

6. Time risk is the perception about that the brand/product might cause time loss while adjusting, repairing and replacing it.

In the literature perceived risk and perceived value concepts were integrated. Perceived risk is a probable future cost factor and therefore is considered as a non-monetary cost (Lai 2005). Sweeney, Soutar, and Johnson (1999) proposed that perceived risks mediate the relationship between perceived quality and perceived value. Agarwal and Teas (2001) examined the potentially different mediating impacts of the two risk dimensions and therefore they specified two links between the extrinsic cues and perceived value; one via perceived quality and the other via perceived sacrifice. And they proposed that “performance risk (i.e., the uncertainty about whether the product will perform its intended function) is the primary mediator of the relationship between perceived quality and perceived value; whereas financial risk (i.e., the uncertainty about how much loss may have to be incurred for repair/maintenance of the product) is the primary mediator of the relationship between perceived sacrifice and perceived value” (Agarwal and Teas 2001, p. 2). This present study aims to test the direct effect of each perceived risk dimension on each perceived value dimension at two brand image level. In that scope, the research hypotheses were formulated as:

H1: The perceived brand risk for a high image brand affects perceived value in a negative way.

H2: The perceived brand risk for a low image brand affects perceived value in a negative way.

RESEARCH METHODOLOGY

Consumers evaluate the products on some basic features that differ for the product class and each of these features is a potential risk source (Zikmund and Scott 1973). Therefore, perceived risk dimensions differ by product class. In this study, in order to comprehend all the perceived risk dimensions automobile was chosen. In addition to that, car brands were not used in any other study analyzing perceived risk and perceived value relationship. Besides, in the study, the effect of perceived risk on perceived value was examined on brand level. Therefore in order to put forward the relationship between these two concepts two brands were chosen. While choosing brands, three criteria were taken into consideration: First criterion was to eliminate the producer/distributor effect. In doing so the brands of the same producer and distributor were chosen. Second criterion was the comparability of the brands. Therefore, the brands chosen had products at the same segments, in other words, the brands chosen were competing through a similar product line. Third criterion was to choose brands that had different brand image levels – high and low. Because of the privacy required by the producer, the brand names would not be mentioned in the study but the brands were named as Brand 1 and Brand 2. Brand 1 was the brand that had high brand image while Brand 2 was the brand that had low brand image.

Sampling and Data Collection

The population of the research was determined as consumers owning cars except Brand 1 and Brand 2. The car owners of Brand 1 and Brand 2 were excluded from the research. This is because including the owners of these brands could create a sampling error (Dowling 1986). The owners of these brands have evaluated the risks in relation with the brands and have given purchase decision. In that scope, they had subjective judgments associated with the risk and value perceptions of these brands. Besides, pre-purchase and post-purchase risk perception can differ (Mitchell and Boustani 1994). Moreover, owners have bought these brands because they compared their gains and losses and through that valued them.

The data was collected by face-to-face interviews. The interviewers were educated before the data collection. The questionnaire was formed as including multi-item measures of the brand image, perceived risk and perceived value. All the scales were five-point Likert type. To measure brand image the brand image scales developed by Lee and Ganesh (1999) and Hsieh (2001), to measure perceived risk the scales developed by Stone and Gronhaug (1993) and Kaplan and Jacoby (1972), to measure perceived value the scales developed by Sweeney and Soutar (2001) and Grewal, Monroe, and Krishnan (1998) were used. Then the questionnaire was pre-tested in order to test the clarity of the questions and to identify the average completion time. The size of the pre-test sample is not fixed but long, complex instruments would seem to require larger pretest samples than short, simple instruments (Hunt et al. 1982). In this study, the questionnaire was pre-tested on 30 respondents. After the necessary improvements and simplifications were done, the questionnaire was applied and 600 useful questionnaires...
were obtained. Table 1 displays socio-demographic characteristics of the respondents.

**Analysis**

In the study, before testing the research hypothesis, because multi-dimensional measures were used, the reliability and the validity of the scales were tested. In order to test the reliability of the scales Cronbach’s Alpha coefficient was used. Coefficient alpha is a measure of internal consistency reliability that is the average of all possible split half – coefficients resulting from different splittings of the scale items (Malhotra 2004). The reliability analysis was executed for two brands separately. As can be seen in Table 2, the Cronbach’s Alpha coefficients are above the minimum required level of 0.70.

Then manipulation check was done and the brand image perceptions of Brand 1 and Brand 2 were compared through t-test to identify whether they had high and low brand images as pre-specified. As can be seen from Table 3, brand images of Brand 1 and Brand 2 was different and Brand 1 had a high image while Brand 2 had a low image.

**Research Findings**

In the study in order to test the research hypothesis Structural Equation Modeling was conducted and SPSS 13.0 and AMOS 6.0 was used. Since the aim of the research was to identify the relationship between perceived risk and perceived value at two brand image levels two structural models were developed – one for the Brand 1 and one for the Brand 2. The structural model derived from the research model can be seen at Figure 1.

In SEM, goodness of fit between data and model is important since it represents the estimation power of the model (Hair et al. 1998). There are various goodness of fit measures examined (Sharma 1996). The evaluation criteria and values related with the fitness of the data and the model are given in Table 4 in details.

Furthermore, in the study, the correlations among the exogenous constructs were assessed. In SEM, the correlations among the exogenous constructs represent a “shared” influence on the endogenous variables (Hair et al. 1998). In this study, the covariance values of perceived risk – exogenous variable – were examined and found as correlated for both of the models. The unstandardized regression weights and the results of the hypotheses analyses were given in Table 5. Through the hypothesis test it was found that except four hypotheses for the Brand 1 model and three hypotheses for the Brand 2 model all the hypotheses developed were accepted.

The results of standardized regression weights were given at Table 6. In that point, it was identified that for

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**TABLE 1**

The Socio-Demographic Characteristics of the Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>n</th>
<th>%</th>
<th>Occupation</th>
<th>N</th>
<th>%</th>
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<tr>
<td>18–25</td>
<td>117</td>
<td>19.5</td>
<td>Student</td>
<td>37</td>
<td>6.2</td>
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<td>26–35</td>
<td>148</td>
<td>24.7</td>
<td>Tradesman</td>
<td>12</td>
<td>2.0</td>
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<tr>
<td>36–45</td>
<td>139</td>
<td>23.2</td>
<td>Retired</td>
<td>34</td>
<td>5.7</td>
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<tr>
<td>46–55</td>
<td>125</td>
<td>20.8</td>
<td>Entrepreneur</td>
<td>106</td>
<td>17.6</td>
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<tr>
<td>56–65</td>
<td>54</td>
<td>9.0</td>
<td>Civil-servant</td>
<td>103</td>
<td>17.1</td>
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<tr>
<td>66 + over</td>
<td>17</td>
<td>2.8</td>
<td>Private-sector</td>
<td>229</td>
<td>38.2</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Housewife</td>
<td>52</td>
<td>8.7</td>
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<td></td>
<td></td>
<td></td>
<td>Others</td>
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<tr>
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<tr>
<td>1.001–2.500</td>
<td>Female</td>
<td>283</td>
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<td>2.501–4.000</td>
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<td>4.001–5.500</td>
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<tr>
<td>5.501–7.000</td>
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<td>7.001 or above</td>
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<tr>
<td>Total</td>
<td>600</td>
<td>100.0</td>
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### TABLE 2
The Results of Reliability Analysis

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<td>8</td>
<td>Alpha Coefficients</td>
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<td>8</td>
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<td>Alpha</td>
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<td></td>
<td>0.965</td>
<td>0.844</td>
<td>0.890</td>
<td>0.885</td>
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<td>0.868</td>
<td>0.842</td>
<td>0.949</td>
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### TABLE 3
Manipulation Check (Paired Samples t-test)

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<tr>
<th>Mean (B1)</th>
<th>Mean (B2)</th>
<th>t-value</th>
<th>df</th>
<th>sig.</th>
</tr>
</thead>
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<td>B112–B212</td>
<td>4.37</td>
<td>3.07</td>
<td>25.583</td>
<td>599</td>
</tr>
<tr>
<td>B113–B213</td>
<td>4.42</td>
<td>2.77</td>
<td>32.680</td>
<td>599</td>
</tr>
<tr>
<td>B114–B214</td>
<td>4.4</td>
<td>2.72</td>
<td>32.848</td>
<td>599</td>
</tr>
<tr>
<td>B115–B215</td>
<td>4.36</td>
<td>2.65</td>
<td>32.727</td>
<td>599</td>
</tr>
<tr>
<td>B116–B216</td>
<td>4.44</td>
<td>2.93</td>
<td>30.277</td>
<td>599</td>
</tr>
<tr>
<td>B117–B217</td>
<td>4.39</td>
<td>2.86</td>
<td>29.121</td>
<td>599</td>
</tr>
<tr>
<td>B118–B218</td>
<td>4.38</td>
<td>2.8</td>
<td>29.407</td>
<td>599</td>
</tr>
<tr>
<td>B119–B219</td>
<td>4.46</td>
<td>2.65</td>
<td>34.122</td>
<td>599</td>
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### Table 4
Goodness of Fit between Data and Model

<table>
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<tr>
<th>Fit Measures</th>
<th>Measurement Model (Brand 1)</th>
<th>Measurement Model (Brand 2)</th>
<th>Ideal Model</th>
</tr>
</thead>
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<tr>
<td>Discrepancy ( 2)</td>
<td>2024.202</td>
<td>2120.134</td>
<td>0.000</td>
</tr>
<tr>
<td>Degrees of freedom</td>
<td>488</td>
<td>555</td>
<td>0</td>
</tr>
<tr>
<td>P</td>
<td>0.000</td>
<td>0.000</td>
<td>P</td>
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<tr>
<td>Discrepancy / df ( 2/sd)</td>
<td>4.148</td>
<td>3.820</td>
<td>CMINDF</td>
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<tr>
<td>Goodness of Fit</td>
<td>0.841</td>
<td>0.835</td>
<td>GFI</td>
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<tr>
<td>Adjusted Goodness of Fit</td>
<td>0.807</td>
<td>0.802</td>
<td>AGFI</td>
</tr>
<tr>
<td>Normed fit index</td>
<td>0.887</td>
<td>0.902</td>
<td>NFI</td>
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<tr>
<td>Relative fit index</td>
<td>0.871</td>
<td>0.888</td>
<td>RFI</td>
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<tr>
<td>Incremental fit index</td>
<td>0.912</td>
<td>0.926</td>
<td>IFI</td>
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<tr>
<td>Tucker-Lewis index</td>
<td>0.900</td>
<td>0.915</td>
<td>TLI</td>
</tr>
<tr>
<td>Comparative fit index</td>
<td>0.912</td>
<td>0.925</td>
<td>CFI</td>
</tr>
<tr>
<td>RMSEAR</td>
<td>0.072</td>
<td>0.069</td>
<td>0.05 &lt; RMSEA &lt; 008</td>
</tr>
<tr>
<td>Hoelter .05 index</td>
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<td>173</td>
<td>HFIVE</td>
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<tr>
<td>Hoelter .01 index</td>
<td>167</td>
<td>180</td>
<td>HONE</td>
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TABLE 5
Unstandardized Regression Weights (Brand 1)

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>Std. Error</th>
<th>t</th>
<th>p</th>
<th>H_1</th>
<th>Accept/Reject</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Value ← Social Risk</td>
<td>-.063</td>
<td>.037</td>
<td>-1.706</td>
<td>.088</td>
<td>H_1-1-1</td>
<td>Accept</td>
</tr>
<tr>
<td>Emotional Value ← Social Risk</td>
<td>-.072</td>
<td>.031</td>
<td>-2.277</td>
<td>.023</td>
<td>H_1-1-2</td>
<td>Accept</td>
</tr>
<tr>
<td><strong>Monetary Value ← Social Risk</strong></td>
<td><strong>-.020</strong></td>
<td><strong>.041</strong></td>
<td><strong>-1.279</strong></td>
<td>.201</td>
<td><strong>H_1-1-3</strong></td>
<td><strong>Reject</strong></td>
</tr>
<tr>
<td>Social Value ← Social Risk</td>
<td>-.505</td>
<td>.052</td>
<td>-9.782</td>
<td>.000</td>
<td>H_1-1-4</td>
<td>Accept</td>
</tr>
<tr>
<td>Functional Value ← Psychological Risk</td>
<td>-.163</td>
<td>.060</td>
<td>-2.696</td>
<td>.007</td>
<td>H_1-1-5</td>
<td>Accept</td>
</tr>
<tr>
<td>Emotional Value ← Psychological Risk</td>
<td>-.197</td>
<td>.052</td>
<td>-3.116</td>
<td>.002</td>
<td>H_1-1-6</td>
<td>Accept</td>
</tr>
<tr>
<td>Monetary Value ← Psychological Risk</td>
<td>-.303</td>
<td>.069</td>
<td>-4.414</td>
<td>.000</td>
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<td>Accept</td>
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<tr>
<td>Social Value ← Psychological Risk</td>
<td>-.188</td>
<td>.075</td>
<td>-2.520</td>
<td>.012</td>
<td>H_1-1-8</td>
<td>Accept</td>
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<tr>
<td>Functional Value ← Performance Risk</td>
<td>-.102</td>
<td>.053</td>
<td>-1.928</td>
<td>.054</td>
<td>H_1-1-9</td>
<td>Accept</td>
</tr>
<tr>
<td><strong>Emotional Value ← Performance Risk</strong></td>
<td><strong>-.057</strong></td>
<td><strong>.045</strong></td>
<td><strong>-1.279</strong></td>
<td><strong>.201</strong></td>
<td><strong>H_1-2-2</strong></td>
<td><strong>Reject</strong></td>
</tr>
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<td><strong>Monetary Value ← Performance Risk</strong></td>
<td><strong>-.090</strong></td>
<td><strong>.059</strong></td>
<td><strong>-1.524</strong></td>
<td><strong>.128</strong></td>
<td><strong>H_1-2-3</strong></td>
<td><strong>Reject</strong></td>
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<td>Social Value ← Performance Risk</td>
<td>-.243</td>
<td>.067</td>
<td>-3.630</td>
<td>.000</td>
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<td>Accept</td>
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<tr>
<td>Functional Value ← Physical Risk</td>
<td>-.160</td>
<td>.055</td>
<td>-2.928</td>
<td>.003</td>
<td>H_1-2-5</td>
<td>Accept</td>
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<td>Emotional Value ← Physical Risk</td>
<td>-.145</td>
<td>.047</td>
<td>-3.116</td>
<td>.002</td>
<td>H_1-2-6</td>
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<td>Monetary Value ← Physical Risk</td>
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<td>.029</td>
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<td>.069</td>
<td>-4.347</td>
<td>.000</td>
<td>H_1-2-8</td>
<td>Accept</td>
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### TABLE 5 (CONTINUED)
Unstandardized Regression Weights (Brand 1)

<table>
<thead>
<tr>
<th>Estimate</th>
<th>Std. Error</th>
<th>t</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Risk</td>
<td>-1.075</td>
<td>.096</td>
<td>-11.219</td>
</tr>
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<td>Functional Value ← Financial Risk</td>
<td>H_{1-5-1}: Accept</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Value ← Financial Risk</td>
<td>-1.033</td>
<td>.091</td>
<td>-11.320</td>
</tr>
<tr>
<td>Social Value ← Financial Risk</td>
<td>-1.984</td>
<td>.111</td>
<td>-8.880</td>
</tr>
<tr>
<td>Monetary Value ← Financial Risk</td>
<td>-1.269</td>
<td>.117</td>
<td>-10.819</td>
</tr>
<tr>
<td>Functional Value ← Time Risk</td>
<td>.070</td>
<td>.038</td>
<td>-1.863</td>
</tr>
<tr>
<td>Emotional Value ← Time Risk</td>
<td>.082</td>
<td>.032</td>
<td>-2.561</td>
</tr>
<tr>
<td>Social Value ← Time Risk</td>
<td>-.063</td>
<td>.047</td>
<td>-1.339</td>
</tr>
<tr>
<td>Monetary Value ← Time Risk</td>
<td>-.156</td>
<td>.042</td>
<td>-3.696</td>
</tr>
</tbody>
</table>

| Social Value ← Psychological Risk | -.414       | .042 | -9.910  | .000 |
| Functional Value ← Social Risk | -.488       | .040 | -12.187 | .000 |
| Emotional Value ← Social Risk | -.336       | .042 | -8.008  | .000 |
| Monetary Value ← Social Risk | -.558       | .045 | -12.442 | .000 |
| Social Value ← Social Risk | -.405       | .043 | -9.291  | .000 |
| Functional Value ← Psychological Risk | -.095      | .033 | -2.910  | .004 |
| Emotional Value ← Psychological Risk | -.062     | .030 | -2.061  | .039 |
| Monetary Value ← Psychological Risk | -.141     | .033 | -4.222  | .000 |

| Social Value ← Psychological Risk | -.005       | .033 | -.160   | .873 |
| Functional Value ← Performance Risk | -.184      | .065 | -2.835  | .005 |
| Emotional Value ← Performance Risk | -.033       | .060 | -.555   | .579 |
| Monetary Value ← Performance Risk | -.145       | .066 | -2.193  | .028 |

| Social Value ← Performance Risk | -.003       | .066 | -.041   | .967 |
| Functional Value ← Physical Risk | -.402       | .041 | -9.852  | .000 |
| Emotional Value ← Physical Risk | -.349       | .038 | -9.293  | .000 |
| Monetary Value ← Physical Risk | -.323       | .041 | -7.800  | .000 |
| Social Value ← Physical Risk | -.305       | .041 | -7.411  | .000 |
| Functional Value ← Financial Risk | -.298       | .063 | -4.732  | .000 |
| Emotional Value ← Financial Risk | -.133       | .057 | -2.318  | .020 |
| Social Value ← Financial Risk | -.213       | .064 | -3.336  | .000 |
| Monetary Value ← Financial Risk | -.149       | .063 | -2.341  | .019 |

| Functional Value ← Time Risk | -.208       | .038 | -5.485  | .000 |
| Emotional Value ← Time Risk | -.189       | .035 | -5.384  | .000 |
| Social Value ← Time Risk | -.227       | .039 | -5.820  | .000 |
| Monetary Value ← Time Risk | -.184       | .039 | -4.758  | .000 |

Brand 1, financial risk dimensions had the greatest impact on all of the perceived value dimensions—functional value, emotional value, monetary value and social value whereas for Brand 2, social risk and physical risk had the greatest impacts on perceived value dimensions.

In order to identify the exploratory power of the model, $R^2$ values were used. $R^2$ values represent the exploratory power of the dependent variables and the overall adequacy of the model. It displays the explained percentage of endogenous latent construct by exogenous latent variables (Sirohi, Mclaughlin, and Wittink 1998). In that manner, it can be seen from the Table 7, exploratory power of the model is quite high for both of the models.

**CONCLUSION**

In this present study, the impact of perceived risk on perceived value was examined through a multidimensional approach. Therefore, the affect of each perceived
risk dimension on each perceived value dimension were examined by SEM. The research model was tested on two brand image level – high and low. And a comparison of the relationships was done. This study has a main contribution to the literature since it analyzes the impact of perceived risk on perceived value through a multidimensional and brand level approach.

As a result of the SEM analysis, it was found that there is a negative relationship between perceived risk and perceived value dimensions in both of the brand image levels – high and low. In other words, the value perceptions of consumers decrease as their risk perceptions increase.

Moreover the impact of each perceived risk dimension on the perceived value dimension was examined in details and differences between brands were found. For the high image brand all the perceived risk dimensions had an impact on each of the perceived value dimensions.
except four: There was no relationship between “social risk and monetary value,” “performance risk, and emotional value/monetary value” and “time risk and social value.” In other words, high image brand, monetary value perception of consumers was not affected by perceived social and performance losses, emotional value perception was not affected by perceived performance loss and perceived time loss did not impact social value perception. But all the other risk perceptions affect the perceived value.

For the low image brand, like in the high image brand, all the perceived risk dimensions influenced each of the perceived value dimensions except three: The social value perception was not affected by perceived psychological loss and emotional and social value perceptions were not influenced by perceived performance loss. The relations rejected for the low image brand were found as different from the high image brand.

Furthermore, the weights of each impact were evaluated. And it was found that for the high image brand all the value perception types were mostly influenced by financial risk perception. High image brands have a high selling price and maintenance expense. Therefore, financial risk perception is an important risk type. The consumer’s thoughts about the monetary, functional, emotional and social value evaluations are influenced by a financial loss perception. For the low image brand, social risk and physical risk perception have the highest impact on value evaluations of consumers.

The research also provides managerial contributions. As an important outcome of the study, it should be kept in mind that all the perceived risk types affect each of the value perception type. Therefore, in value creation studies, managers should evaluate all the risk dimensions perceived – i.e., to create a social value perception, not only the perceived social risk but also the other risk perceptions should be taken into consideration. The other point that is critical for managers is that, there is a brand image effect on the relationship between the perceived risk and perceived value. In that scope, for the low image brand, managers should develop marketing programs to decrease the social and physical risk perception, while for the high image brand, they should focus on decreasing financial risk perception.

REFERENCES


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PRIMING EFFECTS IN THE SPILL-OVER OF THE CORPORATE BRAND

Gary Davies, University of Manchester, United Kingdom

SUMMARY

The benefits of “corporate” or “umbrella” branding include a potential reduction in overall marketing costs. But the possible dangers include that bad publicity for any individual brand might spill over onto and affect others in the portfolio. The aims here are to explore a real world example of corporate branding and to add to the growing understanding of how and when a corporate brand can make a positive contribution to consumer attitudes toward a product brand and to that brand’s imagery.

Opinions differ as to how a marketing communication is used by a person to add to the associations she/he makes with a brand. The more traditional view assumes every new piece of information received adds to the impression the individual holds about that brand (Fombrun 1996; Mela, Gupta, and Lehmann 1997). This, summative, model of communication suggests that if you give consumers a significant piece of information about a brand an immediate and measurable change in their perception of that brand can be expected. Existing, laboratory studies of spillover effects imply such an effect when associating a corporate name with a product brand. However other researchers have relied upon the associative network model of memory (Collins and Loftus 1975) when studying spillover effects (e.g., Brown and Dacin 1997; Lei, Dawar, and Lemmink 2008) suggesting the need to activate two separate nodes in memory, one for the product brand and one for the corporate brand. Only if the two are both linked and activated will the associations from one be brought to bear on the other. Two, competing, hypotheses are implied:

H1: Associating a corporate name with a brand name changes the associations made with that brand name in the mind of the communication’s recipient.

H2: Associating a corporate name with a brand name changes the associations made with the brand name in the mind of the communication’s recipient only if the recipient has already connected the brand and corporate names in memory.

The chosen context is Unilever and its Flora brand of margarine. From 2005 the company added its logo to advertisements for its product brands and began promoting its corporate brand.

A preliminary, qualitative survey was used to identify any specific associations that were made by the British public with the Unilever name, to supplement the items in the measure used of brand imagery, brand personality. In the first quantitative study the brand personality of Unilever was measured (n = 103). Regression was used to assess which trait items best predicted satisfaction with the brand. These items were retained in the next survey to provide a short measure of Unilever’s brand imagery. The main purpose of the study was to measure the brand associations of Flora under two conditions, whether respondents were either told or not told at the beginning of the survey that Unilever makes and markets Flora and whether or not they were already aware of the fact. The survey was conducted on-line (n = 502). The brand personality measure used consisted of five dimensions, Agreeableness (e.g., trustworthy) Competence (e.g., reliable), Chic (e.g., sophisticated), Enterprise (e.g., innovative) and Ruthlessness (e.g., arrogant) Davies et al. (2004). An assessment of tangible associations with the product brand was also included derived from Flora advertising. Respondents were asked about their brand satisfaction and purchase intentions.

T tests between those who were told Unilever made Flora (n = 250) and those who were not (n = 252) revealed no significant difference on the mean scores for all five dimensions of brand personality and for the tangible associations. H1 is not supported.

The respondent data were divided into four groups: told and already aware that Unilever make Flora (n = 112); told but unaware that Unilever make Flora (n = 138); not told but aware that Unilever make Flora (n = 120) and; not told and unaware that Unilever make Flora (n = 132). One way Anova identified that neither Flora brand Agreeableness (p = .85) nor brand Ruthlessness (.062) scores differed at p < .05 across the 4 cells. Two way Anova on brand Enterprise (p = .003), Competence (p = .004) and Chic (.025), showed significant results.

The main effects on Flora’s brand personality from an association with the Unilever name come from already being aware that Flora is a Unilever brand. Being told added to this influence but mainly by enhancing that existing awareness or, as can be argued from an associative network model of memory, by activating the relevant nodes and links in memory. H2 was strongly supported for...
two dimensions of brand personality, Competence and Enterprise. For Chic there was a significant result for being told and a significant interaction effect. For all three dimensions of brand personality the interaction effect is significant, supportive of both H1 and H2. Similar tests were made for the tangible association measure and neither told/not told (p = .750) nor aware/not aware (p = .15) were relevant in predicting the strength of these associations. H1 and H2 were not supported for tangible associations.

In four of the five dimensions the Unilever brand personality scores were higher than those for Flora suggesting the potential for a positive transfer of association from Unilever and to Flora. In each instance those aware and reminded of Unilever’s ownership appear to have been influenced in the direction one might expect. However in the case of Agreeableness, a lower score for Unilever did not significantly reduce that for Flora.

Much prior work on spill-over effects has involved laboratory experiments and fictitious brands implying that the effects of corporate branding are immediate, the product benefitting from the association. The results of the work reported here contrast markedly with that picture. They support an interpretation of spillover from an associative network theory of memory perspective. In summary reminding respondents who already knew that Unilever make Flora had the greatest effect on Flora’s imagery, telling them had only a small additional influence. The communication served to activate the relevant nodes storing associations around the Unilever name and raising such nodes above the threshold where they could contribute to an evaluation of the Flora brand. Among the practical implication is the view that manufacturers should remind shoppers at the point of purchase of any corporate branding References are available upon request.

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FEEDBACK LOOPS BETWEEN CORPORATE AND RETAIL STORE IMAGE: CORPORATE DOMINANCE AND EVALUATION APPROACH AS MODERATORS

Bernhard Swoboda, Trier University, Germany
Karin Pennemann, Trier University, Germany
Markus Taube, Mercator School of Management, Germany

SUMMARY

The objective of the present study is to examine the reciprocal relation between corporate and retail store image within the brand architecture. Furthermore we investigate corporate brand dominance (CBD) (Berens, van Riel, and van Bruggen 2005) and consumers’ holistic or analytic thinking (Nisbett et al. 2001) called evaluation approach (EVA) as moderating effects. Consumers refer to accessible and relevant information when evaluating a task at hand (Feldman and Lynch 1988). This reaffirms the importance of retail brands in consumers’ decision making process before choosing a product. Today, retailers see the need to internationalize (e.g., by mergers and acquisitions) but also to create a consistent brand architecture where corporate and retail store image interact congruently in the consumers mind. Thus, an understanding of reciprocal effects between these images becomes essential to manage brands efficiently and benefit from feedback effects within the brand architecture. In this regard Brown and Dacin (1997) as well as Keller and Lehmann (2006) presume reciprocal interactions and call for further research.

We implement Feldman and Lynch’s (1988) accessibility-diagnosticity framework (ADF) that provides the theoretical foundation for our hypotheses development: accessibility of information varies according to (1) the affective character of the image level from which information is retrieved, (2) the level of corporate brand dominance and (3) consumers’ preferred evaluation approach. Diagnosticity or relevance of information varies according to (1) the level of fit between the cause and objective of information transfer or (2) is substituted by increased accessibility (Schwartz et al. 1991). Lynch, Marmorstein, and Weigold (1988) argue that if given information is accessible and perceived as more diagnostic than other inputs it is likely to be used. Besides the reciprocal interaction we assume CBD as well as EVA as a second order moderator that strengthen the reciprocal interaction between corporate and retail store image via fit (the congruence of these images).

To test our hypotheses we used a 3 (activation stimuli: corporate, store, and control message) x 2 (branding strategy: high and low CBD) x 2 (EVA: analytic and holistic) between subject design. Six hundred subjects listened to the cover story which included the activation stimuli on different brand levels and the manipulation for the branding strategy. As stimuli, we chose the fourth largest retailer as the corporate brand which applies a mixed branding strategy for managing its retail brands. The food retail brand is managed according to a monolithic branding strategy and the electronic retail brand is managed according to a ‘house of brands’ strategy. We interviewed respondents from an analytic country (Germany) and from a holistic country (China).

We applied a non-recursive structural equation model and hierarchical regression. The results show a (1) reciprocal relation between corporate and store image that is affected by (2) consumers’ EVA and by (3) CBD for the effect of corporate on retail store image. Contrary to our hypothesis, the impact from the subordinate retail store image to the superordinate corporate image is intensified by a lower fit between brand levels. Thus we assume the effect of incongruent information and the relevance of retail brand dominance, the dominance of the subordinate store image.

Our results contribute to several calls (i.e., Keller and Lehman 2006) to investigate how the superordinate corporate image is affected by the subordinate retail store image and take a step further. To determine causality we employed an experimental design (Russell et al. 1998). A non-recursive (bidirectional) model was chosen to model images’ reciprocity; i.e., when store image is strengthen it would in turn strengthen corporate image and this through several cycles of the loop. These reciprocal spill-over effects are affected by (1) consumers’ EVA, i.e., holistic thinkers evaluate a high fit of corporate and retail store image as more favorable than analytic thinkers do, and by (2) CBD, i.e., a high CBD strengthen the positive moderating impact of fit on the effect of corporate on retail store image. Besides, we applied the accessibility-diagnosticity framework (Feldman and Lynch 1988) in a cross-cultural experiment and derived implications for an international perspective using the consumers’ culture dependent thinking (Nisbett et al. 2001).

From a managerial point of view interactions should be taken into account by the management on corporate
and store (or product) level. The power struggle between corporate and middle management to allocate marketing budgets has not been won yet and should rather be reconsidered in terms of benefitting from feedback loops. When entering a foreign market within a holistic thinking culture (e.g., China) firms can benefit from high transfer effects within the brand architecture per se. When entering a market within an analytic thinking culture, firms have to decide whether they want high transfer effects from the corporate or the retail store image – according to this they chose a rather monolithic or a ‘house of brands’ strategy. References are available upon request.

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DEVELOPING BRAND LOYALTY IN SERVICES: A HIERARCHY OF EFFECTS MODEL

Rodoula H. Tsiotsou, University of Macedonia, Greece

ABSTRACT

The study proposes a hierarchy of effects model and investigates the role of consumers’ involvement, self-expression, trust and attachment with a service brand in building brand loyalty. The results confirm that a hierarchy of effects approach, cognition-affect conation, can explain how brand loyalty can be developed in services.

INTRODUCTION

A challenging issue facing marketing managers is how to develop and maintain longitudinal relations with their consumers. Therefore, loyalty, a fundamental element for any longitudinal relationship, should be placed at the center of contemporary brand management. In line with this reasoning and the benefits realized as a result of loyalty, the concept has attracted the interest of marketing academics and practitioners (Chaudhuri and Holbrook 2001; Oliver 1999). Because of their unique characteristics (heterogeneity, intangibility, perishability, and simultaneous production and consumption), brand loyalty becomes even more important in a service context. Hence, there is great interest in how brand loyalty is built and which factors drive brand loyalty and consequently, service performance.

The present study examines the antecedents of brand loyalty and therefore, it characterizes the relationship between consumers and service brands in terms of their cognitive, affective and conative behavior. The present endeavor examines the effects of self expression, involvement, and trust on the emotional attachment between consumers and service brands, which in turn affects their loyalty. The purpose of this research is threefold. First, the study aims to contribute to the marketing literature by identifying the direct and indirect determinants of service brand loyalty. Thus, the proposed framework aims to provide an understanding of the major antecedents of brand loyalty. Second this research proposes a hierarchy of effects approach consisting of three stages, cognition affection-conation, in order to explain how loyal consumer-brand relationships are developed in services. Third, the study examines whether brand attachment acts as a mediator in the relationship between trust and brand loyalty. Because attachment is considered an important quality in any brand-consumer relationship, the present study aims to show its central role in developing loyal relationships. The present endeavor contributes to the literature by proposing a hierarchy of effects model to explain the formation process of loyalty. Moreover, no study in the marketing literature has incorporated brand involvement, self expression, trust, and attachment into a single model to explain if and how all these variables influence brand loyalty.

CONCEPTUAL MODEL – RESEARCH HYPOTHESES

Loyalty refers to “a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts have the potential to cause switching behavior” (Oliver 1999, p. 34). Developing loyalty between firms and customers is considered central to business success. Firms are focusing on brand loyalty strategies because they create entry barriers to competitors, and generate greater sales and profits whereas loyal consumers become less vulnerable to competitors’ actions (Dick and Basu 1994; Ballester and Aleman 2001) and less price sensitive (Birgelen et al. 1997). Moreover, brand loyalty is directly related to reduced marketing costs, increased new customers (Aaker 1991), and favorable word of mouth (Dick and Basu 1994) whereas it mediates the relationship between brand attitudes, and brand equity (Chandhuri 1999).

In the present study, all of the hypothesized antecedents of loyalty include both, cognitive and affective components, although one component predominates in each construct. Specifically, although attachment consists of cognitive and affective components, the affective component prevails (Park et al. 2006). Trust also has two dimensions, a cognitive and an affective where the cognitive dimension dominates the affective one (Johnson and Grayson 2005; Chaudhuri and Holbrook 2001; Morgan and Hunt 1994). Involvement is also considered a construct including both cognitive and affective elements (Park and Young 1986; Zaichkowsky 1994) where the cognitive element prevails (Mano and Oliver 1993; Thomson, MacInnis, and Park 2005). In a similar vein, self expression consists of both, affective and cognitive components, where cognition outweighs affection (Carroll and Anuvia 2006; Wattanasuwan 2005).

The proposed model (Figure 1) consists of three facets named a cognitive (involvement, trust, self expres-
tion), an affective (attachment) and a conative (loyalty) and proposes that the cognitive facet precedes the affective one in developing brand loyalty. This approach is in line with the cognition-affect-conation paradigm proposed marketing (Bagozzi 1978; Oliver 1997) and supports that loyalty is a process that develops through three stages: cognitive, affective and conative. Thus, loyalty is seen as a sequential process where consumers become “loyal first in a cognitive sense, then later in an affective sense and still later in a conative manner (Oliver 1997, p. 392). Cognition refers to consumers’ thoughts about a brand, affection encompasses feelings, moods or emotional responses and conation refers to behavioral intentions (Bagozzi 1978; Oliver 1997).

The key element in the present study that converts cognitive processes (involvement, trust, and self-expression) into strong and loyal consumer-brand relationships is brand attachment (affective facet). Based on the emerging theory of brand attachment (Park, MacInnis, and Priester 2006), the present study proposes that brand attachment plays a pivotal role in developing brand loyalty and act as mediator in the relationship between the cognitive constructs of the study and loyalty.

Following, the hypotheses of the study are presented whereas the proposed relationships among the constructs are shown in Figure 1.

The Antecedents of Brand Loyalty: Brand Attachment and Trust

Brand attachment refers to “the strength of the cognitive and affective bond connecting the brand with the self” (Park, MacInnis, and Priester 2006, p. 4) in a symbolic manner (Wallendorf and Arnould 1988). Fournier (1994) has proposed brand attachment as one of the six dimensions relevant in a consumer-brand relationship. The significance of brand attachment as a key determinant in consumption behavior is substantiated by several attributes inherent to the concept. Attachment expresses emotional bonds which are persistent, resist to change, impact cognition, and predict behavior (Krosnick and Petty 1995). Persistence reflects the degree to which an individual’s attachment toward an object remains unchanged over time. Resistance represents an individual’s ability to refuse shifting to competitive products (Petty and Cacioppo 1986). A strong attachment will lead to consumer’s resistance to change and the ability of a brand to withstand bad performance (Keller, Aperia, and Georgson 2008).

Affective reactions to brands have been found to predict brand loyalty. Empirical studies report that brand affect determines purchase and attitudinal loyalty (Chaudhuri and Holbrook 2001) whereas brand attachment directly influences brand loyalty (Thomson, MacInnis, and Park 2005). Therefore, it is expected that:

H1: Brand attachment is positively related to brand loyalty.

Trust is considered as an inherent characteristic of any valuable social relationship. Brand trust constitutes an important construct in marketing because it affects consumers’ positive and favorable attitudes, and results in brand commitment (Ballester and Aleman 2001), an expression of successful relationships between consumers and brands. Brand trust refers to “the willingness of the average consumer to rely on the ability of the brand to perform its stated functions” (Chaudhuri and Holbrook 2001, p. 82) and exists “when one party has confidence in the exchange partner’s reliability and integrity” (Morgan and Hunt 1994, p. 23). Trust involves a “calculative process” based on the ability of a brand to continue to meet its promises and on an estimation of the rewards gained by remaining in a relationship in terms of the costs involved (Doney and Cannon 1997). It is perceived as a process that is carefully considered (Chaudhuri and Holbrook 2001). Based on the commitment-trust theory, Morgan and Hunt (1994) consider trust as a key variable in developing and maintaining enduring and highly valued brand relationships.

Research reports that brand trust is a predictor of consumers’ brand commitment, even stronger than overall satisfaction (Ballester and Alemán 2001), and it is linked directly to purchase and attitudinal loyalty with the brand (Chaudhuri and Holbrook 2001). The link between brand trust and brand loyalty results from the notion that trust can create relational exchanges that are highly valued (Morgan and Hunt 1994). Therefore, based on the above reasoning, it is hypothesized that:

H2: Brand trust is positively related to brand loyalty.

The Antecedents of Brand Attachment – Brand Trust and Self Expression Brand attachment is linked to consumers’ self-concept. According to Park, MacInnis, and Priester (2006) four conditions/resources are necessary for a brand to foster brand attachment: to “(1) gratify the self through hedonic and aesthetic qualities, (2) enable the self by fostering a sense of efficacy and control, (3) enrich the self by providing symbolic meanings that define one’s identity, and (4) can do so reliably and with the customer’s interest at heart” (p. 23, 24). The first three conditions indicate the self expressive value of the brand while the fourth is related to self-assuring trust with a brand. Therefore, it is proposed that brand self-expression and trust account for consumers’ brand attachment.
Brand trust has been considered an important and desired quality in understanding consumer-brand relationships and therefore, achieving successful relationship marketing (Morgan and Hunt 1994; Chaudhuri and Holbrook 2001; Park, MacInnis, and Priester 2006). When consumers trust a brand, they will commit to a relationship with the brand and be willing to sustain a long-term relationship with it. Because the trust-commitment relationship is considered pivotal in relationship marketing (Morgan and Hunt 1994), brand trust has been mainly examined in relation to brand commitment and not to brand attachment, although the latter is perceived as an expression of brand commitment. For example, Chaudhari and Holbrook (2001), and Kennedy et al. (2000) examined the relationship between trust and commitment for consumer products and report positive effects. However, Park, MacInnis, and Priester (2006) consider brand trust crucial in fostering brand attachment because consumers rely upon the brand to consistently deliver its resources. Only one study in marketing (Esch et al. 2006) examined the effect of brand trust on brand attachment reporting a strong positive effect (.75), stronger than brand satisfaction (.19). Therefore, it is proposed that:

H3: Brand trust is positively related to brand attachment.

Carroll and Ahuvia (2006) defined a self-expressive brand as “the consumer’s perception of the degree to which the specific brand enhances one’s social self and/or reflects one’s inner self” (p. 82). It is well documented in the consumer behavior literature that individuals choose specific brands not only for their functional benefits but also for their symbolic properties (Piacentini and Mailer 1999; Wattanasuwan 2005). In this case, the symbolic meaning of the brand is used as an expression of a consumer’s self-concept in relation to her/his self (inner
self-expression) and her/his status in society (social-self expression) (Elliot 1999). In this vein, inner self is reflected when consumers choose brands that assist them in creating, fostering and developing their identity (Elliot and Wattabasuwan 1998; Yoo et al. 2006). In addition, social self is expressed when consumers use the symbolic content of a chosen brand to reflect their affiliation or connection to a particular social group (Piacentini and Mailer 1999). Therefore, it is expected that when brands gratify, enrich and enable consumers’ self then, consumers will develop strong emotional bonds with them (Park, MacInnis, and Priester 2006). Following the above discussion, it is hypothesized that:

H4: Brand self-expression is positively related to brand attachment.

H5: Brand self-expression is positively related to brand trust.

Involvement has been linked to consumer behavior and refers to “a person’s perceived relevance of the object based on inherent needs, values, and interests” (Zaichkowsky 1985, p. 342). Involvement is a function of individual characteristics (e.g., needs, values, goals), situational factors (e.g., purchase occasion or perceived risk associated with a purchase decision), and characteristics of the product or stimulus (e.g., type of the media, variations within a product class) (Zaichkowsky 1985). The consequences of involvement are higher motivation, heightened arousal and increased cognitive elaborations (Mano and Oliver 1993). Moreover, Zaichkowsky (1985) distinguished involvement into two categories: product involvement and brand-decision involvement. Product involvement refers to the interest consumer finds in a product class. Brand-decision involvement is the interest taken in making the brand selection. The direct relationship between involvement and brand trust has not been studied yet. Involvement has been found to be an antecedent of brand loyalty and brand commitment (Beatty and Kahle 1988) or act as a moderator in the relationship between brand trust and brand commitment (Ballester and Aleman 2001). In the present study it is hypothesized that brand involvement is an antecedent of brand trust.

H6: Brand involvement is positively related to brand trust.

**METHODOLOGY**

The present study was conducted in the context of banking and insurance services. Data were collected via a questionnaire distributed to consumers in the streets of major cities in Greece. Consumers participated voluntarily in the study receiving no incentive. Three hundred eighty consumers were approached and 81 of them responded that they have never used the service brands of the study, so they did not complete the questionnaire. A total of 299 completed questionnaires were collected from which 289 were valid and used for the analysis.

The majority of the sample consisted of female (52%) resembling the synthesis of the population. In relation to age, the majority of the participants were between 25 and 50 years old (64%), 15 percent were between 22 and 24 years old and 12 percent were between 51 and 72 years old. Regarding their education, 33 percent held a bachelor’s degree, 10 percent were students, 15 percent had a technological education, 21 percent had a high school education, and the remaining declared other types of education. In terms of their marital status, the majority of the sample was married (47%), 38 percent were single, 4 percent in separation, 4 percent divorced and the remaining did not reply to this question. Finally, in relation to household income, 67 percent of the sample had an annual income between 10,000 and 30,000 Euro, 21 percent had an income between 31,000 and 50,000 Euro whereas the remaining had an income exceeding 51,000 Euro.

**Construct Operationalization and Measures Brand Involvement:** The revised version of the Personal Involvement Inventory (PII) (Zaichkowsky 1994), consisting of 10 items (7-point bipolar scale), was used to measure involvement with the service brand. The scale encompasses two dimensions, affective and cognitive involvement.

**Brand Self-Expression:** To measure the self-expressive value of the brand, the instrument developed by Carroll and Ahuvia (2006) was employed. The scale consists of two factors: inner self (4 items) and social self (4 items) and uses a seven-point Likert scale anchored by Strongly Disagree (1) to Strongly Agree (7).

**Brand Attachment:** A modified version of the scale developed by Thomson et al. (2005) was used to measure brand attachment. The scale consists of three dimensions: affection, connection and passion, and fifteen items using a seven-point Likert scale anchored by Strongly Disagree (1) to Strongly Agree (7). The five items expressing connection were used in the present study.

**Brand Trust:** Four items using a 7-point likert-type scale anchored by Strongly Disagree (1) to Strongly Agree (7) were initially used to measure brand trust. These items have been borrowed from the marketing literature (Chaudhuri and Holbrook 2001).

**Brand Loyalty:** Brand loyalty was measured with nine items used in the marketing literature (Zeithaml et al. 1996). The first four items measure brand loyalty, and the remaining 5 measure loyalty intentions using a seven point Likert scale anchored by Strongly Disagree (1) to Strongly Agree (7).
RESULTS

First, a confirmatory factor analysis (CFA) was used for testing the measurement model and then, structural equation modeling (SEM) was deployed to test the theorized model (Figure 1).

Confirmatory Factor Analysis

The initial items used to measure the five latent constructs were subjected to Confirmatory Factor Analysis (CFA) using LISREL 8.52. Several items were dropped from the analysis due to small loadings or correlated errors (Table 1). The revised measurement model was found to fit the data well although the chi-square goodness of fit index was statistically significant $\chi^2 = 616.24$ with 220 degrees of freedom, ratio $\chi^2$/d.f. = 2.8, $p < .00$. Moreover, the fit indexes values met or exceeded the critical values for good model fit ($\text{RMSEA} = 0.08, \text{NFI} = 0.91, \text{NNFI} = .93 \text{ CFI} = 0.94$).

Next, internal consistency was evaluated by using composite reliability (CR). Both composite reliability (CR) and average variance extracted (AVE) were calculated using the procedures recommended by Fornell and Larker (1981). As shown on Table 1 all the composite reliabilities for the five multi-item scales ranged from 0.89 to 0.94, indicating acceptable levels of reliability for the constructs. Moreover, the AVEs ranged between 0.72 and 0.75, well above the recommended 0.50 level (Bagozzi and Yi 1988). Finally, the model was tested for convergent and discriminant validity by using the factor loadings and the F matrix. These two tests indicated that the conditions for convergent and discriminant validity were satisfied indicating that the constructs are measured reliably and can be discriminated.

Testing the Structural Model

After the preliminary analyses, the structural model of the study was tested using the statistical package LISREL 8.52 and employing Maximum Likelihood (ML). The proposed model (Figure 1) produced a chi square value of 550.59 with 181 degrees of freedom ($\chi^2$/d.f. = 3) and was significant ($p < .00$). The fit indexes values were larger than the 0.90 threshold (NFI = 0.90, NNFI = .92, CFI = 0.93) and the RMSEA value (.08) was within the acceptable levels. All the hypothesized effects were confirmed with all paths being significant at the .05 level.

Testing the Mediation Effects of Brand Attachment

In order to accomplish the third objective of the study, a mediation test was conducted using Brand Attachment as a mediator between Brand Trust and Loyalty. First, a model examining only the indirect effects (via Attachment) on Loyalty was tested. The analysis resulted in a chi square of 613.95 and 182 degrees of freedom. A second model was tested where both direct and indirect effects on Brand Loyalty were accounted for. This model had a chi square value of 550.59 and 181 degrees of freedom. The chi square difference between the two models was statistically significant ($\chi^2 = 63.36, 1$ degree of freedom) indicating that Brand Attachment acts as a partial mediator between Brand Trust and Brand Loyalty.

DISCUSSION OF FINDINGS

The present study provides important theoretical and practical contributions for understanding the formation process of brand loyalty in services. From a theoretical perspective, the study expands our empirical knowledge on brand loyalty and its relationship with other key concepts such as involvement, self-expression, attachment and trust. Brand loyalty can be viewed as a link in the sequence of effects that indirectly connects brand trust and brand attachment with the market performance features of brand equity (Chaudhuri and Holbrook 2001).

Another important finding of the present research is the support of a hierarchy of effects process in explaining how loyal consumer-brand relationships can be developed. The tested model supports that cognitive appraisals about a brand will be take place first, followed by affective attachment and finally by conative responses. The findings indicate that a cognition-affect affectionation sequence of effects can be supported in loyal consumers-brand relationships in services. These results are in line with previous notions in the marketing literature that support a hierarchy of effects not only in attitude formation (Bagozzi 1978) but in loyalty creation as well (Oliver 1997).

The results confirm the proposed model and highlight the important role of brand attachment in developing brand loyalty. Consistent with previous findings in the marketing literature, the pattern of results reported here suggest that brand attachment is a direct determinant of brand loyalty. In addition, the present findings indicate that brand attachment is not only directly affecting brand loyalty but it partially mediates the relationship between brand trust and loyalty. The study confirms the role of brand attachment as a key relationship building-block. Therefore, services marketing scholars are advised to integrate this affective construct in models of consumers-service brands relationships. Furthermore, the current research provides an empirical validation of the conceptual framework proposed by Park, MacInnis, and Priester (2006) and verifies the role of self-expressive factors (brand self-expression and involvement), and trust in developing attachment in a service context. The study also extends this framework to the outcomes of brand attachment such as brand loyalty and shows its significant role in building longitudinal relationships with brands.
### TABLE 1
Measurement Model and Confirmatory Factor Analysis Results

<table>
<thead>
<tr>
<th>Exogenous Variables</th>
<th>Loading</th>
<th>AVE**</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRAND INVOLVEMENT (CR = 0.93)</td>
<td>0.73</td>
<td></td>
</tr>
<tr>
<td>Brand X is Important - Unimportant</td>
<td>0.89*</td>
<td></td>
</tr>
<tr>
<td>Irrelevant – Relevant</td>
<td>0.85*</td>
<td></td>
</tr>
<tr>
<td>Means a lot – Means nothing to me</td>
<td>0.90*</td>
<td></td>
</tr>
<tr>
<td>Unexciting – exciting</td>
<td>0.85*</td>
<td></td>
</tr>
<tr>
<td>Dull</td>
<td>0.77*</td>
<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>Dull</td>
<td>0.77*</td>
<td></td>
</tr>
<tr>
<td>BRAND SELF-EXPRESSION (CR = 0.93)</td>
<td>0.72</td>
<td></td>
</tr>
<tr>
<td>Brand X symbolizes the kind of person I really am inside</td>
<td>0.81*</td>
<td></td>
</tr>
<tr>
<td>Brand X is an extension of my inner self</td>
<td>0.89*</td>
<td></td>
</tr>
<tr>
<td>Brand X mirrors the real me</td>
<td>0.90*</td>
<td></td>
</tr>
<tr>
<td>Brand X adds to a social “role” I play</td>
<td>0.85*</td>
<td></td>
</tr>
<tr>
<td>Brand X improves the way my friends view me</td>
<td>0.78*</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Endogenous Variables</th>
<th>Loading</th>
<th>AVE**</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRAND TRUST (CR = 0.89)</td>
<td>0.73</td>
<td></td>
</tr>
<tr>
<td>I trust completely brand X</td>
<td>0.92*</td>
<td></td>
</tr>
<tr>
<td>I count on brand X</td>
<td>0.91*</td>
<td></td>
</tr>
<tr>
<td>Brand X is honest</td>
<td>0.73*</td>
<td></td>
</tr>
<tr>
<td>BRAND ATTACHMENT (CR = 0.92)</td>
<td>0.72</td>
<td></td>
</tr>
<tr>
<td>I feel that with Brand X I am Connected</td>
<td>0.89*</td>
<td></td>
</tr>
<tr>
<td>Passionate</td>
<td>0.87*</td>
<td></td>
</tr>
<tr>
<td>Delighted</td>
<td>0.89*</td>
<td></td>
</tr>
<tr>
<td>Captivated</td>
<td>0.82*</td>
<td></td>
</tr>
<tr>
<td>BRAND LOYALTY (CR = 0.94)**</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>I always follow Brand X</td>
<td>0.87*</td>
<td></td>
</tr>
<tr>
<td>I intend to be a customer of Brand X for ever</td>
<td>0.81*</td>
<td></td>
</tr>
<tr>
<td>I am devoted to Brand X</td>
<td>0.88*</td>
<td></td>
</tr>
<tr>
<td>I am loyal customer of Brand X</td>
<td>0.87*</td>
<td></td>
</tr>
<tr>
<td>I support Brand X even when it is not good</td>
<td>0.84*</td>
<td></td>
</tr>
<tr>
<td>I am trying to convince others to become customers of Brand X</td>
<td>0.83*</td>
<td></td>
</tr>
</tbody>
</table>

\[ \chi^2 = 616.24 \text{ (p < .00), 220 d.f.}; \text{RMSEA} = 0.08, \text{NFI} = 0.91, \text{NNFI} = .93, \text{CFI} = 0.94 \]

* significant at the 0.05 level

### LIMITATIONS/FUTURE RESEARCH RECOMMENDATIONS

This study has certain limitations that qualify its findings and provide directions for further research. First, the findings and implications (theoretical and practical) of this study should be read in the context of the specific sample and results may not be generalized. However, as in any research, further investigation is needed to replicate and extend these findings. Because the data of the study
comes from two service brands and a single country, the present model should be validated in other services, in goods, and other countries.

Moreover, the data collected were at a specific point of time although loyalty is considered dynamic in nature. This might not be the most appropriate approach in capturing processes and changes over a period of time. Thus, longitudinal approaches to the study of brand loyalty are recommended in order to gain further understanding not only of the developmental process of loyalty but to also tap its possible fluctuations over time.

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BRAND DELETION, A DAUNTING CALL: A CONCEPTUAL MODEL OF WHY SOME FIRMS RETAIN UNPROFITABLE BRANDS

Purvi Shah, Texas Tech University, Lubbock

SUMMARY

In the 1980s, multinational corporations believed in giving consumers whatever they wanted – even if it meant managing cumbersome and bulky product lines and brand portfolios. At that time, Levitt (1983) argued that technology has created a global market of converging consumer preferences and, businesses would succeed if they could market globally standardized products; firms did not really need brand proliferation. Those multinationals that capitalized on the global market liberalization by not paying heed to what Levitt said are today finding themselves overburdened with gigantic, unbalanced brand portfolios comprising of loss-making and marginally profitable brands. Research also provides evidence for the disadvantages of holding huge portfolios such as, inefficiency and high costs (Eckles 1971; Kotler 1965), reduced manufacturing and distribution economies (Finskud et al. 1997; Hill, Ettensohn, and Tyson 2005; Laforet and Saunders 1999), and so on.

Despite this, many firms hold unprofitable brands in their huge portfolios, a striking example of which is the automobile industry. Pontiac was discontinued in 2010 after 84 years, Oldsmobile (losing its place in the market since 1990) was finally terminated in 2004 after a life of 106 years, Volkswagen decided to retain its loss making brand SEAT because it brings 100,000 young consumers to VW stable who later graduate to VW and then to Audi. It is strategically imperative for VW to retain its loss-making brand Seat because it is an important part of the consumer life cycle. In the fast moving consumer goods industry, Unilever and P&G have also faced this situation. The question is – Why did these firms decide to retain unprofitable brands in their portfolio? The purpose of this paper is to provide an answer to this question through a model explaining the several reasons underlying the retention of unprofitable brands. The contribution of this model is: (1) enhancement of the literature by adding new constructs, (2) explaining in detail those constructs which have received only brief mentions in the literature, (3) development of new relationships among established constructs in the product and brand deletion literature, and (4) synthesizing them all under one detailed model.

Theoretically, this model which explicates the rationale underlying retention of unprofitable brands is grounded in the Resource-based view (RBV) and the Resource-Advantage Theory (R-A theory). Based on the RBV, marketing literature has widely accepted that brands are important intangible resources that can significantly contribute to firm performance (Aaker 1996; Balmer and Gray 2003; Capron and Hulland 1999; Kapferer 1992; Keller 1993; Shocker, Srivastava, and Ruekert 1994). According to R-A Theory, brands can be categorized as resources if they contribute to the firm’s ability to efficiently and/or effectively produce a market offering that holds value for some market segment(s). So, if brands are valuable resources, why would firms want to delete them? Because R-A theory also emphasizes that, “an asset that is a resource in one environment can become a non-resource in another if it no longer contributes toward the creation of value in the firm’s market offerings.” Contra resources can not only reduce the value but also impede the creation of value in the firm’s market offering (Hunt and Morgan 1995, p. 12). And if a firm fails to modify, sell, or delete such resources from its resource assortment, it might have to face undesirable consequences. So, drawing on R-A theory, unprofitable or weak brands can be defined as brands that do not effectively and/or efficiently contribute to the value of a firm’s offering. And brand retention is a firm’s strategic choice to not delete or discontinue but to hold on to a brand in its present brand portfolio. The model proposed here, presents four considerations that influence the unprofitable brand retention decision. They are as follows:

Strategic considerations: Avlonitis and James (1982, p. 38) point out that “not all weak products are ready for deletion, nor are deletion candidates only those with low profitability and declining sales.” Managers also need to contemplate various strategic considerations before deciding whether to retain or delete the unprofitable brand. The strategic factors discussed in this paper are (1) Top Management Team demography, (2) Image and Reputation of the firm, (3) Brand Proliferation Strategy, (4) Viability of the brand, and (5) Flanker Brand Strategy. For example, if the brand deletion decision is perceived to have a negative impact on the firm’s image and reputation, the firm is more likely to retain that brand in its portfolio. Also, firms following the brand proliferation strategy with the objective of blocking new firms from entering the market or satisfying heterogeneous consumer needs might decide to retain weak brands for strategic reasons.

Psychological considerations: According to Fineman (1993), organizations are now accepted as emotional arenas. Several researchers provide evidence that apart from rational strategic considerations, an organization’s decision making is also affected by emotions and psycho-
logical factors (Ashkanasy, Zerbe, and Hartel 2002; Elsbach, Sutton, and Principe 1998; Forgas and George 2001; Schwarz 2000). The psychological factors that might be important in the brand retention scenario are (1) Negative Emotions, (2) Brand Commitment and Brand Attachment of management and employees, and (3) Sunk Cost Fallacy. Deciding whether to let go off a brand is a sensitive issue because it might be viewed as a direct attack on the management’s ability and competence of managing the brand. This might hurt the brand manager’s self identity and future career prospects thereby creating negative affect. According to Park et al. (2010), individuals attached to a brand experience complex feelings about the brand such as happiness from brand-self proximity, pride from brand-self association, and anxiety, stress, and sadness from brand-self separation. If the employees and management of the firm exhibit a strong sense of psychological bonding with the brand, eliminating that brand (despite its unprofitability) would become a painful and emotionally charged process. As Kumar (2003, p. 88) puts it, “brand managers whose careers are wrapped up in their brands, never take easily to the idea (of brand deletion).”

**Process considerations:** Two process-related factors that hold importance in this case, (1) formalization of and (2) firm’s past experience with the brand deletion process. Avlonitis (1985) found that firms with formal product deletion procedures have a lesser chance of retaining unprofitable products in their portfolio than those firms that do not have formalized deletion procedures. Moreover, formalization enhances managerial effectiveness by preventing sick products from hanging in the product line because it thwarts procrastination, hesitation, and half-hearted efforts in the deletion process. Also, a firm that has past experience of successful brand deletions might be more confident and efficient (Greve 2003; Levinthal and March 1993) in the current brand deletion situation as compared to a firm undergoing this process for the first time without any prior experience.

**External Environment considerations:** According to Tosi and Slocum (1984), a firm operates in and is also affected by its external environment. This external environment is also a major source of contingencies faced by a firm. Some external entities that might influence the brand retention decision include consumers, channel partners, competitors, market structure, media, and government. Applying the Stakeholder Theory (Freeman 1984), it is important for a firm to consider the interests of these several stakeholders while making the retention decision for unprofitable brands.

Thus, this conceptual model provides a checklist of factors to be considered while deciding whether to retain unprofitable brands, and thereby, facilitates the brand deletion process. Further, this model is not all-encompassing; there is potential for the further refinement and enhancement of the proposed model. Future research could examine the impact of cultural, technological, and social factors, and the influence of conflict of interests among stakeholders on the brand retention decision. Finally, if firms draw their attention to this neglected area of brand management, the process of brand deletion might no longer remain a traumatic ordeal for the firm, and if planned and executed properly, it would result in a firm with strong brands that is set for growth on the path of progress. References are available upon request.

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MEASURING THE SHORT-TERM SPILLOVER IMPACT OF A PRODUCT RECALL ON A BRAND ECOSYSTEM

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Jean-Francois Belisle, McGill University, Montreal

SUMMARY

This paper investigates one of the most challenging issues that managers have to deal with: product recalls. Recalls may have an immediate negative impact on the company’s sales, profits, and stock price (Chen, Ganesan, and Liu 2009; Dawar and Pillutla 2000; Lafer and Coombs 2006; Siomkos and Kurzbarb 1994; Sullivan 1990; van Heerde, Helsen, and Dekimpe 2007). Recalls are also becoming more and more common due to product proliferation and increasing product complexity (Souiden and Pons 2009). Another troubling reality is that for every product recall, there are dozens of related brands and products that could be affected. Therefore, looking at the impact of recalls on a broader “ecosystem” can be even more important for a firm than simply focusing on the brand related to the product recall itself. This research examines the short-term effects of a product recall on a brand ecosystem. Brand ecosystem is a term that we introduce to represent “an environment consisting of all brands that could potentially impact and interact with each other in a competitive space.” Based on this definition, this study tackles the following questions: How does product recall spillover effects spread to: (1) the brand’s related product categories? (2) competing brands? and (3) private label brands?

To shed light on how spillover effects play out in a brand ecosystem affected by a product recall, two theories are discussed. The Similarity theory stipulates that spillovers are most likely to occur among brands that are perceived as similar and least likely to occur among brands that are perceived as different (Roehm and Tybout 2006; Dahlén and Lange 2006; Herr 1989), while the Dominance theory predicts that bad news on a dominant brand will disproportionately and adversely affect the weaker brands (Lei et al. 2008).

To answer the aforementioned research questions, we investigate a high-profile Land O’Lakes butter recall in the United States. This 2003 recall of the national brand’s 1LB butter came into effect in 22 states because the butter sticks may have contained small metal fragments. Analyzing the Land O’Lakes recall using an IRI Marketing dataset (Bronnenberg, Kruger, and Mela 2008), our research looks at the short term sales impact of the product recall in two affected cities (Chicago and Minneapolis) and compares it to the sales change in two non-affected cities (Boston and Los Angeles). We propose four difference-in-differences (DID) models to measure the spillover of the product recall. We examine margarine (and dairy-spread by-products) sales over a 4-week period immediately following the Land O’Lakes butter recall. Model 1 explores the impact of the Land O’Lakes butter recall on all Land O’Lakes branded products related to butter (margarine, butter blends, vegetable spreads, and sprays); Model 2 examines the Land O’Lakes butter recall on Land O’Lakes margarines; Model 3 explores the effect of the recall on Land O’Lakes branded competitors (Parkay, Can’t Believe It’s Not Butter, Blue Bonnet, and Parmalat); and Model 4 deals with the effect of the recall on private label margarines.

Following the tradition in sales modeling, the dependent variable sales was logged to facilitate a normal distribution and for interpretive purposes (Leefflang, Wittink, Wedel, and Naert 2000). The key variable in each model is the interaction of the binary variables recall city and post-recall. This variable shows the effect that the recall had on sales in a recall city compared to what happened to sales in a non-recall city.

The models provide four key findings. First, the product recall spills over to hurt sales of Land O’Lakes margarine as well as the entire portfolio of Land O’Lakes dairy spread by-products. This supports the Similarity theory. Second, unlike what the Dominance theory would suggest, branded competitors did not receive spillover effects from Land O’Lakes (the dominant brand) butter recall. More specifically, the aggregate sales of branded competitors (Parkay, Blue Bonnet, Parmalat, I Can’t Believe It’s Not Butter) did not experience a significant rise or fall in sales ($p = .6918$). Third, private label brands did not suffer from spillover effects. Once again, the Dominance effect was not supported as private labels did not experience a significant change in sales ($p = .4594$) from the Land O’Lakes butter recall. Overall, these findings provide strong support for the Similarity theory but do not support the Dominance theory. Another important result is how quickly margarine sales dropped off as soon as butter received the recall. The effects of the product recall is indeed immediate in the brand ecosystem, which has significant implications for when and how managers deal with a product recall.
There are several implications related to this research. First, the DID model approach that we present is easily adaptable (and generalizable) to study other managerial issues such as any type of product-harm crisis. Second, managers of brands that are similar to brands that suffer setbacks are likely to be affected by the negative event, and have a short time to react. Third, the results point out that consumers seem to think in terms of brands, not categories. Managers can benefit from this insight in order to balance sales losses of the recalled brand family. For example, under this line of thinking, a “house of brands” strategy would be more advantageous than a “branded house” strategy (Aaker 2004). Finally, this research is also a starting point for other related studies as many questions also remain. In this product recall, no one was injured and Land O’Lakes seems to have handled its actions well. Thus, how might spillover effects change if consumers are have been seriously harmed? Also, how far might a product-harm crisis spread within a brand’s category hierarchy? What are the longer-term impacts of the recall on the various consumer segments? Through this paper, we hope to have sparked more interest in these important topics related to turbulent times. References are available upon request.

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IMPACT OF THE FINANCIAL CRISIS ON THE EMPLOYER BRANDS OF BANKS

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ABSTRACT

Today it is widely accepted that qualified employees are a central success factor for companies. In order to compete on the labor market companies build employer brands. At present, the concept of employer branding focuses on building and managing brands in “normal” times, without taking consequences of potential crises into consideration. Our aim is to discuss the role of the last financial crisis in the context of employer branding. Therefore, the expectations of high potentials as well as the employer brand images of banks were compared before and after the crisis showing a highly significant impact of the crisis.

INTRODUCTION

In marketing theory it is widely accepted that next to brands employees form a critical success factor for companies (Huselid 1995; Stuart 2001; Martin et al. 2005; Meffert 2007; Sponheuer 2010). However, the recruitment of highly qualified employees on the German labor market has become an increasing challenge for companies – a development regularly referred to as the “war for talent” (Ewing et al. 2002; Stotz and Wedel 2009; Sponheuer 2010). Even despite the recent financial crisis and the associated economic downturn, these so-called “high potentials” have remained scarce (High Potentials 2008/2009). In order to successfully attract and retain qualified employees companies need to differentiate from relevant competitors on the labor market by developing meaningful employer brands (Hogan 2002; Polomski 2005; Stotz and Wedel 2009). Against the light of this background we want to pose the question whether economic shocks like the recent financial crisis are able to significantly harm the employer image of a whole industry sector. In this present study we seek to expand on the existing knowledge of employer branding by focusing on an industry sector-specific crisis and its influence on the expectations of high potentials interested in the banking and financial sector toward potential employers as well as their specific evaluation of banks.

THEORETICAL BACKGROUND

Employer Branding

Employer branding can be characterized as a special aspect of corporate branding which applies the mechanisms of brand management to the job market (Kernstock et al. 2004; Barrow and Mosley 2005; Kirchgeorg and Günther 2006; Kotler and Keller 2009; de Chernatony et al. 2011). Accordingly, the employer brand is focused on the target groups of potential, current and former employees (Jones 2005). Employer branding is used to differentiate the associations which the relevant target groups have with a company as an employer from those of its competitors (Backhaus and Tikoo 2004; Greven 2008). Accordingly, employer branding is defined “as the process of building an identifiable and unique employer identity, and the employer brand as a concept of the firm that differentiates it from its competitors” (Backhaus and Tikoo 2004). While the employer brand itself constitutes a specific “benefit bundle” for the target group, the employer brand image can be regarded as the “judgmental perception of a company as an employer, which is firmly positioned in the minds of potential, current and former employees” (Sponheuer 2010). The employer brand image consists of emotional as well as cognitive components (Trommsdorff and Paulissen 2001) and can be influenced by company-controlled stimuli as well as externally caused or uncontrolled stimuli (Grobe 2003; Greven 2008).

For our study we focus on the target group of potential employees, more specifically on high potentials among students (undergraduate and graduate) with a background of business studies. High potentials can be regarded as highly skilled persons who positively distinguish themselves from the majority of the job market with regard to both their technical and social skills (Kunz 2004). For employer branding in the context of high potentials, media-driven marketing and recruiting activities of human resources (HR) – departments are the most relevant controlled stimuli (Grobe 2003), while word-of-mouth and mass media are the most relevant in terms of uncontrolled stimuli (Cantor 1994; Grobe 2003). Finally, based on the conceptual framework of our study our analysis will concentrate on the employer brands of banks.

Industry-Sector Specific Crisis

Building and managing an employer brand with a consistent image is a long-ranging and gradual process. However, the employer brand image can be significantly influenced by sudden and rather short-run events of crisis (Greven 2008). Mishra (1996) defined a crisis as a major threat to system survival with little time to respond, involving an ill-structured decision process and a situa-
tion where current resources are inadequate to cope with the situation. In the context of employer branding scholars have barely analyzed the impact of crises on employer brands. To our knowledge, one Germany-centered study examined a company-specific crisis and its impact on the company’s employer brand, showing a significant negative influence of the crisis on the overall employer brand image (Greven 2008). While our study will also explore the effects of a crisis on employer brands, its focus will be on the industry level using the example of German banks against the light of the recent financial crisis.

In order to clarify the course of the financial crisis in Germany, we will shortly present the most relevant facts that might have had an influence on the perception of banks. While having been the topic of an extensive media coverage, all facts were extracted from a renowned German financial newspaper (Stroisch et al. 2009), and can therefore be assumed to have been recognized by high potentials interested in the financial sector. In March 2008 the U.S. bank Bear Stearns collapsed and was bought by JP Morgan Chase. One month later, the Bayern LB – one of the German Federal State Banks – had to announce amortizations twice as high as predicted and recorded a record loss of about €4.3 billion. The following months were characterized by a vast number of negative reports concerning banks and the financial sector. In July and September 2008, the U.S. banks IndyMac and Lehman Brothers had to file for bankruptcy respectively, again accompanied by an extensive media coverage throughout Germany. Following the collapse of Lehman Brothers, the German stock index DAX fell by about 5 percent, temporarily reaching the lowest level for two years. In September 2008, the financial crisis reached its peak in Germany, with the German bank Hypo Real Estate about to collapse. At the beginning of October, the financial crisis started to also hit the goods industries and showed first negative effects on the important German car industry.

### METHODOLOGY

#### Research Objective

Drawing on existing studies examining employer branding and the impact of crisis situations we will merge these two fields of research. Greven’s (2008) results on the influence of a crisis on single companies’ employer brands suggest that also on an industry level there should be an analogous influence. Therefore, the overall objective of this paper is to analyze the impact of a sector-specific crisis, i.e., the financial crisis during the years 2007 and 2008, on the employer brand images of companies in the banking sector. The analysis comprises an empirical testing by means of a before-after comparison with a special focus on the expectations of high potentials toward potential employers and their evaluation of banks’ employer brand images. Based on the existing literature in this field of knowledge, figure 1 presents a simplified conceptual framework for understanding the influence of crisis situations on employer brands. According to the framework a presently existing employer brand image (t1) can be influenced by a crisis situation (t2) leading to a new employer brand image in the minds of potential employees (t3). Based on this new employer brand image potential applicants will either decide to apply or not apply (t4, not included in our study).

#### Measurement

In order to collect the necessary data an online survey was conducted by a well-known German market research company and the Chair of Marketing Management at HHL – Leipzig Graduate School of Management. The scales that were used in the survey were developed within a group of experts by Grobe in 2003 using mainly closed questions measured on 5-point Likert scales (Braunsberger and Gates 2009, see Appendix). The questionnaire was...
written in German and was applied in several employer branding studies showing high reliability for the examined constructs (Oldham and Cummings 1996). Cronbach’s alpha for the multi-item scale of expectations on future employees is 0.73 (see Appendix I), while for the multi-item emotional and cognitive image scales it exceeds 0.9 (see Appendix II and III). Questions on specific expectations such as expected salary and expected working hours employed an open question format.

In our survey, the banking sector was represented by four large German companies in comparison to more than 50 companies from non-financial sectors. High potentials were selected in cooperation with a German online scholarship platform, namely e-fellows.net. The selection of high potentials to become stipendiaries involves a relatively thorough process. The choice is based on hard facts such as above-average grades in school, a short duration of study as well as above-average performance with regard to internships, knowledge of foreign languages and studies abroad. In addition, soft criteria like personality traits and social skills are considered. High potentials from e-fellows.net were questioned in two online surveys, one of them conducted from September to October 2007 and the other in October 2008, the latter covering exactly the time after the peak of the financial crisis in Germany. Hence, it can be assumed that responses given in 2008 were considerably influenced by media coverage of the financial crisis. Two thousand eight hundred eighty-two high potentials took part in the first survey, while the sample size was 2,505 for the second survey. As this study examines the impact of the financial crisis on employer branding in the banking sector, we focus on students targeted by this sector. These are mainly students of business studies and economics, covering 41 percent of the sample in 2007 and 40 percent in 2008.

**Model Testing**

In order to identify significant differences in expectations of high potentials and employer brand images independent two-sample t-tests were conducted (Sharon et al. 2008). Additional statistical methods applied are mainly descriptive mean comparisons before and after the crisis. As the field of research on impacts of crises on employer brands is relatively recent, these methods are assumed to be adequate. For simplifying reasons the stated significance level in the following will be 5 percent.

**EMPIRICAL FINDINGS**

**Expectations of High Potentials**

According to our data, banks’ employer brand images changed significantly in the high potentials’ perception from 2007 to 2008. Before the financial crisis business students on average expressed a slightly better image for banks than for companies from other sectors, whereas after the beginning of the financial crisis this relationship changed. Due to the questionnaire design, in the following the analysis focuses on answers given by students interested in the banking and financial sector, in order to approximate high potentials’ expectations specifically for this sector. This group of students is defined by respondents rating the banking and financial sector as being either extremely or very attractive to them. In the first study this group encompasses 52 percent of respondents, in the second study 48 percent. The expectations which students interested in the banking and financial sector expressed toward their future employers did not show considerable changes in all areas from 2007 to 2008. Out of 35 items only 15 items changed significantly with regard to their rated importance compared to the preceding year. However, the specific composition of these items is noticeable.

Four main dimensions rising in importance can be identified. Firstly, the reconcilability of private with working life gained in importance. Appropriate offers from employers which enable employees to “reconcile the job with the family” rose in average importance by nearly 7 percent. Furthermore, the average importance of an appropriate “balance between work and private life” rose by 5.6 percent (see Appendix I). At the same time, the expected working hours for the start of the career significantly decreased considerably: On average, students expected 54.7 hours of work per week in 2007, opposed to only 53.4 hours one year later. Second, a “long-term and sustainable way of thinking” of the firm gained in importance during the crisis (+ 5.5%). The same tendency can be seen regarding the question of whether “the company takes social responsibility,” which increased by nearly 4 percent in importance. Not only on the company side long-term orientation gained in importance. As a third dimension the private long-term orientation gained, reflected by a significantly increasing importance with regard to the aspects “job security” (+ 5.5%) and “company’s benefits and retirement provisions” (+ 2.8%). The fourth expectation which high potentials rated as being more important during the crisis was a congruence of the companies’ values with their own. In this context the aspects “likeability of the company” (+ 3.8%) and a “company culture fitting to the respondents’ views” (+ 2.9%) were rated more important in 2008 (see Figure 2).

One aspect that significantly lost in importance between the surveys is the question of whether future employers are part of an attractive industry (- 4.9%). Furthermore, the importance of “market success” (- 4%) decreased significantly as well as factors regarding the style and quality of a firm’s activities: Whether a company is “exigent” (- 4.5%), “innovative” (- 4.3%) or offers...
“challenging work tasks” (-3.2%) was not as important anymore in the students’ eyes. Finally, we could observe a significant drop in importance of earnings (-4.4%) which was accompanied by a decline in the expected minimum income at the time of entering the company from 53,000 to 49,500.

Employer Brand Image of Banks

All eleven affective image dimensions which we analyzed in our study suffered from the changes between 2007 and 2008, thereof eight dimensions changed significantly (see Figure 3). During the crisis the high potentials rated banks 78 percent less exigent, 37 percent less trustworthy, 34 percent less innovative, 33 percent less modern, 28 percent less flexible and 24 percent each less likeable and open compared to the year before. The least powerful but still significant image losses occurred with regard to the dimension “freedom” (-12%).

The majority of cognitive image dimensions worsened dramatically after the first events of the crisis. Twenty-one out of 23 items regarding the cognitive image were negatively affected, thereof six significantly. Only the remaining two aspects, “social responsibility” (+4.5%) and “active environment protection” (+30.5%), improved significantly based on the evaluation of high potentials (see Figure 4). The largest significant image losses were observed for the dimensions “shareholder value orientation of the corporate culture” (-79.8%), “internationality” (-73.1%) and “good remuneration” (-73%). Furthermore, banks lost significantly regarding the aspects “suc-
cess on the stock exchange” (-46.2%), “flat hierarchies” (-9.2%) and “work-life balance” (-3.3%).

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Based on the empirical findings presented above it can be concluded that the financial crisis had a significant influence on the banking sector with regard to the expectations of high potentials as well as the emotional and affective image of companies. Our analysis shows that during the financial crisis the perception of banks worsened dramatically in the eyes of high potentials, affecting both affective and cognitive image dimensions.

In addition, the crisis seems to have shifted the awareness of students toward more private life, sustainability and job security, since these aspects have become significantly more important for the evaluation of high potentials. These shifts are also accompanied by a decrease of expected salary and working time.

Looking at the analyzed time span between the two studies it seems that it takes only little time for high potentials to adapt their brand image of companies in light of crisis situations. Only weeks after the climax of the financial crisis in Germany (bankruptcy of Lehman Brothers) the image of banks as employers had already changed significantly.

Our empirical findings and the outlined conclusions suggest different managerial implications. The importance of high potentials’ expectations such as job security or reconcilability of career and family changed significantly. Although the magnitude of the observed changes seems to be too small to serve as a basis for profound strategic changes, such as the communication strategy, we believe it is advisable for companies to monitor the expectations of high potentials in the long run. Only by controlling these dimensions are companies able to identify and react on more dramatic changes in high potentials’ values, e.g., in times of crisis. In our opinion this is even more important with regard to changes in a company’s employer brand image. We have seen that within one year a large part of the image dimensions which we included in our study, be it affective or cognitive characteristics, worsened dramatically due to a sector-wide crisis situation. Again, this implies that managers should measure
our study, be it affective or cognitive characteristics, worsened dramatically due to a sector-wide crisis situation. Again, this implies that managers should measure and track their company’s image values over time in order to be able to react on unwanted developments which might harm the firm’s competitive position for years.

Another implication that could be drawn from this discussion has also been stressed by Günther and Kirchgeorg (2006): A possible isolation of a company’s employer brand from the industry it is associated with. The authors showed that the perception of an employer brand can develop differently from an industry’s image. Following this argument, a single bank could try to follow a positioning approach which differentiates it from the banking sector in order to avoid negative effects of sector-specific crises on their employer brands.

LIMITATIONS

Our study is based on a before-after comparison which was led by the assumption that the observed changes were mainly caused by the financial crisis in the years 2007 and 2008. However, it is possible that at least parts of the results were influenced by factors which were not taken into account. For example, the higher importance of private life could be caused by changes in the values of high potentials which might have occurred independently from the financial crisis. Moreover, for our analysis we focused on high potentials among business students. Future research could analyze other target groups of employer brands such as current and former employees, or potential employees with different backgrounds such as law or engineering.

Furthermore, we had to draw on four banks included in our sample to generate results which are supposed to resemble the banking sector. For future research of industry-specific crisis situations it would be advisable to include a more representative sample of companies from specific sectors.

Finally, it is not clear how long-ranging the observed changes in high potentials’ expectations as well as employer
Despite these shortcomings, this study makes a significant contribution to research regarding the impact of crises on employer branding, specifically with regard to a certain industry sector, and is based on a sample representative for German high potentials.

REFERENCES


APPENDIX

I. Expectations

Cronbach's $\alpha = 0.73$ (valid N = 3886)

**Question:**

How important are the following criteria for the choice of a future employer?

(Wie wichtig sind Dir die folgenden Anforderungskriterien bei der Auswahl Deines zukünftigen Arbeitgebers?)

<table>
<thead>
<tr>
<th>Item (German)</th>
<th>English Meaning</th>
<th>2007</th>
<th>2008</th>
<th>Difference Between the Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Flache Hierarchien</td>
<td>Flat hierarchies</td>
<td>2.8</td>
<td>2.75</td>
</tr>
<tr>
<td>2</td>
<td>Gute Aufstiegs- und Entwicklungsmöglichkeiten</td>
<td>Good career opportunities</td>
<td>1.46</td>
<td>1.47</td>
</tr>
<tr>
<td>3</td>
<td>Gutes Arbeitsklima</td>
<td>Good working atmosphere</td>
<td>1.53</td>
<td>1.51</td>
</tr>
<tr>
<td>4</td>
<td>Das Unternehmen ist anspruchsvoll</td>
<td>Exigency</td>
<td>2.01</td>
<td>2.10</td>
</tr>
<tr>
<td>5</td>
<td>Offene Unternehmenskultur</td>
<td>Openness</td>
<td>2.23</td>
<td>2.18</td>
</tr>
<tr>
<td>6</td>
<td>Orientierung der Unternehmenskultur am Shareholder Value</td>
<td>Share holder value orientation</td>
<td>3.46</td>
<td>3.42</td>
</tr>
<tr>
<td>7</td>
<td>Herausfordernde Aufgaben</td>
<td>Challenging work tasks</td>
<td>1.57</td>
<td>1.62</td>
</tr>
<tr>
<td>8</td>
<td>Viele Freiheiten</td>
<td>Freedom</td>
<td>2.46</td>
<td>2.41</td>
</tr>
<tr>
<td>9</td>
<td>Förderung der Mitarbeiter/ Weiterbildungsmöglichkeiten</td>
<td>Varied possibilities of further education</td>
<td>1.61</td>
<td>1.59</td>
</tr>
<tr>
<td>10</td>
<td>Attraktivität der Produkte oder Dienstleistungen des Unternehmens</td>
<td>Offer of attractive products/ services</td>
<td>2.67</td>
<td>2.63</td>
</tr>
<tr>
<td>11</td>
<td>Kompensation/hohes Gehalt</td>
<td>Remuneration</td>
<td>2.05</td>
<td>2.14</td>
</tr>
<tr>
<td>12</td>
<td>Hohe Sozialleistungen/Altersvorsorge</td>
<td>Social benefits and education</td>
<td>2.84</td>
<td>2.76</td>
</tr>
<tr>
<td>13</td>
<td>Zusatzleistungen (Firmenwagen, Handy, Laptop etc.)</td>
<td>Amenities</td>
<td>2.98</td>
<td>3.05</td>
</tr>
<tr>
<td>14</td>
<td>Balance zwischen Berufs- und Privatleben</td>
<td>Work-Life balance</td>
<td>2.15</td>
<td>2.03</td>
</tr>
<tr>
<td>15</td>
<td>Viele Urlaubstage</td>
<td>Leave days</td>
<td>3.33</td>
<td>3.33</td>
</tr>
<tr>
<td>16</td>
<td>Angebote zur Vereinbarkeit von Beruf, Karriere und Familie (Kinderbetreuung etc.)</td>
<td>Reconcilability of family life and career</td>
<td>2.35</td>
<td>2.19</td>
</tr>
<tr>
<td>17</td>
<td>Internationalität</td>
<td>Internationality</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>18</td>
<td>Das Unternehmen ist sympathisch</td>
<td>Likeability</td>
<td>2.37</td>
<td>2.28</td>
</tr>
<tr>
<td>19</td>
<td>Das Unternehmen ist in einer attraktiven Branche tätig</td>
<td>Attractive Industry</td>
<td>2.24</td>
<td>2.35</td>
</tr>
<tr>
<td>20</td>
<td>Markterfolg des Unternehmens</td>
<td>Success on the market</td>
<td>2.28</td>
<td>2.37</td>
</tr>
<tr>
<td>21</td>
<td>Börsenerfolg des Unternehmens</td>
<td>Success on the stock exchange</td>
<td>3.37</td>
<td>3.38</td>
</tr>
<tr>
<td>22</td>
<td>Das Unternehmen ist flexibel</td>
<td>Flexibility</td>
<td>2.39</td>
<td>2.4</td>
</tr>
<tr>
<td>23</td>
<td>Persönlichkeit des Inhabers/ CEO/ Vorstandsvorsitzenden des Unternehmens</td>
<td>Impressive personality of the CEO</td>
<td>3.33</td>
<td>3.38</td>
</tr>
<tr>
<td>24</td>
<td>Gutes Image des Unternehmens</td>
<td>Good reputation</td>
<td>2.39</td>
<td>2.37</td>
</tr>
<tr>
<td>25</td>
<td>Zukunftsfähigkeit des Unternehmens</td>
<td>Good preparation for future tasks</td>
<td>1.77</td>
<td>1.79</td>
</tr>
<tr>
<td>26</td>
<td>Arbeitsplatzsicherheit</td>
<td>Job security</td>
<td>2.56</td>
<td>2.42</td>
</tr>
<tr>
<td>27</td>
<td>Das Unternehmen ist modern</td>
<td>Modernity</td>
<td>2.56</td>
<td>2.57</td>
</tr>
</tbody>
</table>
### APPENDIX (CONTINUED)

<table>
<thead>
<tr>
<th>Item (German)</th>
<th>English Meaning</th>
<th>2007</th>
<th>2008</th>
<th>Difference Between the Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Das Unternehmen ist vertrauenswürdig</td>
<td>Trustworthiness</td>
<td>2.02</td>
<td>2.04</td>
<td>-0.99% ( )</td>
</tr>
<tr>
<td>29 Gute Referenzen durch aktuelle und ehemalige Mitarbeiter</td>
<td>Good references by actual and former employees</td>
<td>2.33</td>
<td>2.4</td>
<td>-3.00% * ( )</td>
</tr>
<tr>
<td>30 Das Unternehmen ist innovativ</td>
<td>Innovation</td>
<td>2.33</td>
<td>2.43</td>
<td>-4.29% ** (*)</td>
</tr>
<tr>
<td>31 Attraktiver Standort des Unternehmens</td>
<td>Attractive location</td>
<td>2.37</td>
<td>2.38</td>
<td>-0.42% ( )</td>
</tr>
<tr>
<td>32 Langfristigkeit und Nachhaltigkeit der Unternehmensziele</td>
<td>Longevity and sustainability</td>
<td>2.35</td>
<td>2.22</td>
<td>5.53% *<strong>(</strong>**)</td>
</tr>
<tr>
<td>33 Das Unternehmen übernimmt soziale Verantwortung</td>
<td>Social responsibility</td>
<td>2.81</td>
<td>2.71</td>
<td>3.56% *** ( )</td>
</tr>
<tr>
<td>34 Das Unternehmen praktiziert aktiven Umweltschutz</td>
<td>Active environmental protection</td>
<td>3.3</td>
<td>3.24</td>
<td>1.82% ( )</td>
</tr>
<tr>
<td>35 Die Unternehmenskultur passt zu meinem Werteverständnis</td>
<td>Work-Value-Congruence</td>
<td>2.1</td>
<td>2.04</td>
<td>2.86% * (*** )</td>
</tr>
</tbody>
</table>

Significance of different means *= 0.05; **= 0.01; *** = 0.001 (Significance of different variances *= 0.05; **= 0.01; *** = 0.001)

### II. Emotional Image

Cronbach’s α = 0.909 (valid N = 2611)

Question:
Please rate how much you agree with the following statements concerning company A/B/C/D . . .

(Abbie gib nun für das Unternehmen an, wie stark du den folgenden Aussagen zustimmst. Unternehmen A/B/C/D/E ist....)

<table>
<thead>
<tr>
<th>Item (German)</th>
<th>English Meaning</th>
<th>2007</th>
<th>2008</th>
<th>Difference Between the Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ... ist sympathisch</td>
<td>Sympathy</td>
<td>2.68</td>
<td>3.33</td>
<td>-24.25% * (*** )</td>
</tr>
<tr>
<td>2 ... ist flexibel</td>
<td>Flexibility</td>
<td>2.56</td>
<td>3.28</td>
<td>-28.13% ** (*)</td>
</tr>
<tr>
<td>3 ... ist modern</td>
<td>Modernity</td>
<td>2.36</td>
<td>3.14</td>
<td>-33.05% *** ( )</td>
</tr>
<tr>
<td>4 ... ist anspruchsvoll</td>
<td>Exigency</td>
<td>2.16</td>
<td>3.85</td>
<td>-78.24% ** ( )</td>
</tr>
<tr>
<td>5 ... ist fördernd</td>
<td>Promotion</td>
<td>2.36</td>
<td>3.6</td>
<td>-52.54% ( )</td>
</tr>
<tr>
<td>6 ... ist innovativ</td>
<td>Innovation</td>
<td>2.46</td>
<td>3.29</td>
<td>-33.74% *** (*)</td>
</tr>
<tr>
<td>7 ... ist erfolgreich</td>
<td>Success</td>
<td>2.02</td>
<td>3.8</td>
<td>-88.12% ( )</td>
</tr>
<tr>
<td>8 ... ist offen</td>
<td>Openness</td>
<td>2.67</td>
<td>3.3</td>
<td>-23.60% ** (**)</td>
</tr>
<tr>
<td>9 ... ist vertrauenswürdig</td>
<td>Trustworthiness</td>
<td>2.54</td>
<td>3.49</td>
<td>-37.40% ** (*)</td>
</tr>
<tr>
<td>10 ... ist frei</td>
<td>Freedom</td>
<td>2.82</td>
<td>3.17</td>
<td>-12.41% ** ( )</td>
</tr>
<tr>
<td>11 ... ist ehrlich</td>
<td>Honesty</td>
<td>2.71</td>
<td>3.21</td>
<td>-18.45% ( )</td>
</tr>
</tbody>
</table>

Significance of different means *=0.05; **=0.01; ***=0.001 (Significance of different variances *=0.05; **=0.01; ***=0.001)

### III. Cognitive Image

Cronbach’s α = 0.937 (valid N = 715)

Question:
Please rate how much you agree with the following statements concerning company A/B/C/D. You may do that on a gut level. (Gib bei den nun folgenden Aussagen jeweils an, inwieweit diese auf das entsprechende Unternehmen zutreffen oder nicht. Daher du Deine Einschätzung ruhig „aus dem Bauch heraus“ treffen. Unternehmen A/B/C/D/E ist....)

<table>
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<td>3.33</td>
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</tr>
<tr>
<td>2 ... ist flexibel</td>
<td>Flexibility</td>
<td>2.56</td>
<td>3.28</td>
<td>-28.13% ** (*)</td>
</tr>
<tr>
<td>3 ... ist modern</td>
<td>Modernity</td>
<td>2.36</td>
<td>3.14</td>
<td>-33.05% *** ( )</td>
</tr>
<tr>
<td>4 ... ist anspruchsvoll</td>
<td>Exigency</td>
<td>2.16</td>
<td>3.85</td>
<td>-78.24% ** ( )</td>
</tr>
<tr>
<td>5 ... ist fördernd</td>
<td>Promotion</td>
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<td>3.29</td>
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<td>3.3</td>
<td>-23.60% ** (**)</td>
</tr>
<tr>
<td>9 ... ist vertrauenswürdig</td>
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<td>2.54</td>
<td>3.49</td>
<td>-37.40% ** (*)</td>
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<td>10 ... ist frei</td>
<td>Freedom</td>
<td>2.82</td>
<td>3.17</td>
<td>-12.41% ** ( )</td>
</tr>
<tr>
<td>11 ... ist ehrlich</td>
<td>Honesty</td>
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<td>3.21</td>
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</tr>
</tbody>
</table>

Significance of different means *=0.05; **=0.01; ***=0.001 (Significance of different variances *=0.05; **=0.01; ***=0.001)
### APPENDIX (CONTINUED)

<table>
<thead>
<tr>
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<th>2008</th>
<th>Difference Between the Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1   ... bietet herausfordernde Aufgaben</td>
<td>Challenging work tasks</td>
<td>2.22</td>
<td>3.77</td>
<td>-69.82%</td>
</tr>
<tr>
<td>2   ... hat einen guten Ruf</td>
<td>Good reputation</td>
<td>2.43</td>
<td>3.58</td>
<td>-47.33%</td>
</tr>
<tr>
<td>3   ... bietet attraktive Produkte/Dienstleistungen</td>
<td>Offer of attractive products/services</td>
<td>2.49</td>
<td>3.48</td>
<td>-39.76%</td>
</tr>
<tr>
<td>4   ... ist am Markt erfolgreich</td>
<td>Success on the market</td>
<td>2.13</td>
<td>3.66</td>
<td>-71.83%</td>
</tr>
<tr>
<td>5   ... ist an der Börse erfolgreich</td>
<td>Success on the stock exchange</td>
<td>2.25</td>
<td>3.29</td>
<td>-46.22% **<em>(</em>)</td>
</tr>
<tr>
<td>6   ... übernimmt soziale Verantwortung</td>
<td>Social responsibility</td>
<td>3.09</td>
<td>2.95</td>
<td>4.53% *</td>
</tr>
<tr>
<td>7   ... praktiziert aktiven Umweltschutz</td>
<td>Active environmental protection</td>
<td>3.58</td>
<td>2.49</td>
<td>30.45% **<em>(</em>)</td>
</tr>
<tr>
<td>8   ... ist an einem attraktiven Standort</td>
<td>Attractive location</td>
<td>2.35</td>
<td>3.78</td>
<td>-60.85%</td>
</tr>
<tr>
<td>9   ... ist international</td>
<td>Internationality</td>
<td>2.19</td>
<td>3.79</td>
<td>-73.06% *<strong>(</strong>)</td>
</tr>
<tr>
<td>10  ... bietet ein gutes Arbeitsklima</td>
<td>Good working atmosphere</td>
<td>2.75</td>
<td>3.34</td>
<td>-21.45%</td>
</tr>
<tr>
<td>11  ... ermöglicht eine gute Balance zwischen Beruf und Privatleben</td>
<td>Work-Life balance</td>
<td>3.01</td>
<td>3.11</td>
<td>-3.32% *</td>
</tr>
<tr>
<td>12  ... orientiert seine Unternehmenskultur Value am Shareholder</td>
<td>Share holder value orientation</td>
<td>2.13</td>
<td>3.83</td>
<td>-79.81% **<em>(</em>)</td>
</tr>
<tr>
<td>13  ... bietet vielfältige Weiterbildungsmöglichkeiten</td>
<td>Varied possibilities of further education</td>
<td>2.44</td>
<td>3.66</td>
<td>-50.00%</td>
</tr>
<tr>
<td>14  ... bietet gute Aufstiegs- und Entwicklungsmöglichkeiten</td>
<td>Good career opportunities</td>
<td>2.32</td>
<td>3.77</td>
<td>-62.50% **(*)</td>
</tr>
<tr>
<td>15  ... zeichnet sich durch flache Hierarchien aus</td>
<td>Flat hierarchies</td>
<td>3.37</td>
<td>3.68</td>
<td>-9.20% **(*)</td>
</tr>
<tr>
<td>16  ... bietet sichere Arbeitsplätze</td>
<td>Job security</td>
<td>2.79</td>
<td>3.01</td>
<td>-7.89% (</td>
</tr>
<tr>
<td>17  ... zahlt ein gutes Gehalt</td>
<td>Good Remuneration</td>
<td>2.2</td>
<td>3.84</td>
<td>-72.97% **(*)</td>
</tr>
<tr>
<td>18  ... bietet gute Sozialleistungen/ Altersvorsorge</td>
<td>Good social benefits and retirement provision</td>
<td>2.55</td>
<td>3.45</td>
<td>-35.29% (</td>
</tr>
<tr>
<td>19  ... hat einen Inhaber/ CEO/ Vorstandsvorsitzenden, der eine (positiv)</td>
<td>Impressive personality of the CEO</td>
<td>2.83</td>
<td>3.14</td>
<td>-10.95% (</td>
</tr>
<tr>
<td>beeindruckende Persönlichkeit ist</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20  ... verfügt über eine Unternehmenskultur, die zu meinem Werteverständnis</td>
<td>Work-Value-Congruence</td>
<td>2.9</td>
<td>3.19</td>
<td>-10.00% (***)</td>
</tr>
<tr>
<td>passt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21  ... ist gut auf zukünftige Herausforderungen vorbereitet</td>
<td>Good preparation for future tasks</td>
<td>2.46</td>
<td>3.35</td>
<td>-36.18% (</td>
</tr>
</tbody>
</table>

Significance of different means *=0.05; **= 0.01; ***= 0.001 (Significance of different variances *= 0.05; **= 0.01; ***= 0.001)

### IV. Open questions and media perception

Imagine you get after your graduation a job offer from you favourite employer.

**What gross annual income (EURO) would you expect at minimum?**

(Stelle Dir vor, Du bekommst nach Abschluss deines Studiums von deinem Wunscharbeitgeber ein Angebot. Welches Bruttojahreseinkommen (EURO) würdest du mindestens erwarten?)

______

( ) I don’t know (Kann ich nicht sagen)

---

**How much working hours do you expect at your career entry?**

(Mit welcher zeitlichen Arbeitsbelastung rechnest du bei deinem Berufs eintritt?)

______ hours per week (Stunden pro Woche)

( ) I don’t know (Kann ich nicht sagen)
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Jahnallee 59
Leipzig
Germany
Phone: +49.341.9851.682
Fax: +49.341.9851.684
E-Mail: kai.weinrich@hhl.de
CREATING GENDER BRAND PERSONALITY WITH BRAND NAMES

Lan Wu, California State University, East Bay,
Richard R. Klink Loyola University Maryland, Baltimore
Jiansheng Guo California State University, East Bay

SUMMARY

Gender has long been used as a basis for market segmentation and targeting strategies. Yet, our understanding of how to create brands that appeal to gender-specific segments is limited, if not suspect. The purpose of our research is to investigate how to use brand names to create appropriate gender personalities that appeal to the brands’ respective (gender) segment. While Aaker (1997) suggests that a number of product-related and non-product-related factors affect brand personality, we focus our attention on the brand name – the elemental building block of the brand.

Two experiments are reported. Experiment 1 examines whether brand name sounds can create gender brand personality via phonetic symbolism. It also tests whether phonetic symbolism can influence consumers’ preference for brand names. In doing so, we measure gender brand personality with scales that conform to a two-dimensional view of gender (Grohmann 2009). In the second experiment, our research indicates that when the sound of a brand name is congruent with the brand’s gender target, as opposed to incongruent, consumers respond more favorably to the brand.

Experiment 1: Method and Results

Ninety-seven undergraduate students participated in the study for partial course credit. Participants were administered a questionnaire about potential new brand names for four unrelated products. For each product, participants first read and evaluated a product description involving a fictitious new brand. Based on pretests, the product categories were gender neutral and the product descriptions were also gender neutral, such that the brands could be designed to target women or men.

Participants were then informed that the manufacturer of the brand was deciding between two brand name candidates. For each brand, participants provided measures for the Masculinity Brand Personality (MBP)/Femininity Brand Personality (FBP) scales (Grohmann 2009). To avoid apparent semantic associations, artificial word pairs that only differed on the front-back vowel continuum were used as brand names (see Lowrey and Shrum 2007, for a similar approach). /i/ and /o/ were chosen for front and back vowels, respectively. To assess the effect of phonetic symbolism on gender brand personality, we asked respondents 12 questions adapted from Grohmann’s (2009) MBP/FBP scales.

Finally, participants indicated their preferences between the two brand names. Half of the participants were informed that “the brand is specially design for women/men,” while the other half did not receive this information. Participants completed above tasks for each of the four products.

Overall, the results support the effect of phonetic symbolism on gender brand personality perceptions. Brand names with back vowels were significantly associated with MBP (all p’s < .01), while brand names with front vowels were significantly related to FBP (all p’s < .01). In addition, respondents were more likely to choose brand names with front vowels if the brand was targeting women (p’s < .05). Conversely, respondents chose brand names with back vowels, if the brand was targeting men (p’s < .05). Without instructions, however, no preferences emerged.

Experiment 2: Method and Results

One hundred and eighty-two students participated in the study and were randomly assigned to one of four conditions in a 2 (brand gender target: for men vs. women) X 2 (brand name sound: back vs. front vowels) between-subject design. Participants were administered a questionnaire for four new products. For each product, participants received a fictitious brand name and product description, to which participants provided attitudinal responses.

Regarding brand gender target, the product descriptions were written to position the brand either for men or women. The descriptions explicitly stated the intended gender and highlighted the stereotypical gender features.

After reading the descriptions, participants viewed the brand names containing either back or front vowels. The coupling of the brand names with the gender targeting descriptions created either congruent (male target with back vowel brand name and female target with front vowel brand name) or incongruent conditions (male tar-
get with front vowel brand name and female target with back vowel brand name). Using 7-point scales, we assess overall brand liking and purchase intention.

The pattern of results indicate that congruence between brand gender target and brand name sound led to more favorable attitudinal responses across the four products (all p’s < .01).

**Discussion**

Our two experiments support the contention that phonetic effects in brand names can convey meaning apart from their semantic definitions, and this meaning can systematically impact consumers’ perception of a brand name, choice of an appropriate brand name, and brand related attitudinal responses. References are available upon request.

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E-Mail: lan.wu@csueastbay.edu
WHAT MAKES A BRAND EXCITING? THE ROLE OF BODILY EXPERIENCES IN BRAND PERSONALITY INTERPRETATION

Jana Möller, Freie University Berlin, Germany
Steffen Herm, University of Technology Berlin, Germany

SUMMARY

In turbulent times when markets behave unpredictably consumers are likely to favor offerings that promise some sort of certainty. These times call for superior brand management since strong brands might compensate with reliable, stable benefits. Among others, consumers’ expectations in brands are shaped by a brand’s personality. Brand personality is defined as a “set of human characteristics associated with a brand” (Aaker 1997, p. 347). Brands with a distinctive, clearly defined, and enduring brand personality are likely to contribute to value creation (Aaker 1996). Responsibility for managing brand personality has typically been assigned to strategic marketing communication (Kapferer 2008). However, recent research suggests a more active role of consumers in branding (Merz et al. 2009). We posit that consumers’ bodily experiences with a brand feed their interpretation of a brand’s personality.

Research in the domain of embodiment (Barsalou 2008) demonstrates that the assessment of other people’s traits can be grounded in the body (Williams and Bargh 2008). Similarly, this research argues that the interpretation of brand personality traits can be influenced by bodily experiences. It aims to extend literature about the antecedents of brand personality and to support the notion of perceiving brands like human beings (Fournier 1998). In three studies we examine the influence of bodily experiences on the interpretation of brand personality and on brand preference and discuss theoretical and managerial implications.

In Study 1, we use bodily experiences of “Hardness” (vs. “Softness”) and propose that the experiences influence the interpretation of brands on the brand personality trait dimension “Ruggedness” (Aaker 1997). In the experimental study 61 subjects sat on either simple wooden stools (sitting hard) or on stools with an additional thick, soft pillow (sitting soft) and watched a presentation of print ads with fictitious brands. Then subjects rated the brand personality dimension “Ruggedness” of the brands and three distractor trait items. A manipulation check revealed a successful bodily experience manipulation. Furthermore, and in line with our hypothesis, results show a difference of the brand personality interpretation on the Ruggedness dimension in the two conditions (M hard = 3.05, Msoft = 3.45; F (1. 59) = 17.81, p < .01). Subjects sitting on a hard stool evaluated brands as more rugged compared to subjects sitting on a soft pillow. We find significant differences in the expected direction only for the trait words related to Ruggedness, but not for the three distractor trait items.

Study 2 focuses on brand preference and brand accessibility. Brand accessibility has been shown to be an important antecedent of brand choice (Nedungadi 1990). We suggest that bodily experiences of “Arousal” (vs. “Relaxed”) are likely to increase the accessibility of brands with a corresponding brand personality which in turn influences brand preferences. We conducted an experiment with a sample of elementary school children. Expert interviews with school teachers indicated that they might have difficulties evaluating brand personality traits. However, they are likely to be familiar with trait meanings if they are grounded in embodiment. In order to receive explicit brand personality rating data, we conducted an additional survey with a sample of school teachers. Thirty-one elementary school children (age range = 8–9 years) participated in the study. They participated in two groups in their school gym during physical education. In the arousing condition, subjects worked an obstacle course for eight minutes. In the relaxation condition subjects lay down on mattresses and were read a relaxing story for eight minutes. After the manipulation, subjects wrote down up to three brands they like and toys of those brands they wish to have now. In sum, the school children mentioned 18 unique brands. Subsequently, a sample of elementary school teachers rated the brand personalities of the 18 brands along the five brand personality dimensions by Geuens et al. (2009). For the analysis, we used the school teachers’ ratings. Based on a pretest that revealed that there is a semantic relationship of arousal (relaxation) and the dimensions of Activity and Aggressiveness (Simplicity/ Emotionality/ Responsibility), we computed a mean score per subject to create two factor scores and conducted one-way ANOVAS on the factor of “Activity/ Aggressiveness” and on the factor “Simplicity/ Emotionality/ Responsibility.” In line with our hypothesis, we find significant effects of bodily states on brand preferences such that aroused (relaxed) children preferred active and aggressive brands (simple, emotional, responsible brands) (Factor I: F (1. 25) = 6.56, p < .05; Factor II: F (1. 25) = 6.38, p < .05).
In Study 3 we relate to findings of neuroimaging research (Wicker et al. 2003) and propose that brand personality interpretation is also influenced by viewing bodily experiences of ad endorsers that represent a brand. We assume that by viewing bodily experiences of endorsers, consumers automatically and rather unconsciously simulate the depicted experience and integrate these experiences into their brand knowledge. To test this idea, we looked for a congruence of consumers’ interpretation of ad endorsers’ bodily experiences and brand personality interpretation for the corresponding brands. For the study we selected six real print ads, but removed the brand name and logo. Each ad displayed a person. Nine hundred twenty-two subjects participated in an online-survey. Each brand and each ad were rated separately at least 115 times. With respect to ads, subjects were instructed to imagine being the person in the ad. They rated their interpretation of the bodily state of the endorser along the trait words of the five brand personality dimensions by Aaker (1997). In order to rate brands, subjects randomly saw one of six brand logos and rated brand personality along the five dimensions by Aaker (1997). We computed brand personality dimensions and bodily state dimensions by averaging across the corresponding items by Aaker (1997). Confirmatory Factor Analysis suggested reliability of brand personality dimensions and bodily state dimensions. Both concepts have a comparable factorial structure and are positively correlated. We mapped the interpretations of the brand personality dimensions and the bodily state dimensions of each brand-ad-pair and results reveal a fairly congruent pattern. This finding suggests that bodily states of endorsers are able to visually represent brand personality.

Overall, the findings of three studies are consistent with our predictions. Bodily experiences seem to play a crucial role in the processing of brand personality traits. Associations that influence the interpretation of brand personality (Study 1) and brand preferences (Study 2) can be triggered by bodily experiences. Furthermore, consumers’ interpretation of ad endorsers’ bodily experiences correspond with their interpretation of a brand’s personality (Study 3). Our findings further generalize across the alternative conceptualizations and measurements of brand personality by Aaker (1997) and by Geuens et al. (2009). Both conceptualizations include traits that capture embodied meanings of bodily experiences. References are available upon request.

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CAN “MICRO” AND “MACRO” APPROACHES OF BRAND PERSONALITY COEXIST? AN ILLUSTRATION FOR PRINT MEDIA BRANDS IN A FRENCH SETTING

Rita Valette-Florence, Wesford Business School, France
Virginie de Barnier, IAE & Wesford Business School, France
Pierre Valette-Florence, IAE & CERAG, France

SUMMARY

Ever since Plummer’s (1984) original paper, practitioners have widely used the concept of brand personality as a key element in their positioning and differentiation strategies. Nowadays numerous advertising campaigns throughout the world reflect this managerial emphasis, with advertisers no longer hesitating to personify their brands. Brand anthropomorphism (Keeley 2004) occupies a prominent position in ads. Thus the brand acquires a position of strength insofar as its personality is a protection against the growing leveling of products by emphasizing its advantages and the consumer benefits deriving from it. The creation of a real brand personality is therefore part of the search for an original and relevant positioning, distinct from close concepts such as brand image or brand identity.

On the academic front, it is only relatively recently that researchers became interested in the concept of brand personality (Aaker 1997). Since then, various studies have been carried out around two main themes, one concerned with measurement and the development of measurement scales, the other related to the validity of the construct, with research on the links between brand personality and brand relationships. Nevertheless, some authors emphasize the limitations of such studies, particularly as regards the measurement items, since the methodologies employed yield scales that are either overly “global” – so-called “holistic” scales – or overly “reduced” in terms of the product category being investigated. Careful examination of the literature reveals that the dimensions for the same scale may vary from one country to another (Aaker, Benet-Martinez, and Garolera 2001). The same applies to different fields of application, whether they be, for example, tangible goods brands, services brands, country brands or even website brands.

Within the field of the study of social values, Reynolds, (1988) made the distinction between “macro” and “micro” approaches. The former are dealing with universal cross cultural social value inventories, whereas the later deal with specific and more precise value driven behaviors. As for brand personality, and by analogy, one might thus envisage a general purpose “macro approach” while still recognizing the existence of a more focused “micro approach,” depending on the field of application concerned. Such a position, enables one to establish an integrative framework reconciling the two types of perspective to be developed.

These considerations lead on to another question: For a specific brand domain, is the “micro approach” more relevant than the “macro approach”? Recent research shows that readers of print media brands may attribute personality traits to newspapers and magazines (Valette-Florence and de Barnier 2009). In this research, using a triangulation method and by means of four stages of traditional as well as projective qualitative studies, the authors obtained a list of 121 personality traits specific to print media brands, thereby consolidating the “micro approach” to brand personality. From these 121 items, a quantitative stage was carried out in order to develop a print media brand personality scale applicable to a French setting. The predictive power of print media brand personality on readers’ identification with their preferred titles was then established. A total of 24 publications were selected, (e.g., national daily newspaper, Women’s magazines, Peoples magazines, TV listing etc.). The questionnaire was administered by means of an automated multimedia procedure on the Internet for rapid, direct collection of information, thanks to a private panel company. The final sample was composed of 780 respondents, of whom 41 percent were male and 59 percent female. The mean age was 33, varying from 18 to 80 depending on the publication. The results reveal a structure of eight dimensions of order one and five dimensions of order two. It is based on a qualitative study stemming directly from brands instead of transposing human personality inventories as such. Finally, using a “micro approach” ensures that both the cultural and contingent specificities of the area of application are fully taken into account. The concept of brand identification and customers’ identification (Salerno 2001), which enables the relational proximity between the reader and the publication to be measured was deployed as the central element of our analysis for assessing the predictive validity of our new scale. Taking all the publications together, the predictive power of brand personality is on average 20.5 percent, whereas the predictive power of a global evaluation measure is only
1.5 percent on average. These figures clearly attest to
superiority of the concept of brand personality for under-
standing the basis of the relationship of readers to the
publications they read.

This paper, based on an analysis of previous aca-
demic studies on the concept of brand personality, has
allowed us to put forward an integrative framework by
contrasting "macro approaches" with their general scope
and "micro approaches" focused on a specific area of
application. The paper’s area of investigation, newspaper
and magazine brands, has provided a concrete illustration
of the micro perspective. Thus at a theoretical level, the
findings clearly confirm the possibility of characterizing
print media publications by specific personality traits and
dimensions that until now did not exist in other brand
personality inventories. They also reveal the advantage of
focusing on a "micro approach" if one wishes to identify
more than just brand personality traits in a specific prod-
cut category.

This study of brand personality and its measurement
enables us to offer a new definition of brand personality:
Brand personality is an evaluation based on human
personality traits applicable and relevant to the brand
and cultural context in which they occur. The "micro
approach," which fits perfectly into this definition, should
thus lead to greater operational scope for the concept of
brand personality. Like all research, the present study has
its limitations, which mainly concern the sample and the
questionnaire administered through the Internet which
probably induced a bias toward an over-representation of
the higher socio-economic categories. Obviously, the
results also are limited by the number of the print media
brands encompassed. Ultimately, the proposed scale has
only been tested with respect to one single dependent
variable. Its predictability still has to be formally proven
with regards to other dependent variables such as trust or
commitment.

Hence, a number of avenues for future research seem
promising. First, it would be interesting to extend this
analysis to other media such as television and radio and to
see whether or not there are personality traits specific to
these areas. In addition, further surveys have to be set up
in order to formally compare the predictive power of
"macro" vs. "micro" approaches to brand personality.
Ultimately, at a more theoretical level, further studies
should try to uncover other concepts accounting for
identification with the brand or the readership, since for
specific magazines (e.g., Elle and Le Monde) the predictive
power of brand personality on brand identification remains
rather weak. References are available upon request.

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CLOSING THE GAP ON CUSTOMER SATISFACTION-BASED MISPRICING

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SUMMARY

Customer satisfaction is a market-based asset for which value relevance has repeatedly been demonstrated (Srivastava, Shervani, and Fahey 1998). A consensus exists on its ability to increase shareholder value (e.g., Anderson, Fornell, and Mazvancheryl 2004; Fornell et al. 2006; Ittner and Larcker 1998) and to reduce firm risk (e.g., Luo and Homburg 2008; Tuli and Bharadwaj 2009) in the long run. However, there has recently been a heated debate among leading scholars as to whether it is also correctly priced by equity markets in the short term (see Aksoy et al. 2008; Barlow 2009; Fornell et al. 2006; Fornell, Mithas, and Morgeson 2009; Ittner, Larcker, and Taylor 2009; Mizik and Jacobson 2009a, 2009b; Ngobo, Casta, and Ramond 2011; O’Sullivan, Hutchinson, and O’Connell 2009). Most of these studies find abnormal returns of similar magnitude and equal direction. However, their results differ with regards to statistical significance and robustness of these abnormal returns. While some studies find highly significant evidence of initially market underreact and subsequent stock returns (e.g., Aksoy et al. 2008; Fornell et al. 2006), others find little or no evidence of significant and generalizable mispricing (e.g., Ittner, Larcker, and Taylor 2009; Mizik and Jacobson 2009; O’Sullivan, Hutchinson, and O’Connell 2009). A recent study by Ngobo, Casta, and Ramond (2011) even argues that American Customer Satisfaction Index (ACSI) data, source of customer satisfaction scores for almost all previous studies, cannot reasonably be used to analyze potential mispricing, given the considerable time lag between its measurement and publication. As a result of mixed findings, the lack of generalizability, and the debate around the appropriateness of ACSI data, a consensus on mispricing of customer satisfaction has not been reached.

This study addresses a series of calls for further research (e.g., Aksoy et al. 2008; Anderson, Fornell, and Mazvancheryl 2004; Gruca and Rego 2005; Mizik and Jacobson 2009; O’Sullivan and McCallig 2009; Srinivasan and Hanssens 2009) with the aim of resolving the controversy. To the best of our knowledge, it is the first study to investigate mispricing based on customer satisfaction data that is not lagged. This daily customer satisfaction data was provided by YouGov and covers the period from June 1, 2007 to April 30, 2010. Stock market data for the same period was obtained from FactSet Research Sys-

tems. It includes the stock market decline following the 2007/2008 subprime mortgage and financial market crisis, as well as the subsequent recovery of security prices. Our final sample contains 709 brand-country combinations and a total of 13,000 firm-month observations for 402 multinational firms listed in the U.S., the U.K., and Germany. Firms are spread across all major industries and capitalization ranges. The high frequency of the customer satisfaction data allows for a more exhaustive analysis, while the broad scope of the sample – in terms of country, industry, and market capitalization coverage – enables us to draw generalizable conclusions.

We apply the calendar time portfolio method and assign stocks to portfolios based on their customer satisfaction. To allow for comparison with previous studies (e.g., Aksoy et al. 2008; Fornell et al. 2006), we base portfolio formation on both levels of and changes in customer satisfaction. “Portfolio Long” contains all stocks with high levels of and positive changes in customer satisfaction, while “Portfolio Short” takes the opposite position and contains stocks with low levels and negative changes. In contrast to previous studies, we apply monthly customer satisfaction scores, minimizing the time lag between customer satisfaction measurement and portfolio formation. Moreover, we form portfolios of equal size by using median breakpoints and assign firms to portfolios on a per-sector basis. We thus ensure balanced portfolios and control for potential industry effects with the aim of minimizing idiosyncratic and sector-specific noise. Monthly portfolio returns are adjusted for risk differentials using the generally accepted Fama-French three-factor (FF3F) model. Any remaining, risk-adjusted portfolio return is regarded as an abnormal return as a result of initial mispricing and subsequent correction. In order to assess whether equity markets indeed misprice customer satisfaction, we test for statistically significant abnormal returns of a zero-investment portfolio earning the return differential between “Portfolio Long” and “Portfolio Short.” The high frequency of our customer satisfaction data enables us to repeat the analysis with portfolio formation and holding periods ranging from 1 to 12 months.

Across almost all 144 possible combinations, the zero-investment portfolio exhibits positive abnormal returns and negative systematic risk, implying initial mispricing of customer satisfaction. These abnormal are
significant in 45 of the 144 cases (14 at the 10% level, 25 at the 5% level, and 6 at the 1% level). Excluding financial services firms, which were characterized by considerable anomalies during the period under review, abnormal returns are even more sizable and significant in 61 of the 144 cases (23 of which at the 1% level). With regards to the different portfolio formation periods, we find that shorter formation periods of one to six months are characterized by lower significance and smaller average abnormal returns ranging from 15 percent to .71 percent per month (.07% to .62% excluding financial services), while longer formation periods generate monthly abnormal returns of up to .88 percent (1.21% excluding financial services) at higher statistical significance. No such pattern can be observed with regards to different portfolio holding periods, which is likely a result of overlapping effects and return averaging.

Our findings clearly fill the gap that has existed ever since the first studies on value relevance and mispricing of customer satisfaction were conducted. They demonstrate that equity markets misprice customer satisfaction and that abnormal returns can be generated by trading strategies leveraging such mispricing. Given this lagged adjustment, market underreaction becomes particularly sizable when firms exhibit significant and persistent improvements in customer satisfaction over a longer period of time. This is confirmed by the particularly large and statistically significant abnormal returns we found for longer portfolio formation periods.

Given the high frequency data and the broader scope of this study with regards to geographic markets, industries, and market capitalization ranges covered, our results provide statistically significant and generalizable evidence of the existing of customer satisfaction-based mispricing. They confirming prior findings in the field (e.g., Aksoy et al. 2008; Anderson, Fornell, and Mazvancheryl 2004; Fornell et al. 2006) and provide sufficient generalizable evidence to resolve the debate that existed previously. The findings also highlight the importance of customer satisfaction as a long-term success factor that needs to be managed continuously in order to enhance shareholder value. Further practical implications arise for investors, fund managers and equity analysts. Given these abnormal returns, they might want to consider a firm’s customer satisfaction evolution when making investment decisions.

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THE SIGNIFICANCE OF COGNITIVE AND EMOTIONAL VARIABLES: TOWARD A BETTER UNDERSTANDING OF BRAND RELATIONSHIPS

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ABSTRACT

With regards to brand relationships, this research aims to show the existence of two routes, one evaluative and the other affective. The corresponding model is tested on 917 consumers of six major brands in a French setting. In addition, the results show the influence of antecedents through brand personality and emotions experienced.

INTRODUCTION

Most authors currently agree that consumer behavior is explained not only by rational motives but also by affective reactions (e.g., Pieters and Van Raaij 1988). Yet the debate as to the positioning of these two concepts – upstream, downstream, interrelated or independent – is still open in the field of marketing. The present study is sited at the juncture of Forgas’s (1995) and Pham’s (e.g., 2007, 2008) work, which emphasizes that the affective and the cognitive/rational co-vary together and form two distinct routes (Chaudhuri 2006), one more evaluative and based on rational and cognitive judgment, the other more affective and rooted in consumption experience.

As Allen and Meyer (1990) and Meyer, Allen, and Gellatly (1990) have long stressed, the brand relationship concepts were studied independently of each other as explanatory variables. Some authors have suggested the interaction of two or three variables, as for example Thomson, MacInnis, and Park (2005) for the relationship between attachment and loyalty or Morgan and Hunt (1994) for the influence of trust on commitment. In addition, the studies show that at the level of the consumer, distinct or complementary (Lombart and Louis 2009) routes develop, which can make the brand relationship very intense.

As Keller (2008) has pointed out, these routes could stem from the brand personality (explanatory evaluative variable) or from the emotions experienced (explanatory affective variable). The first aim of this study will be to verify the existence of two routes, one evaluative and the other affective, as understood by Pham (2008) and Pham and Avnet (2009), which have been mentioned in the literature (e.g., Chaudhuri 2006) though not really defined. The many interrelationships between the explained and explanatory variables, which constitute a model of the brand relationship, form a multiplicity of potential routes. The second aim of this study will be to define these intersecting influences.

LITERATURE REVIEW

Firstly, we need to look at the latest conceptual developments in social psychology, as regards the interrelationship of the cognitive (evaluative) and affective. The general approach followed outlines the evaluative and affective routes, which will then be examined in detail in the more specific context of brand relationship management.

Cognitive and Affective in Social Psychology

As Pham (2008) himself emphasizes, recent work on the role of affect as an information medium goes far beyond traditional applications in social psychology. The General Affect as Information Model of Judgment (GAIM) that he proposes could therefore be transposed to the field of brand management. The object being evaluated, for example a brochure or poster, gives rise to a mental representation. This in turn leads on the one hand to broadly cognitive perceptions focused on the main attributes of the product and, on the other, to subjective feelings that mutually interact. Pham (2008) also points out that it is highly likely that these cognitive and affective assessments are activated in parallel rather than sequentially.

The model thus clearly defines the two possible courses activated. Indeed, two parallel routes, one evaluative, the other affective, are apparent. Furthermore, intersecting routes also arise in relation to the influence, on the one hand, of perceptual elements on affective responses and, on the other, of feelings on assessment criteria. All of these routes, which constitute an overall cognitive-affective model, lead to a resultant behavioral response linked to the initial object of assessment. The present study therefore intends transposing this model to the domain of the brand relationship and to deepen it by defining in more detail the respective components of each of these evaluative and affective routes.
The Evaluative Route

Brand Personality. According to Freling and Forbes (2005), psychological research suggests that anthropomorphism is a phenomenon to be found in most people’s day-to-day thoughts and actions and has a life-long influence on human perceptions and responses (Guthrie 1997). Indeed, brand personality allows consumers to identify with the brand and to valorize the relationship they have with it. Brands are no longer viewed as passive objects, but rather as active partners, with their own personality, in a relationship between the brand and the consumer (Fournier 1988).

It thus seems that stable brand personality is a significant precondition for the brand relationship. Furthermore, the consumer’s knowledge of the brand is linked to a cognitive representation of it (Peter and Olson 2001) within which abstract associations become preponderant (Keller 2008). In this respect, that latter author underlines the importance of the concept of brand personality for obtaining a representation of the perceptual space of brands. More recently, Johar, Sengupta, and Aaker (2005) have confirmed that cognitive evaluation processes occur during the inferencing of personality traits.

Cognitive Variables in the Brand Relationship

This paper deploys the concepts of trust and cognitive commitment, both of them essential in the study of the long-term brand relationship. Firstly, the work of Doney and Cannon (1997) suggest that trust building involves a “calculative process” based on the capacity of a person or stakeholder to continue fulfilling his obligations in the long term. Furthermore, in their conceptualization of trust, Gurviez and Korchia (2002) draw attention not only to its primarily evaluative character (with the dimensions of “Credibility” and “Integrity”), derived from a rational process of assessing the available data, but also its persistence over time (with the “Benevolence” dimension).

Allen and Meyer (1990) argue that cognitive commitment is linked to a predisposition to adopt behavior based on rational economic decisions. It thus stems from calculative behavior deriving from a cognitive or instrumental approach that leads to an assessment of the importance of the benefits obtained in the relationship (Fullerton 2005). In the context of the present research and following previous studies by Chaudhuri (2006), this conceptualization of cognitive commitment or continuation commitment, based on a long-term relationship, will be adopted for the cognitive evaluation route.

The Affective Route

Emotions Experienced. Relational marketing researchers often cite affective, hedonic and emotional elements as major factors in consumer-brand relationships. The individual is no longer viewed as a passive subject, attracted only by the functional characteristics of the product or brand, but very much as someone in search of experiences and undergoing emotional reactions in response to his environment. While the emotional approach has for many years been used in social psychology, it has gradually been extended to other fields and is now found in a variety of academic disciplines. It can be applied variably to the consumption of a product or brand (e.g., Richins 1997), to attitudes toward advertising (e.g., Holbrook and Batra 1987), or to satisfaction (e.g., Westbrook and Oliver 1991). For Richins (1997), emotions in consumption directly incorporate experiential emotions resulting from the consumption of products. This author is primarily concerned with emotions during the experience of consuming the product. This view is reflected in the present research.

Affective Variables in the Brand Relationship

As regards the explained variables of the affective route, the concepts of attachment and affective commitment will be used in this study. The first research on attachment was in the area of interpersonal relations (e.g., Berscheid and Walster 1978). Studies subsequently appeared on person/object relationships (Belk 1988; Ball and Tasaki 1992), in which the authors showed that only emotionally charged objects, such as place of residence or gifts, give rise to attachment. In the area of brand studies, Kleine, Kleine, and Allen (1995) made clear that attachment is linked to the sense of brand affiliation and to the sentimental value that the brand’s consumer obtains in terms of his lived experience. Aaker and Fournier (1995) were the first to show that attachment reflects a strong emotional bond to the brand.

According to Park, MacInnis, and Priester (2008), attachment is distinct from commitment, since it concerns a characteristic of the consumer’s relationship to the brand, whereas commitment is a psychological inclination in regard to future behavior. The basis of affective commitment lies in the employee’s degree of involvement and identification with the organization (Mowday, Steers and Porter 1979), resulting in a sense of belonging (Allen and Meyer 1990). In Fournier’s view (1998), consumers develop relationships with the brands they consume. In this respect Fullerton (2005) proposes that commitment is at the heart of these relationships since it leads consumers to develop a positive affect toward brands.

RESEARCH MODEL

First, with reference to the latest research in social psychology (Avnet and Pham 2010), it is possible to envisage a model with cognitive or affective meta-factors.
Second, this leads to the formulation of hypotheses and to the characterization of the different evaluative and affective routes.

**The Meta-Factor of Brand Personality and Emotions**

By analogy with recent work in social psychology (Saucier and Goldberg 2006), it is possible to conceptualize a one-dimensional personality trait meta-factor, bringing together order-2 dimensions and order-1 facets, and comparing them in terms of negative or positive orientations. In operational terms, and in regard to brands, this is also the position adopted by Brakus, Schmitt, and Zarantonello (2009), who combine the five order-2 dimensions of Aaker’s (1997) scale in a single overall personality factor. For these authors, the personality meta-factor also corresponds to the possibility of evaluating, in the general sense of the term, the overall brand “personality.” In addition, Brakus, Schmitt, and Zarantonello (2009) show that the overall concept of brand personality positively influences loyalty and positive word of mouth regarding the brand.

An emotional traits meta-factor can also be conceptualized, with order-2 dimensions of emotions. This approach was taken by Zajonc (1981), who puts forward various arguments for the existence of a meta-factor of the affective separate from another meta-factor associated with cognition. His proposal was empirically confirmed by Moreland and Zajonc (1979). This conceptualization, corresponding to an “emotional well-being” dimension, was also proposed and validated in social psychology by Tellegen, Watson, and Clark (1999). The same procedure was adopted by Koenig-Lewis and Palmer (2008) in marketing to study the influence of emotions on satisfaction. In the present study, therefore, the concepts of brand personality and of emotions will be deployed as generic meta-factors.

**Research Hypotheses**

The previously underlined evaluative route gives rise to two working hypotheses, one on the **positive influence of brand personality on trust (H1)**, the other on the **positive impact of trust on cognitive commitment (H3)**. Further, with regard to the work of Morgan and Hunt (1994), Lacey (2007), and Matzler, Grabner-Kräuter, and Bidmon (2008), who emphasize the mediating character of trust, it seems appropriate to test this also in the present study (H2).

As regards the affective route, two working hypotheses are put forward, one on the **positive influence of emotions on attachment (H4)**, the other on the **positive influence of attachment on affective commitment (H6)**. As with the evaluative route, the mediating test of attachment on the influence of emotions on affective commitment will also be verified (H5). In addition, Park, MacInnis, and Priester (2008) clearly show, through an advanced theoretical argument, that trust is an antecedent of brand attachment which suggests the hypothesis **H7**.

Swaminathan, Stilley, and Ahluwalia (2009) show that brand personality, particularly through the dimensions “Excitement” and “Sincerity,” influences attachment to the brand, while being moderated by consumers’ styles of attachment. Similarly, in a Korean context, Sung, Park, and Han (2005) also demonstrate the influence of the personality dimensions of Aaker’s (1997) scale on brand attachment, which allows hypothesis **H8** to be formulated, in relation to the **positive influence of brand personality on attachment**.

Thomson, MacInnis, and Park (2005) point out that the willingness to forgo an immediate personal benefit in order to develop a relationship with the object is correlated with the strength of emotional attachment to it. In this respect, emotional attachment indicates commitment toward the brand, whether such attachment be affective or cognitive. In the latter case in particular, the consumer will be inclined to make financial sacrifices to acquire a brand. Lombart and Louis (2009), in their study, demonstrate the high **positive impact of attachment on cognitive commitment**, corresponding to the formulation of hypothesis **H9**. Finally, in the field of social psychology, Dunn and Schweitzer (2005) have shown the positive influence of positive emotions such as “Gratitude” and “Happiness” on trust in the partner and, conversely, the negative influence of negative emotions such as “Anger.” By analogy, such influences may therefore apply to brands. In their synthesizing conceptualization of trust, Smith and Barclay (1997) note the simultaneously cognitive and affective foundations of this concept. The same notion also recurs in the work of Delgado-Ballester (2004). Consequently, hypothesis **H10**, concerning the **positive influence of emotions on trust**, is propounded. Figure 1 below illustrates the complete research model of the brand relationship with the 10 hypotheses of this study.

**METHODOLOGY AND RESULTS**

We first present the main characteristics of the data collection, in relation to the choice of brands and consumers questioned. The testing of the research model is then detailed together with the findings pertaining to the different hypotheses. Finally, the various direct and indirect routes are tested and the outcomes discussed.

**Data Collection**

In the context of this study of the evaluative and affective routes, the selection of brands was carried out with the FCB matrix used by Vaughn (1986), although the measurement of involvement was not retained. Com-
pared with studies that used the FCB Grid, six brands were selected to best represent each quadrant of this matrix. The upper left part of the matrix contains the brands Fiat and Société Générale (as in Ratchford 1987) and Nokia (as in Bosnjak, Bochmann, and Hufschmidt 2007). The upper right quadrant contains Azzaro and Nivea (after Vaughn 1986). Finally, as in Ratchford (1987), the lower right quadrant contains the Carte d’Or brand. The data collection was implemented through a cohort of French consumers provided by a Paris company. The sample consisted of 46 percent women and 54 percent men. The average age was 48, with ages ranging from 15 to 70. The respondents’ socio-professional categories were distributed as follows: 45 percent SPC+, 8 percent SPC, − and 47 percent inactive. The questionnaire was administered on the basis of an automatic multimedia procedure on the company’s Internet platform, resulting in rapid, direct collection of information. Nine hundred seventeen questionnaires were returned.

Testing the Research Model

In regard to anchoring concepts, adaptations on the one hand of Ambroise and Valette-Florence’s (2010) brand personality scale and on the other of the emotion scales of Holbrook and Batra (1987) and Richins (1997) were used. For relational variables, the respective scales of Gurviez and Korchia (2002) for trust, Lacoeuilhe (2000) for attachment, Fullerton (2005) for affective commitment and Morgan and Hunt (1994) cognitive commitment were selected. The convergent and discriminant validities and the reliabilities of all these scales were checked, with satisfactory results.

To validate the complete research model, confirmatory factor analyses were carried out, as well as using structural equation models under PLS (Partial Least Squares), the advantages of which were recently specified in the specialist literature by Tenenhaus et al. (2005). All in all, the explanatory power of the model is satisfactory, since it varies by 56 percent for trust and 72 percent for cognitive commitment, thus confirming that the model is well founded. Indeed, obtaining low R² values would weaken the scope of the envisaged research model. Finally, the high explanatory power revealed in this study for the brands investigated confirms inter alia the earlier findings of Lombart and Louis (2009) and Aurier and N’Goala (2010).

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Since the model is acceptable, we now need to analyze in more detail the structural relationships previously identified in this study. The structural coefficients confirm research hypothesis H1. Brand personality exerts a positive influence on trust (0.659), confirming the findings of Aaker, Fournier, and Brasel (2004). Furthermore, and in line with the work of Chang and Chieng (2006) (with a contribution to R² of 41.35%), personality positively influences cognitive commitment toward the brand with a structural coefficient of 0.317, thus validating hypothesis H2. The model was then analyzed with the trust variable as the antecedent of the cognitive commitment variable. Results show that trust positively and significantly influences cognitive commitment to the brand (0.712). Furthermore, in line with the findings of Magin et al. (2003), the influence of brand personality is channeled through trust, which here has a total mediating role on cognitive commitment. Indeed, in the present study, when trust is linked to cognitive commitment, the structural coefficient between personality, and cognitive commitment becomes non-significant, with a t-test equal to 0.34 thus validating Hypothesis H3. At a theoretical level, these results corroborate the central role played by trust, consistently with the findings of Aurier and N’Goala (2010) in relation to the services sector.

Research hypothesis H4 is also validated. Indeed, Emotions exert a significant positive influence on attachment (0.503), confirming the findings of Simpson et al. (2007) in social psychology. The results reveal the significant influence of emotions on affective commitment, thus confirming the work of Hansen and Hem (2004), with a high structural coefficient of 0.608, thereby validating research hypothesis H5. Several authors are in agreement that attachment expresses affective commitment (Lacoeuilhe 2000). Similarly, in this study, attachment has a significant positive influence on affective commitment, with a high structural coefficient (0.636). It contributes 75.84% to R², which is high. Thereafter, the process is identical to that used for testing the mediating effect of trust on cognitive commitment. Here, the influence of emotions experienced during consumption of the brand goes through attachment, which has a partial mediating role on affective commitment, with a structural coefficient of 0.203 and a contribution to R² of 21.83 percent. This indicates that attachment alone cannot account for the whole emotional field generated by brands. These findings partially validate working hypothesis H6.

In addition, the results support previous research showing that trust is an antecedent of attachment (Park, MacInnis, and Priester 2008; Lombart and Louis 2009). Results make clear that trust has little effect on brand attachment, with a very low structural coefficient of 0.134 and a contribution to R² of only 12.27 percent. Despite these rather low figures, research hypothesis H7 is nonetheless validated. Brand personality makes a moderate contribution to explaining attachment (30.16%), with a structural coefficient of 0.273. This result thus indicates a statistically significant positive relationship, thus validating hypothesis H8. However, this influence is three times smaller than that of trust (0.659), thereby underlining the more cognitive character of brand personality and once again corroborating its evaluative nature, in the sense of Johar, Sengupta, and Aaker (2005).

Consistently with Lombart and Louis’s (2009) findings, attachment exerts a significant influence on cognitive commitment, with a contribution to R² of 20.39 percent and a structural coefficient of 0.298, thus validating working hypothesis H9. We see, reasonably enough, that the influence of attachment on cognitive commitment (0.298) is less strong than its influence on affective commitment (0.636), clearly confirming that this variable primarily pertains to the affective route. Moreover, these findings also confirm the interrelationship between the cognitive and the affective emphasized by Pham (2008) and Yates (2007). Finally, emotions exert a positive influence on trust in the brand, with a small contribution to R² of 12.14 percent and a structural coefficient of 0.110, thus validating working hypothesis H10. These figures may be compared with the influence of emotions on attachment, which is stronger (0.503). Once again, the results confirm the interdependence of the affective and cognitive concepts. Figure 5 below summarizes the results, which fully validate working hypotheses H1 to H10, except for H6 which is partially validated.

DISCUSSION AND CONCLUSION

Having completed the analysis, we shall now present the study’s main contributions, followed by its limitations and possible future research.

Contributions

Setting out from the possible interactions between the different variables of the brand relationship and from Chaudhuri’s (2006) recent work, this study’s primary aim was to propose a model of all these relationships. Its conceptual framework is also indebted to the recent studies by Pham (2008) and Pham and Avnet (2009) in social psychology. The model put forward specifies the interactions between the relational variables retained, taking account of the influence of antecedents through brand personality and emotions experienced. In addition, the concrete expression of the two direct routes taken by the consumer, one evaluative, the other affective, was also foregrounded, and validates the second aim of this study, namely to demonstrate the primacy of the two direct routes leading to the two components of commitment.

More precisely, the present study shows that brand personality influences several key concepts pertaining to
the brand relationship. Apart from the recent study by Lombart and Louis (2009) on a drink brand, this is one of the first to offer an overall model of the impact of brand personality on these relational variables. Likewise, little research to date has investigated the influence of emotions on relational variables. This study therefore presents the very first findings in this area. Furthermore, the results confirm the existence of a total mediating variable, namely trust, in relation to the influence of brand personality on cognitive commitment. In this respect they extend the results hitherto obtained by various authors who had only established the influence of trust on commitment. Thus, there is a route running from brand personality through trust to cognitive commitment.

As regards emotions, the conclusion is similar, though with a partial mediating variable, attachment, in relation to the influence of emotions on affective commitment. Similarly, these results extend those obtained by other researchers (e.g., Lacoeuilhe 2000), who had clearly suggested that affective commitment might derive from attachment. Thus, in the same way as for brand personality, a route emerges in relation to these affective concepts.

The research also shows that all the relational variables mutually interact. It therefore represents a considerable advance on earlier studies which had not addressed these in their entirety (e.g., Morgan and Hunt 1994; Aurier and N’Goala 2010). Furthermore, the interdependencies among the various evaluative and affective concepts explicitly validate propositions on the covariation of the cognitive and affective (e.g., Pham 2007; Yates 2007).

At a managerial level, the results very much show that managers may manage their brand in different or complementary ways. First, as regards the evaluative route, managers could make use both of the personality traits of their brands and of trust in order to increase consumers’ cognitive commitment. Moreover, trust, the key element of the brand relationship, could be enhanced in accordance with specific personality traits that brand managers decide to privilege. Second, at the affective level, managers would have action levers through the variables of emotions or attachment in order to enhance affective commitment to their brand. Similarly, attachment could be intensified according to the emotions experienced when a given product is consumed, since the results show that these are a major antecedent. Finally, the study provides elements that can characterize the brands concerned at a joint affective and evaluative level. Combining these indicators enables managers not only to better position their own brand, but also to do so in relation to their competitors’ brands. Ultimately, this matrix derived from the intersection of affective and cognitive indicators will also allow them to follow over time the evolution of their brand and the impact of marketing actions on key elements of the brand relationship.

**Limitations**

Like any research, this study has its limitations. The first of these concerns the set of brands, which is small and calls for expansion. The second limitation lies in the use of an order-3 meta-factor for brand personality and emotions and an order-2 meta-factor for trust. It would be

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**FIGURE 2**

Validation of Research Hypotheses

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>Outcome variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personality dimensions</td>
<td>Calculated commitment</td>
</tr>
<tr>
<td>Sincerity</td>
<td>Trust</td>
</tr>
<tr>
<td>Charm</td>
<td></td>
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<tr>
<td>Perfectionism</td>
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<tr>
<td>Sophistication</td>
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<tr>
<td>Emotional dimensions</td>
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<tr>
<td>Fear</td>
<td>Attachment</td>
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<tr>
<td>Thankfulness</td>
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<tr>
<td>Surprise</td>
<td></td>
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<tr>
<td>Happiness</td>
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</tbody>
</table>

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![Diagram](image-url)
desirable to test the model with order-2 and order-1 meta-factors respectively. In addition, other relational variables, such as experience of the brand (Brakus, Schmitt, and Zarantonello 2009), could be deployed, for example, in relation to the affective route.

**FUTURE RESEARCH**

The broad field of current research on brands and more particularly brand attachment (Park et al. 2010) opens up several avenues for future research. The first would be to investigate the recent developments proposed by these authors in relation to the two components of attachment that they recommend (brand prominence and the brand’s connection with the self). How can these two concepts be incorporated into the proposed model? Ultimately, the consumer-brand relationship could be described by two meta-constructs, one affective, the other cognitive, in reference to recent work (Avnet and Pham 2010), to which it would be advisable to link a third construct in relation to self-expression functions of the brands. This conception, leading to a holistic view of the consumer’s relationship to the brand, would, if it could be empirically validated, enable the theoretical and operational scope of the model envisaged in this study to be widened.

Furthermore, it seems desirable to test the model in the context of purely experiential consumption, so as to check the respective weights of the evaluative and the affective. Finally, similarly to Fournier’s (1988) proposal for a global index of the brand relationship using BRQ (Brand Relationship Quality), it would seem possible to define two constructs representing the respective weights of the evaluative and the affective in the construction of the consumer-brand relationship. This study opens up future research paths in this area.

**ENDNOTES**

1 For a more extensive account of the theory of anthropomorphism see Author 2009, 2010.
2 Copyright Foote, Cone and Belding Communications, Inc. 1979.
3 Internal GoF of 0.853 and external GoF of 0.998 (both high and close to 1) validate the conceptual model.

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INVESTIGATING ANTECEDENTS AND CONSEQUENCES OF BRAND EXPERIENCE IN ADVERTISING CONTEXTS

Widyarso Roswinanto, University of North Texas, Denton

SUMMARY

Various brand conceptualizations have been developed and integrated into networks of inter-connected models. The current paper focuses on brand experience concept that characterizes the immediate effects of brand stimuli on consumers’ responses. A previously developed scale of brand experience was investigated to discover its antecedents and consequences. Brand experience was conceptualized as subjective, internal consumer responses (sensations, feelings, cognitions) and behavioral responses evoked by brand-related stimuli that are part of a brand’s design and identity, packaging, communications, and environment (Brakus et al. 2009). An exploratory research started from the nearest potential phenomena affecting consumers’ brand experiences as well as the most direct effects of such experiences in which they were exposed to brand stimuli. Advertising was used as the context to represent brand stimuli.

Four antecedents of brand experience were recognized: attitude toward brand name, connectedness to celebrity endorser, message fit, and visual imaging. Attitude toward brand name represents the degree to which a person considers a brand name acceptable (Schmitt et al. 1994). Conceptualization of connectedness to celebrity was adapted from Russel et al. (2004) as the level of intensity of the relationship that a viewer develops with a celebrity (that later endorses a brand in advertising). Message fit was conceptualized as the extent to which the meaning developed in a consumer’s cognition from the advertisement message fits with the value of the advertised product as expected by the consumer. Visual imaging represents the extent to which an advertisement has stimulated a person to form mental images of what was described verbally in the ad copy (Unnava and Burnkrant 1991). Two consequences of brand experience were analyzed in this study: brand attitude and brand distinctiveness. Brand attitude represents a relatively enduring, uni-dimensional summary evaluation of the brand that presumably energizes behavior (Spears and Singh 2004). Brand distinctiveness was conceptualized as brand associations which result in high brand awareness and the extent to which the associated brand stands out in consumer’s mind (Yoo et al. 2000).

Drawing on extant literature, six hypotheses were developed in relation to brand experience. The first four hypotheses were focusing on the positive effects of the four antecedents on brand experience. The last two hypotheses were focusing on the positive effect of brand experience on its two consequences. The results of the survey signified factors that preceded and followed the brand experience phenomenon and demonstrated the substance of brand experience as potential mediator for various brand phenomena.

Methodology

The sample was collected from a Southern public state university. There were 297 responses in total. The connectedness to celebrity endorser was modified from a developed construct connectedness to television program and character. One out of twelve dimensions of connectedness was removed due to low factor loading. Message fit construct is developmental in this study. Other five constructs were adopted from previously validated scales.

The factor analysis showed well separated loadings for each construct’s dimensions in the range of .76 to .91, and Cronbach’s alpha of the constructs were in the range of .84 to .93. Multiple regressions were used to test three sets of positive relationships of: (1) the four antecedents to predict brand experience, (2) brand experience to predict brand attitude, and (3) brand experience to predict brand distinctiveness. Sobel test (Aroian version) was used to test brand experience as mediating variable between the antecedents and the consequences.

Conclusions

Three out of four antecedents that significantly predicted brand experience (R² = 35.5%, F(4, 264) = 37.1, p value < .001) were the attitude toward brand name (β = .33, t(264) = 6.1, p value < .001), connectedness to celebrity endorser (β = .31, t(264) = 4.6, p value < .001); and visual imaging (β = .27, t(264) = 4.9, p value < .001). The last antecedent, message fit, was not significantly predicting brand experience (p value = .97). Brand experience was found as significant predictor for brand attitude (β = .47, R² = 24.4%, t(267) = 17.5, p value < .01) and for brand distinctiveness (β = .14, R² = 5.5%, t(267) = 37.2, p value < .001).

The results of Sobel tests indicated that brand experience significantly mediated the antecedents and conse-
quences in the study. Brand experience was found significantly mediating the relationships between the three antecedents and: (1) brand attitude, *p value* < .01, and (2) brand distinctiveness, *p value* < .01. An interesting finding also came from the relationship of brand experience with brand attitude, that notwithstanding the absence of positive or negative direction of brand experience scale, a higher brand experience produced a higher brand attitude.

Theoretical contribution of the study was the ability of brand experience concept to explain variation in responses of the consumer upon receiving brand stimuli, such as to explain attitude, brand awareness, and further to explain other potential variations such as in consumer learning, purchase intention. Practical contribution was mostly drawn from the antecedents that are mostly controllable factors in marketing managers’ advertising decisions. References are available upon request.

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WHY DO NON-DECEPTIVE COUNTERFEITS ALLURE CONSUMERS IN EMERGING MARKETS: A QUALITATIVE STUDY

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Muhammad Shakaib Akram, CERGAM, IAE Graduate School of Management, France

SUMMARY

Consumers for counterfeits can be found everywhere which may lead to assume that the factors leading to the purchase of counterfeits are universal but literature suggests the contrary. Counterfeit consumption is expected to be affected by cultural norms and market or legal factors. Therefore, in emerging market, consumers are likely to use their greater expertise with counterfeits to meet the stronger social adjutive demands of their culture. Consumers’ desire for counterfeits depends on the extent to which these products fulfill their social goals, and by understanding these social goals, it’s possible to influence their counterfeit consumption behaviors. The objective of this study is to explore the determinants of counterfeit purchases within an interdependent culture and in an emergent market where counterfeit availability and accessibility is high. We investigate non-deceptive counterfeit consumption behavior from the consumers’ perspective who know it is harmful to them, their health, the owners of genuine brands and the society at large but even then prefer these products.

The basic hypothesis behind this research was that the consumers from the collectivist cultures will have a different behavior toward the purchase of counterfeits. The literature provides the determinants affecting consumers’ attitude toward counterfeits but we are interested to know the factors affecting emerging markets’ consumers of counterfeits focusing on the individual’s characteristics, culture and risk perceptions. A qualitative research study seems to be justified in the Asian context as it can provide a rich and descriptive analysis of the complex phenomenon as consumers’ behavior toward counterfeits. Consistent with previous research using a phenomenological approach, we have used personal interviews for data collection to gain better understanding of consumers’ thought processes and decision-making concerning the purchase and consumption of counterfeits in an emerging market, Pakistan. A self-selected group of fifteen (9 males, 6 females) individuals covering a wide range of age (20-70 years), income (Rs. 5,000 – 80,000) and education level (high school – university degree) have been interviewed individually. The sample consisted of the consumers of counterfeits having knowledge of brand and they belonged to the middle class; since the rich don’t need to buy pirated copies and the poor have no concept of brand. All interviews lasted for about 30 minutes and were audio-taped and transcribed and, later on, analyzed by using QSR NVivo.

Through the qualitative study we found several non-price determinants (achievement of enhanced personality, quality of counterfeits, ethics/law enforcement, social group/social risk, ready to take risk, location of the seller, buying for brand) playing their role is consumers’ decision making for counterfeits. We found that the consumers in emerging markets, though consider purchasing and consuming a counterfeit to be unethical or immoral yet don’t mind purchasing and consuming it. Further, the findings suggest that the decision to purchase a counterfeit is guilt-free and the purchaser is ready to take risks to enjoy counterfeits. This explains the complex decision-making process involved in the volitional purchase of counterfeits. The results expand our vision beyond purchase of counterfeits to the entire horizon of consumer behavior and meaningful relationships that consumers form with counterfeits. The paper contributes to the existing literature by investigating the perspective of the consumers from emerging markets in the context of counterfeits’ purchase which is a potential area for further research.

The results of the study are based on recall of consumers’ purchases and consumption of counterfeits so their feedback is based on their memory and not the current moment. It is recommended the interviews be conducted in a more realistic setting, i.e. in a shopping mall to get better understanding of the purchase of counterfeits and consumers’ state of mind, their mood, and the moral/ethical issues associated with their purchase setting. References are available upon request.
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MANIFESTATIONS OF BRAND ORIENTATION IN MUSEUMS: AN EXPLORATORY STUDY

Jody Evans, Melbourne Business School, Australia
Kerrie Bridson, Deakin University, Australia
Ruth Rentschler, Deakin University, Australia

ABSTRACT
This paper develops a model of the manifestations of brand orientation in a museum context. The findings from 20 case studies reveal a philosophical and behavioral aspect of brand orientation. Six attributes are presented that include brand orientation as an organizational culture and compass for decision-making and four brand behaviors.

INTRODUCTION
Museums are an important segment of the non-profit, social, arts and heritage (NSAH) arena. The landscape museums operate within is becoming more competitive and museum directors are striving to achieve their own ambitions and meet the expectations of multiple stakeholders (Goulding 2000). The need for museums to reconcile an internal curatorial focus with the commercial imperatives of operating in a broad leisure market has been acknowledged for some time (McLean 1994, 1997; McLean and O’Neill 2007; Rentschler 2002). Some refer to this as a debate between a focus on spiritual enrichment/education or fun/entertainment (McLean 1995a, 1997), whilst in the broader nonprofit literature others refer to the tensions between fulfillment of an institution’s mission and marketing’s focus on customer satisfaction (Liao Foreman, and Sargeant 2001). Mottner and Ford (2005) attempt to reconcile the debate by acknowledging that marketing strategy can pursue multiple objectives (i.e., raise funds for nonprofits and further the organization’s altruistic objectives). The purpose of this paper is not to fuel the museum marketing debate further, but, similar to Mottner and Ford’s (2005) view of marketing strategy in a museum context, we seek to advance research by exploring the role brand plays in bridging the curatorial and commercial divide.

Branding is a concept well developed in the general marketing field (Aaker 1992; Aaker 1997; Keller 2000) and a growing body of literature suggests that branding is a meaningful construct for museums (Caldwell and Coshall 2002; Caldwell 2000; Scott 2000). A brand is a name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers (AMA 2010). Brand orientation is a fusion of the brand concept with the business orientation literature derived from the Resource-Based View (RBV) of the firm. In this context, the brand is an integrative device that aligns the organization’s resources (de Chernatony 1999; Mosmans and van der Vorst 1998). There is a growing body of work on the specific brand orientation construct (Bridson and Evans 2004; Ewing and Napoli 2005; Hankinson 2001a; Urde 1994; Wong and Merrilees 2005), but a definitive conceptualization of brand orientation has yet to find support.

The museum context offers a unique opportunity to conceptualize brand orientation in a manner that applies to a range of organizations. Museums are primarily non-profit, permanent institutions that serve society and its development, are open to the public, which acquire, conserve, research, communicate and exhibit the tangible and intangible heritage of humanity and its environment for the purposes of education, study and enjoyment (ICOM 2010). The sector captures a wide spectrum of organizations from the resource-rich to the resource-constrained, niche operators to those offering a broad range of experiences and small entities to large iconic institutions. Museums must address the needs of multiple stakeholders (Goulding 2000; Mottner and Ford 2005) with an internal political situation that can be dominated by silos with, often, competing interests. This exploratory study aims to assess the nature, prevalence and manifestations of brand orientation in museums. This paper fills a gap in both the museum marketing and broader branding literature. By looking at brand orientation in a museum context, we can apply lessons to other non-profit organizations seeking to become brand oriented in a climate of significant resource-constraints, competing stakeholder interests and organizational change.

BRAND ORIENTATION
Urde (1994) first referred to brand orientation and later defined it as “an approach in which the processes of the organization revolve around the creation, development and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands” (Urde 1999, p. 117). Urde (1994) conceptualizes brand orientation as a seven-dimension paradigm (target group, corporate identity, corporate name, product, trademark, brand vision and positioning). Based on experiences from companies in France including Nestle, DuPont, Tetra Pak,
Volvo, and Pharmacia Upjohn Nicorette, Urde (1999) reiterates the value of his 1994 conceptual framework. This conceptualization embraces the behavioral approach to business orientations, which concentrates on the orientation in terms of implemented behaviors and activities.

In contrast, Hankinson (2001b) adopts a more philosophical approach to brand orientation and defines it as “the extent to which organizations regard themselves as brands and an indication of how much (or how little) the organization accepts the theory and practice of branding” (p. 231). Based on a quantitative study of 316 charities, Hankinson (2001a) found that brand orientation comprises a dominant factor of general brand orientation as well as six weaker factors. Hankinson (2001b) proposes that brand orientation encompasses four dimensions including understanding the brand, communicating the brand, using the brand as a strategic resource and managing the brand deliberately and actively. Hankinson (2002) further refines her concept and, using Aizen and Fishbein’s model of attitudes, focuses on the extent to which the brand is embedded in the organization’s thinking and reflected in organizational values. Hankinson’s continuous refinement of brand orientation is commendable. However, it has also contributed to the lack of clarity surrounding the construct.

Whilst Hankinson (2001a, 2002) adopts a philosophical approach to brand as an orientation, Bridson and Evans (2004) are more closely aligned to Urde’s (1994) behavioral view. Brand orientation is defined as “the degree to which the organization value brands and its practices are oriented toward building brand capabilities” (Bridson and Evans 2004, p. 404). In an Australian retailing context, four brand capabilities are identified; namely, distinctive, functional, value-adding and symbolic capabilities. This focus on the extent to which organizations use their brand to perform a range of functional values is valuable, but it fails to incorporate the philosophical aspect of brand orientation. Ewing and Napoli (2005) attempt to reconcile the philosophical and behavioral approaches to brand orientation and define it as “the organizational wide process of generating and sustaining a shared sense of brand meaning that provides superior value to stakeholders and superior performance to the organization” (p. 842).

Using Keller’s (2000) Brand Report Card as a base, Ewing and Napoli (2005) identify three underlying dimensions of brand orientation (interaction, market sensing and orchestration) in a non-profit context. Whilst the definition encompasses philosophical and behavioral aspects, the measures address brand-oriented behaviors only.

Wong and Merrilees (2005, 2007, 2008) examine brand orientation in a small to medium sized enterprise context. Brand orientation is defined as “a mindset that ensures that the brand will be recognized, featured and favored in the marketing strategy” (Wong and Merrilees 2008, p. 374). Wong and Merrilees (2007, 2008) operationalize brand orientation as a single construct consisting of five items. These items range from “branding flows through all our marketing activities” to “the brand is an important asset for us.” The approach adopted by Wong and Merrilees (2008) contrasts sharply with that of previous work in that it is a much more marketing function-specific approach. The conceptualizations discussed previously all focus on brand values and practices across the entire organization.

It is evident that researchers have sought to examine how brand oriented organizations structure themselves (Urde 1994), how they create, develop and maintain brands (Ewing and Napoli 2005; Urde 1994; Wong and Merrilees 2005, 2007, 2008), their perceptions and evaluations of the importance of brands (Hankinson 2001a, 2001b, 2002) and the brand capabilities to which they devote resources (Bridson and Evans 2004). However, the literature has yet to support a single holistic conceptualization of the brand orientation construct. The museum context provides a useful platform in which to address this gap in the literature and identify the manifestations of brand orientation. This leads to RQ1. How is brand orientation manifested in a museum context?

**METHODOLOGY**

As we were interested to know the why and how of brand orientation in the museum context, a collective case study design was adopted (Yin 1984). The intention is to build a robust model that is analytically generalizable to a theoretical proposition (Yin 1984). The case studies were conducted with 20 well-known U.S., U.K., and Australian museums (Table 1). The criterion for sample selection within each country was to canvass a spectrum of museums in terms of size, scale of operation and type. The study is geographically diverse with similar philanthropic government policies toward the arts evident in Australia and the United Kingdom. The United States of America provides a context where museums rely more on private sources of funding. The museums in this study were all open to the public with permanent collections.

In each case the director for marketing or commercial operations was interviewed. This was the most appropriate informed sample able to discuss branding and brand orientation. The semi-structured interviews were typically of 90 minutes duration. The interview protocol included open-ended interview questions structured around subject areas. The first subject area focused on a general discussion of the museum sector and addressed changes in the sector, current challenges and problems, and the attributes needed to compete effectively. The second
subject area addressed aspects of the institution: culture, structure, priorities, strengths, weaknesses and unique challenges. The third subject area included questions on the purpose of branding, attitudes toward branding within the institution and the role of branding within the institution. This section also focused on the respondent’s personal experiences with branding initiatives within the institution. The fourth subject area asked respondents to describe their brand and what they believed it stood for in the minds of the institution’s various stakeholders (i.e., curators, visitors services, donors, trustees and members).

Subsequent interviews of a less formal nature included phone and email correspondence, which were field-noted and coded. These latter interviews were frequently used to clarify particular aspects of the analysis as they arose. While the interviews provided the primary data source, other data sources were used. Secondary data included institutional documents, annual reports and marketing plans. These documents were used to assess the positioning of the brand in terms of institutional priorities and to gauge the allocation of resources to brand-related activities. Observations of museum brands in situ were conducted using the triggers from the case study protocol. Such observations were used to establish brand prominence in visual terms and the degree of consistency in brand presentation. Conceptual ordering (Strauss and Corbin 1998) was conducted whereby the data was organized into discrete categories according to their properties and dimensions and then using description to clarify those categories. Employing the constant comparative method (Strauss and Corbin 1998), data was collected, coded and analyzed concurrently for similarities, differences, general patterns and relationships. Through this analysis the key issues were identified and modeled.

**FINDINGS**

**RQ1: How is Brand Orientation Manifested in a Museum Context?**

In regards to RQ1, the findings suggest that all museums in the study can be considered brand oriented to some degree. This supports the contentions of Chong

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**TABLE 1**  
Respondent characteristics

<table>
<thead>
<tr>
<th>Australia Museum</th>
<th>Interviewee</th>
<th>United Kingdom Museum</th>
<th>Interviewee</th>
<th>United States of America Museum</th>
<th>Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Art Gallery</td>
<td>Director of Marketing</td>
<td>8 Art Gallery</td>
<td>Head of Communications</td>
<td>14 Historical</td>
<td>Vice-President Communications</td>
</tr>
<tr>
<td>2 Science &amp; Social History</td>
<td>Director of Operations</td>
<td>9 Art Gallery</td>
<td>Head of Marketing</td>
<td>15 Historical</td>
<td>President and CEO</td>
</tr>
<tr>
<td>3 Historical Art &amp; Social History</td>
<td>Marketing Manager</td>
<td>10 Science Business Develop’ Manager</td>
<td>16 Art Gallery</td>
<td>Director of Marketing</td>
<td></td>
</tr>
<tr>
<td>4 Art Gallery</td>
<td>Director of Marketing</td>
<td>11 Social History Marketing &amp; Retail Manager</td>
<td>17 Art &amp; Social History</td>
<td>Director of Marketing</td>
<td></td>
</tr>
<tr>
<td>5 Science, Art &amp; Design Marketing Manager</td>
<td>12 Art Gallery</td>
<td>Head of Gallery</td>
<td>18 Art Gallery</td>
<td>Associate Director Marketing</td>
<td></td>
</tr>
<tr>
<td>6 Art Gallery</td>
<td>General Mgr Marketing</td>
<td>13 Historical Head of Marketing &amp; PR</td>
<td>19 Art Gallery</td>
<td>Director Marketing</td>
<td></td>
</tr>
<tr>
<td>7 Art Gallery</td>
<td>General Mgr Marketing</td>
<td>20 Art Gallery</td>
<td>General Mgr Marketing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
It’s critically important. You can see that from the last three strategic plans how our brand has been elevated structurally and how it’s positioned and about construction (Case 5).

The annual reports and strategic plans obtained from institutions supported this assertion. Sophisticated brand architectures were established and tracking brand health was emerging as an important performance metric. Many respondents viewed this new focus on the brand as part of a cultural revolution within the institution. This is typified by the response of one art gallery “…we have a political opportunity here to change the culture of an organization steeped with a lot of tradition and baggage” (Case 1). This highlights the recognition within the sector that the brand is more than a marketing tool and that it functions at an organizational cultural level.

The brand’s ability to act as a compass and guide the strategic direction of the institution (de Chernatony 1999; Mosmans and van der Vorst 1998) was almost universally acknowledged:

It’s not just marketing against curatorial, it’s really having a balanced discussion about what we’re here for and how we achieve our goals (Case 16).

Institutional documents revealed that brand stories were a typical starting point where institutions utilized the assistance of consultants to conduct a series of internal workshops that resulted in a document that articulated the essence of the brand. Such documents were then used to guide a range of decisions from resource allocation, to the development of new programs and events. A common catchphrase used in many institutions was whether a particular activity was “on brand.” Taking a philosophical view of business orientations, this aligns with Deshpande and Webster’s (1989) view of market orientation and Hankinson’s (2001b; 2002) approach to brand as an orientation. Deshpande and Webster (1989) suggest that for a firm to be market oriented, it must place the customer at the center of the firm’s strategic thinking and operations. Similarly, for an organization to be brand oriented it must prioritize the brand and use it as a compass to guide the strategic direction of the organization. Such guidance stems from the ability of all employees to articulate the brand’s values and that the organization as a whole has a clear sense of what the brand stands for.

The difference in the degree to which museums have embraced the brand relates to the range of decisions that are brand-led. In the social history and science museums the brand was a strong compass for decisions ranging from store design and program development to acquisitions and exhibitions. As one U.K. social history museum noted: “Elements of the brand should be reflected throughout everything we do and I think everyone is very much signed up to it” (Case 13). Some art galleries had progressed to a point where curatorial decisions were made with the brand as a strong reference point. For one U.S. art gallery the brand had become an all-encompassing driving force: “We needed something more specific to drive the property decisions and the curatorial decisions; it’s really truly a mantra here” (Case 17). However, for many art galleries this was still an aspiration. This was particularly the case for the larger iconic galleries, as typified by the response from one U.K. art gallery: “What there’s never been is a sense of common purpose . . . this is what we are now just starting to put in place” (Case 8). This highlights another important difference between institutions in the study; the larger and often older museums were much slower in adopting a brand orientation. Such museums had to tread more gently and, as will be discussed later, faced greater obstacles to implementing brand-oriented values and practices. It is important to note that using the brand as a compass for decision-making does not equate to the Marketing function dictating major collection and exhibition decisions. This point was strongly made by many respondents and typified by the following statement from a U.K. history museum: “It’s not just the marketing department being the branding police; everyone has signed up to what we are and what we’re about” (Case 13). Thus, the findings do not support Wong and Merrilees’ (2005, 2007, 2008) marketing-focused view of brand orientation.

Brand orientation was also manifested in the day-to-day activities and practices of the museums. In a general sense, the case studies support Hankinson’s (2001b) brand orientation concept. Museum marketers show a deep understanding of the brand and focus their efforts on communicating it both internally and externally. The findings, however, offer even greater specificity. With reference to the brand orientation framework proposed by Bridson and Evans (2004), four brand behaviors can be identified. We would not go so far, however, as to classify these behaviors as capabilities. A capability is usually considered a bundle of assets or resources used to perform a specific business process. In this sense, we would argue that brand orientation represents the capability, which is manifested at a philosophical level through culture and
compass attributes and at a behavioral level through the
brand’s distinctive, functional, augmentation and sym-
monic roles.

All museums were devoting resources to establishing the
distinctiveness of the brand. As one Australian respond-
ent stated: “The key thing really was establishing that
XYZ stood for [gallery full name]” (Case 1). This was also
evidenced through observational research with many
institutions displaying their logo’s prominently on the
exterior of buildings, exhibition signage, store merchan-
dise and restaurant menus. For many, brand distinctive-
ness was closely related to the institution’s architecture.
One U.K. museum stated: “The X brand to a certain extent
is also characterized by the building itself which is a major
landmark in . . .” (Case 11). In general, the primary focus
of such brand activities was the deployment of resources
to communicate the uniqueness of the brand. One Aus-
tralian museum asserted that one of the reasons they were
investing in their brand was “uniqueness, being able to
define your uniqueness, to differentiate yourself from the
market . . .” (Case 5).

Of great concern to many respondents was that the
brand needed to symbolize the core experience: “I think
it’s about evidence really and just to be able to, in a
snapshot in an instant, to communicate the kind of expe-
rience that the X can provide” (Case 1). In line with
Bridson and Evans (2004), this functional role focused on
the brand’s ability to manage audience expectations. In
particular, this was manifested through the brand’s ability
to communicate two key functional benefits. First, acces-
sibility was an important brand message. As one science
museum noted, their brand needed to symbolize that
“from a visitor perspective it’s a museum that’s going to
be good for their kids” (Case 10). Second, relevance was
a dominant theme in the branding activities of many
institutions, but particularly those marketing art collect-
ions.

I called it a relevance campaign. It is the purpose of
branding. Especially in the contemporary art realm
there is so much that people don’t know; there are so
many leaps of faith that people need to take to come
from preconceived notions (Case 16).

Many respondents also referred to a range of strategy
decisions that were viewed as part of a long-term invest-
ment in building a strong brand. An Australian respond-
ent was focused on the value of investing in the brand: “the
value of this unique brand could be incredible. So you’ve
got to know how to define and add value” (Case 5). Brand
augmentation activities, such as brand extensions, website
improvements, virtual exhibitions, new programs and the
museum shop were viewed as critical initiatives to en-
hance the value of the brand. Moreover, the hosting of
special events and the creation of destination restaurants
were recognized as important in a revenue-generating
sense, but were also seen as critical brand-augmentation
activities.

Finally, the symbolic quality of the brand was some-
thing to which all respondents aspired. As discussed by
one U.K. art gallery “I think [venue brand] has had a large
effect on [institution brand] in particular because it’s
almost bigger than the art” (Case 9). When discussing the
attributes of their brand, many respondents used quite
emotive language that suggested their desire to foster a
strong personal connection between the brand and the
visitor. The symbolic quality of a U.S. art gallery’s brand
was described as:

. . . a dynamic place where there’s always something
new to see and do, a place to get away from the hustle
and bustle of everyday life, but also a place to go for
excitement and to be with friends. I’d like for people
to see it as something that really helps round out and
fulfill them (Case 18).

In general, respondents wanted visitors to feel a sense
of ownership of the brand. As an Australian art gallery
stated: “We want to go toward something like ‘It’s my
XYZ’” (Case 1).

Emergent Conceptual Model

Based on the findings from the twenty case studies,
there was strong evidence to suggest that museums are
pursuing brand orientation, which is reflected in their
organizational philosophy and behaviors. Figure 1 pre-
sents the emergent brand orientation conceptualization.
Six attributes are presented that include brand as an
organizational culture and compass for decision-making
and four brand behaviors (distinctiveness, functionality,
augmentation and symbolism). We argue that the brand
must first be established at the philosophical level, which
then drives the four brand behaviors.

CONCLUSION

This paper has sought to address a gap in both the
brand orientation and museum marketing literature. While
the body of work exploring brand orientation has grown,
there has been a general failure to build on extant research
and generate a holistic brand orientation concept (Bridson
and Evans 2004; Ewing and Napoli 2005; Hankinson
2002; Urde 1994; Wong and Merrilees 2008). Extant
research tends to utilize either a philosophical or behav-
ioral approach to brand orientation. We would argue,
however, that both approaches are necessary in order to
fully capture the construct. We find support for
Hankinson’s (2001b) continuum perspective, as muse-
ums varied in the degree to which they had adopted and
implemented brand oriented values and behaviors. Thus,
in reconciling the philosophical and behavioral approaches to business orientations we define brand orientation as the extent to which the organization embraces the brand at a cultural level and uses it as a compass for decision-making to guide four brand behaviors; distinctiveness, functionality, augmentation, and symbolism. The findings reveal that the brand operates at a philosophical level and can be considered as an organizational culture and compass that guides decision-making. This then turns the focus on the types of decisions that are brand-led and the roles that the brand plays. These four behaviors (distinctiveness, functionality, augmentation and symbolism) have much in common with Bridson and Evans’ (2004) conceptualization of brand orientation, but we dispute that they are capabilities in their own right.

It is evident in a museum context that four groups of brand behaviors are prevalent. First, one important indicator of how highly an institution values its brand is the focus on establishing the brand’s distinctiveness. The brand is an identifiable logo, symbol or word that differentiates the institution from competitors and, therefore, acts as a decision-making heuristic for visitors. Second, a brand oriented institution also utilizes its brand as a means of satisfying consumers’ basic needs (Park et al. 1986). This is termed brand functionality and relates to the degree to which the brand communicates to audiences that the museum will provide superior utilitarian benefits. Such benefits in a museum context refer to practical issues including relevance of the experience and accessibility of the collection. Third, brand augmentation refers to the practices the museum employs to augment the rudimentary functional benefits communicated by the brand. A brand-oriented museum may exhibit this through the addition of service and quality features to enhance the museum experience. Brands can also be distinctive enough to be extended to other venues, merchandise, exhibitions and even retail stores. These augmentation activities are viewed as an investment in the long-term future of the brand and are directed by a desire to communicate a superior brand image. Fourth, museums also recognize the brand’s ability to embody more than the collection and exhibitions it represents. It was part of the fabric of people’s lives and provided a unique and special experience for each individual visitor. In this way brand symbolism creates a personal connection between the institution and the visitor and helps to establish the brand as a unique cultural icon.

The implications for museum managers are the ability to identify how brand orientation manifests itself within their institutions. If museums seek to establish a strong brand orientation or strategically reposition their brand they must devote resources to establishing the brand as a dominant organizational philosophy that guides decision-making. In addition, brand oriented museums...
must establish the brand as a distinctive asset that communicates relevance and accessibility and invest in augmentation initiatives that enable the institution to connect with visitors on a personal level. It is apparent that many of the museums in this study have developed a brand orientation or are on the path to doing so. If museums with substantial resource constraints, competing needs of multiple stakeholders and increasing market turbulence can achieve such significant organizational change then this sector presents an interesting exemplar for many other non-profit organizations.

We deliberately chose to investigate the research question from the perspective of those responsible for marketing or commercial operations. Whilst this may be considered a limitation of the study, they were the most appropriate informed sample able to discuss branding and brand orientation. However, given the significance of the curators and other strategic areas of museums, future qualitative research with these parties would provide a useful extension. This exploratory study provides a foundation for future brand research by offering a holistic brand orientation concept and identifying the primary antecedents. Future empirical research will seek to establish a reliable and valid scale of brand orientation and assess the degree to which institutions are brand oriented. Such research can also examine the explanatory potential of brand orientation in relation to key performance outcomes. Museums are investing in brand-oriented values and behaviors. It is, therefore, worth investigating the return on this investment.

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CUSTOMER SATISFACTION-BASED MISPRICING: LOOKING BEYOND PORTFOLIOS

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SUMMARY

During recent years, equity market mispricing of customer satisfaction has been a topic of considerable debate among leading scholars in the field (see Aksoy et al. 2008; Barlow 2009; Fornell et al. 2006; Fornell, Mithas, and Morgeson 2009; Ittner, Larcker, and Taylor 2009; Mizik and Jacobson 2009a, 2009b; Ngobo, Casta, and Ramond 2011; O’Sullivan, Hutchinson, and O’Connell 2009). In a previous study, we participated in this debate by addressing many of the limitations of previous portfolio studies. We applied enhanced portfolio formation rules and used an alternative, broader, and more frequent set of customer satisfaction data. Results of our study demonstrated sizeable and statistically significant abnormal returns for firms with high levels of and positive, persistent changes in customer. Given the high frequency data and the broad scope of the study with regards to geographic markets, industries, and market capitalization ranges covered, the results provided statistically significant and generalizable evidence of the existence of customer satisfaction-based mispricing. However, the study, just as all prior calendar time portfolio studies, was characterized by a major limitation with regards to the treatment of customer satisfaction as the explanatory variable. Despite the continuous nature of customer satisfaction, the calendar time portfolio method treats it as binary and groups firms based on whether they are above or below a certain threshold. Moreover, to allow for comparison with previous studies (e.g., Aksoy et al. 2008; Fornell et al. 2006), portfolio formation was based on both levels of and changes in customer satisfaction. Such formation of portfolios based on multiple binary characteristics makes the interpretation of results difficult. As a consequence, little is known about the relative importance of levels and changes and about the importance of their magnitude in generating the abnormal returns observed.

To overcome this limitation, prior research calls for additional analysis using alternative methodologies and datasets (e.g., Mizik and Jacobson 2009; Ngobo, Casta, and Ramond 2011). Our study directly addresses these calls and applies a regression-based methodology that allows for the inclusion of multivariate and continuous explanatory variables. It is thus not subject to information loss associated with portfolio studies and does not require the selection of an arbitrary trading rule, preventing accusations of data dredging. To the best of our knowledge, it is the first study to decompose the relative importance of levels and changes in explaining mispricing of customer satisfaction.

We obtain daily customer satisfaction data from YouGov for the period from June 1, 2007 to April 30, 2010. This period includes the stock market decline following the 2007/2008 subprime mortgage and financial market crisis, as well as the subsequent recovery of security prices. Our final sample contains 709 brand-country combinations and a total of 13,000 firm-month observations for 402 multinational firms listed in the U.S., the U.K., and Germany. Firms are spread across all major industries and market capitalization ranges. The broad scope of the sample – in terms of country, industry, and market capitalization coverage – enables us to draw generalizable conclusions. We apply a new, regression-based method referred to as Generalized Calendar Time (GCT) regression (see Hoechle, Schmid, and Zimmermann 2009 for details). It combines the advantages of both firm-level cross-sectional regressions and portfolio-level calendar time approaches. It furthermore accounts for the major disadvantage of traditional cross-sectional regressions by estimating a firm level pooled linear regression model with Driscoll and Kraay (1998) standard errors. These standard errors allow for robust statistical inference in the presence of cross-sectional dependence, autocorrelation, and heteroskedasticity. We use levels of and changes in monthly average customer satisfaction scores as explanatory variables and monthly gross stock returns as dependent variables. Stock returns are adjusted for risk using the Fama-French three-factor (FF3F) model.

Based on capital market and asset pricing theory, investors should only react to new information and thus only to changes in customer satisfaction. As a consequence, levels of customer satisfaction should already be reflected in stock prices at any given time and should therefore not result in abnormal returns. Our simultaneous analysis of levels and changes as explanatory variables confirms this theoretical hypothesis: while it demonstrates sizable and significant abnormal returns ranging from .02 percent to .05 percent per month and percentage point increase in customer satisfaction (significant at the 5% level), abnormal returns from levels of customer satisfaction are both economically and statistically insignificant. Excluding levels from the analysis, we find even stronger evidence with abnormal returns ranging from
.03% to .07% per month and percentage point increase in customer satisfaction (significant at the 1% level). We further find that the initial mispricing is typically corrected within three to six months. Abnormal returns from changes remain positive and significant for several months, subsequently decline, and eventually reverse for time lags of six months and longer (.02% to –.03% per month and percentage point increase). These findings are in line with financial market research finding equity market underreaction caused by cognitive bias and irrational information processing and following unusual, persistent changes in a value relevant metric (e.g., Barberis, Shleifer, and Vishney 1998; Brav and Heaton 2002; Hirshleifer 2001; Daniel, Hirshleifer, and Subrahmanyam 1998).

In an additional analysis, we also find that abnormal returns from changes in customer satisfaction are low or negative and statistically insignificant for firms with very low or very high levels of customer satisfaction. Only firms with customer satisfaction levels at or around the industry median demonstrate positive abnormal returns ranging from .13 percent to .15 percent per month and percentage point increase in customer satisfaction (statistically significant at the 1 percent level). These results hint at the existence of minimum threshold levels, declining marginal returns, and an inverse U-shaped relationship between changes in customer satisfaction and (abnormal) stock returns.

In summary, our findings provide generalizable evidence of customer satisfaction-based mispricing and show that changes in customer satisfaction are the only source for such mispricing. As expected, high levels of customer satisfaction do not result in significant abnormal returns. The results highlight the importance of continuous monitoring and management of customer satisfaction for creating shareholder value. References are available upon request.

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HOW TO PROMOTE BRAND EXTENSIONS?
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SUMMARY

When Starbucks extended into the ice-cream product category, the company used non-comparative advertising. McDonald’s, on the other hand, indirectly compared its new extensions in the higher end coffee market to Starbucks through advertising that claimed “four bucks is dumb.” In contrast, Dominos used direct comparative advertising to promote its new sandwich product, claiming victory over Subway in taste tests. These examples demonstrate the variety of non-comparative and comparative advertising tactics marketers employ when introducing brand extensions to consumers.

Although brand extensions are among the most frequently employed marketing strategies (Ahluwalia 2008; Völkner and Sattler 2006) and advertising is widely acknowledged as an important brand building tool (Lemon and Nowlis 2002; Wang, Zhang, and Ouyang 2009), few studies have identified advertising strategies that increase the likelihood of a successful new brand extension (Boush 1993; Bridges, Keller, and Sood 2000; Lane 2000; Martinez, Montaner, and Pina 2009; Morrin 1999). Furthermore, despite the fact that Oakley et al. (2008) have examined the effects of “parent-extension fit” and “market entry order,” the potential gains and losses associated with using comparative or non-comparative advertising to promote new brand extensions remain understudied.

The present research seeks to address this gap by integrating the comparative advertising and brand extension theoretical research streams. Given the lack of prior research, we limit our investigation to real parent and comparison brands in the U.S. with large market shares that are well-known and well-liked. The new brand extensions are fictitious but based on extensive pre-testing to represent their respective conditions in a credible manner.

Within this context, two studies examine the effects of comparative versus non-comparative advertising with strong message arguments on evaluations of brand extensions that vary in terms of high versus low fit with the parent brand. Also of interest are the processes that underlie such evaluative effects. For example, we test for affect transfer to the new brand extension from the parent brand and the comparison brand rather than the parent brand alone. Past theory has focused solely on affect transfer from the parent brand to the extension. Identification of additional affect transfer from the comparison brand to the extension will point to the possibility of a new pathway for brand equity enhancement.

Across advertising formats, no evaluative differences for high fit brand extensions were found. In contrast, for low fit brand extensions, comparative advertising produced significantly more positive evaluations than non-comparative advertising. Evidence from two studies suggests that the underlying process for this evaluative outcome is positive affect transfer from the well-liked, familiar comparison brand in the comparative advertising condition to the low fit brand extension.

The findings from two studies are in line with previous research that has identified competitive spillover effects (Janakiraman et al. 2009). Furthermore, the affect transfer notion provides an alternative explanation for previous research suggesting that comparative judgments reduce consumer uncertainty (e.g., Chakravarti and Xie 2006). While the present research provides valuable theoretical and applied insights, it also has limitations that provide opportunities for further research. These limitations and future research opportunities as well as managerial implications are discussed. References are available upon request.

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WHEN THE HEAD IS HIDDEN: A LINGUISTIC PERSPECTIVE ON COMPOSITE BRAND EXTENSIONS

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SUMMARY

Composite branding extensions, wherein two brands ally themselves to create a composite brand name and enter a different product category, have become a common way to introduce new products. Most brand alliance strategy researchers have emphasized that the selection of the best partner can enhance consumers’ evaluations of the co-branded product or the brands themselves. However, an important marketing issue once the alliance has been formed and the new product developed is how to communicate the composite brand to consumers with an expression in advertising and packaging.

Previous researchers proposed a model, which is based on a linguistic theory of composite concept formation, to demonstrate how consumers interpret the expressions of a composite brand extension. For example, when consumers are exposed to the expression “Slim-Fast chocolate cakemix by Godiva, they will combine chocolate and cakemix to a single unit first, and then connect this new concept with Slim-Fast to form a greater unit. Finally, the new concept and the preposition phrase “by Godiva” will be linked to create a whole new meaning. In this example, Slim-fast was called the “head brand,” and Godiva was named the “modifier brand.” According to this model, the product will be associated closer with the head brand than the modifier brand. However, can this model also explain the composite brand formation process in consumers’ minds when they are exposed to other language or expressions that differed from those in previous research?

It should be noted that the existence of the head brand in a composite brand expression was never proved, though the linguistic theory seems to have been adapted in this context correctly. Previous researchers used the empirical results of the association between each brand and the extension product to determine the head brand in a composite brand expression. That is, the brand perceived to be associated closer with the extension product was assigned to be the head brand. This procedure may not only violate the linguistic theory, the perceived association may also be influenced by relative brand familiarity, likability, or perceived extendibility. To clarify the situation, we argue that the head brand and the modifier brand should be assigned theoretically by their respective locations in the expressions.

In study 1 we created two Chinese expressions of composite branding extensions to demonstrate the theory. The head brand and modifier brand were assigned according to their respective locations in the expressions. Surprisingly, the results show a completely opposite pattern in that the extension product was perceived to be associated closer with the modifier brand than the head brand!

In the expression “Slim-Fast chocolate cakemix by Godiva” which was used in previous research, the head brand is also located in the initial position of the expression. In our expressions (e.g., “Bomy Pringles assorted fruit cornflakes”), the modifier brand was in the initial position of the expression and exhibited stronger association with the product than the head brand. A reasonable question is: Does the head brand or the modifier brand really exist in consumers’ minds when they are exposed to a composite brand expression? Or does the association between one brand and the extension product in an alliance primarily come from the initial location in an expression?

In study 2 we illustrated the underlying language structure of composite brand expressions in consumers’ minds by asking participants to choose a pause point in the expression that they had seen. Take the expression “Bomy Pringles assorted fruit cornflakes” for example, if a participant paused between two brands in the expression, it could be inferred that the brand appearing after the initial brand is the head brand because it was connected with the product first. However, if the two brands in an expression were combined first, the participants would pause before the extension product. It means there was not a head brand in their minds because the product was separated from those two brands in the initial combination. The results show that the head brand did exist in most cases.

In the current research, we found that the extension product was perceived to be associated closer with the modifier brand in the initial position of our expressions than the head brand, though the head brand did exist in most cases. The opposite results of the present and previ-
ous research may come from the different expressions used in the experiments. In the expressions of previous research (e.g., “Slim-Fast chocolate cakemix by Godiva”), the head brand was also located in the initial position. As a result, the impact of the head brand was strengthened by its location. However, in our expressions, the head brand was “hidden” and no longer stood in front of its partner or the product. Hence the competition between the head brand and the modifier brand, which was in the initial position of these expressions, occurred. This may be the potential reason that we found that the modifier brand in the initial position of the expression exhibited higher association with the extension product.

Based on the results of the current research, to be the head brand will not increase the perceived association between one brand and the co-branded product, even if the head brand is connected with the product first in consumers’ concept formation process. If a brand would like to be perceived closer with the co-branded product, it should always stand ahead in the expression.

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BUYING ORGANIC FOOD PRODUCTS: DO CERTIFIED THIRD-PARTY LABELS FUNCTION LIKE BRANDS?

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SUMMARY

Organic food products (OFP) appear in a growing number of categories, prompting increased interest among marketing scholars and practitioners in understanding consumers’ purchase decisions (Thompson and Coskuner-Balli 2007). The objective of this research is to better understand if certified third-party labels (CTPL) on organic food products represent brand-like information cues that reduce consumers’ perceived risk depending on their level of experience with OFP. Information economics research suggests that sustainable attributes of OFP are credence qualities (Belz 2006; Darby and Karni 1973). Since credence qualities are associated with an increased perception of risk (e.g., Mitra and Reiss 1999), which negatively influences consumers’ decision making and purchasing behavior (e.g., Pennings et al. 2002), the information asymmetry between producers and consumers, in addition to premium prices asked for OFP, can be a market barrier for “green products.” CTPL, such as the ones created by the National Organic Program in the U.S., have been mentioned as a possibility to overcome information asymmetries regarding OFP. Like brands they can be used as signaling instruments to transform credence qualities into quasi-search qualities and thereby reduce perceived risk (Belz 2006; Fotopoulos and Krystallis 2003; Smith and Park 1992). While these benefits of CTPL might exist, they are unlikely to work for all consumers alike. Two reasons for this claim can be derived from extant research.

First, as OFP are relatively new and complex goods, the claim that CTPL can be likened to brands must be treated with some caution. It is a signaling instrument’s expected utility and credibility, determined by consumers’ knowledge (Balasubramanian and Cole 2002) that influences consumer behavior (Erdem and Swait 2004). The vast number of CTPL with varying criteria concerning the process of certification may confuse consumers inexperienced with OFP and fail to function as a utilitarian and credible instrument easing decision making in product choice (Abrams, Meyes, and Irani 2009; Thøgersen 2000; Walsh, Hennig-Thurau, and Mitchell 2007). Because of this it can be argued that CTPL may not be strong enough a signal to offset inexperienced consumers’ perceived risk associated with OFP. Therefore, it was predicted that non-users of OFP perceive higher levels of risk toward OFP (a) than OFP users and (b) higher levels of risk toward OFP than toward non-OFP.

Second, mass media’s framing of sustainability issues is another possible source of uncertainty which is likely to reduce third-party labels’ effect. Research suggests that mass-mediated information influences attitudes toward environmental issues and behavior like buying OFP (Fishbein and Yzer 2003). After three decades of positive reporting on environmental issues (Dunlap 2002), some journalists are actively looking for OFP-related scandals in order to satisfy audiences’ need for drama (e.g., Thøgersen 2006). Scandals in relation to non-OFP activate risk concepts and heighten their applicability which are important determinants for scandals to influence consumer behavior (e.g., Roehm and Tybout 2006). As the same determinants drive the effects of the experimental technique “priming” (Higgins 1989), a risk priming paradigm was used to assess a scandal’s impact on product evaluation in an experimental setting. We predicted that risk priming has a stronger effect on consumers’ perceived risk of OFP than of non-OFP for users and non-users of OFP alike. In addition, we assumed the effect of risk priming on the perceived risk associated with OFP is stronger among non-users of OFP than among users of OFP.

Two experimental studies were conducted. In Study 1 the perceived (financial, performance, and health) risk (Dholakia 1997) associated with OFP and non-OFP was assessed for consumers with different experience levels regarding OFP. In Study 2 the impact of a risk priming on the risk perception of OFP compared to non-OFP was assessed for consumer groups of different experience levels with OFP.

Data from Study 1 was analyzed via a 2 (category: OFP vs. non-OFP) x 2 (usage of OFP: yes vs. no) MANOVA on dimensions of risk, revealing the same significant multivariate interaction for all risk dimensions. Follow up tests showed that, in contrast to non-OFP, the perception of risk for OFP is higher for non-users than for users of OFP. This supports our first prediction (a). Considering that the non-users’ perception of associated risk is higher for OFP than for non-OFP the second prediction (b) is supported.
Data from Study 2 was analyzed via a 2 (priming: risk vs. control) x 2 (category: OFP vs. non-OFP) x 2 (usage of OFP: yes vs. no) ANOVA on perceived risk, revealing a significant three-way interaction. Follow up tests showed that a risk priming has a stronger impact on OFP compared to non-OFP for both groups of consumers, supporting the third prediction. In addition, the effect is stronger for non-users than for users of OFP, in support of the fourth prediction.

The findings point to the phenomenon, that CTPL do not function as an information cue that reduces perceived risk, for all consumers alike. Theoretically the results imply that third-party labels appear to prompt experienced consumers’ mental engagement with the CTPL, rather than short-circuiting the decision-making process and do not lead to the intended reduction of associated risk. References are available upon request.

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MEASURING SERVICE QUALITY IN HIGHER EDUCATION: AN EMPIRICAL EXAMINATION OF THE HIERARCHICAL STRUCTURE MODEL IN A HIGH INVOLVEMENT SETTING

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SUMMARY

With the globalization of the higher education industry, service quality in the higher education services is seen as a vital factor in determining a university’s competitive advantage. This study posits that higher education sector has unique characteristics that differ from retailing industries and therefore requires a customized approach toward service quality measurement. Existing assessments of service quality in higher education have largely concentrated on the use of generic models such as SERVQUAL and SERVPERF in assessing students’ perception. However, these measures are found to be inadequate to capture the complexity of service perception in higher education service offering. This research study provides a new perspective on the conceptualization of university service quality (USQ) by adapting Brady and Cronin’s (2001) hierarchical model in exploring the complex nature of perceived quality in a high involvement setting.

A questionnaire survey is administered to empirically verify the proposed hierarchical construct for higher education service quality. The sampling units are university students pursuing a bachelor degree (business studies) in Malaysia. For a more reflective representation of major types of universities in Malaysia, students from public universities, local private universities and foreign university branch campuses in Malaysia are targeted for this study. A sampling frame which consisted of a list of universities in Malaysia was obtained from the Ministry of Higher Education of Malaysia and permission was sought from the selected institutions for the survey administration. A total of 1,988 students from nine participating universities responded to the questionnaire survey, and the data gathered was analyzed using confirmatory data analysis.

From the data analysis, it is confirmed that the construct of service quality perception in higher education is multidimensional in nature, based on a fourth-order model which anchored upon “Academic Services Quality,” “Administrative Services Quality,” and “General Services Quality” as the primary dimensions. Secondary dimensions are “Interaction Quality,” “Physical Environment Quality,” and “Outcome Quality” with corresponding sub-dimensions attached to the respective dimensions. As USQ is a higher order factor, changes in the perceived service quality of one dimension (or sub-dimension) will affect the perception of the rest of the dimensions, and ultimately the overall USQ. The multi-dimensional construct suggests that USQ perception is dependent on a holistic evaluation of multi-faceted dimensions, instead of a particular aspect of service dimension.

On the basis of the research findings, this study suggests that the complexity of the construct should be taken into account when considering how students’ USQ perception is formed. The complex nature of USQ evaluation calls for a holistic approach in managing service standards in academic services, administrative services and general services. The multi-level service quality instrument validated in this study can be a useful instrument for the higher education sector as it allows service providers the flexibility to conduct service quality investigations according to different level of abstractions, i.e., at the higher level (primary or secondary dimensions) or more detailed level (e.g., sub-dimensions). The understanding of the nature of students’ USQ perception and expectations can assist universities toward developing more effective quality management strategies in order to provide a meaningful USQ experience for the students.

This study contributes to the field of service research by testing a hierarchical conceptualization of service quality in the higher education context. This endeavor offers a novel perspective in the examination of the service quality construct in higher education, since past research in higher education domain has largely concentrated on the application of SERVQUAL model. Additionally, it makes progress from existing research efforts which seemed to provide diverse yet dispersed results on key service dimensions in the higher education setting. The hierarchical model as tested and confirmed in this study offers a comprehensive and consolidated framework of USQ, which provides a more precise and comprehensive foundation for measuring service quality dimensions in the university by systematically accounting for the unique complexity arising from the educational context. References are available upon request.
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SERVICE GUARANTEES: THE IMPACT OF PLAYING “HARD TO GET” ON PERCEPTIONS OF FIRM CREDIBILITY AND REPURCHASE INTENT

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SUMMARY

Achieving customer satisfaction is important to the survival of any business, especially when operating in a competitive and turbulent economy. Due to the unique nature of services it is impossible to ensure error-free service provision all of the time. Even the most customer-oriented organization with the strongest quality program is unlikely to be able to eliminate all service failures (del Rio-Lanza, Vazquez-Casielles, and Diaz-Martín 2009). For instance, although a 98 percent service performance record may sound respectable, using this standard, the United Postal Service (UPS) would lose or misdirect 302,000 packages and documents each day (UPS Fact Sheet 2009). Therefore, it is important that the failed situation is handled appropriately. Without proper recovery efforts, a firm could leave itself open to a tarnished reputation. In fact, customers rank companies’ handling of complaints of service failures as the second most important factor, behind product quality, when making purchase decisions (Conlon and Murray 1996). Therefore, properly managing service failures with effective strategies is a vital issue for any company and is the underlying objective of this study. Specifically, the purpose of this study is to investigate the role that the level of difficulty in invoking a recovery tool, by way of a service guarantee, plays in a customer’s perceived credibility of the firm and repurchase intensions.

In essence, our model suggests that the level of difficulty a customer has invoking a service guarantee will determine the consumer’s evaluation of the recovery effort in terms of fairness (i.e., procedural justice) and form their recovery satisfaction judgement accordingly. Satisfaction with the recovery effort will lead the customer to form credibility perceptions of the company and will determine behavioral outcomes when faced with future purchase decisions.

Results

We estimated a series of three models (Kelloway 1998) based on data from a vignette study (N = 318). First, the fully mediated model provided a poor fit to the data, \( \chi^2(6, \ N = 318) = 91.50, \ p < .01; \ NFI = .84; \ CFI = .85; \ RMSEA = .21, \ p < .01 \). The non-mediated model also provided a poor fit to the data, \( \chi^2(5, \ N = 318) = 8.77, \ ns; \ NFI = .99; \ CFI = .99; \ RMSEA = .05, \ ns \) and a significantly better fit than either the mediated (\( \Delta \chi^2(1, \ N = 318) = 82.73, \ p < .01 \)) or non-mediated (\( \Delta \chi^2(1, \ N = 318) = 22.27, \ p < .01 \)) models.

Discussion

This research aimed to extend the customer service literature on service failures and service recovery by examining how the process of invoking a service guarantee influences customer justice perceptions and outcomes in a service setting. Further, a mediated model was proposed in which customer satisfaction influences repurchase intentions through the mediation of customer-perceived firm credibility. Data provided partial support for the proposed mediated relationships.

This study provides two significant contributions. First, although little research has been done on the process of invoking a service guarantee (Hogreve and Gremler 2009), path analysis results demonstrated that in the event of a service failure, consumers prefer companies to provide an “easy” process when they decide to invoke a service guarantee. This finding suggests that if a company decides to offer a guarantee on their service quality, they should ensure that, when claimed, their frontline employees provide a speedy, non-burdensome response in the complaint management process. Although this may leave companies open to opportunistic behaviors (Wirtz 1998; Wirtz and Kum 2004), past research suggests companies have seen an increase in profitability when a service guarantee is offered (Hart 1993). The focus on procedural justice is particularly important for service providers seeking to maintain a productive relationship with customers (Tax et al. 1998). There has been support in the literature that procedural justice has a strong effect on satisfaction in a service recovery setting (Vázquez-Casielles et al. 2010). Similarly, the present study indicated that when customers are presented with a no-questions-asked service guarantee during a service failure, they felt that the recovery effort was fair, and were satisfied with the experience as a result. Therefore, results suggest that service companies should consider the imple-
mentation of hassle-free recovery efforts as they are important for both organizational outcomes and future research.

Research has shown that a customer’s perception of credibility has a significant, positive effect on a consumer’s attitude, purchase intentions and subsequent behaviors (Eisend 2006). There has been some support in the literature that the overall dimension of consumer trust in a company is one of the most influential factors for repurchase intentions when a customer is satisfied with a company’s recovery management strategies (Pizzutti dos Santos and Von der Heyde Fernandes 2008). However, this study only found partial support for this conclusion. This may be explained by the lack of experience with the company in the vignettes provided in the survey. In this context, customers were visiting the service organization for the first time. However, perceptions of credibility take time to develop. Therefore, although the customer was satisfied with the recovery effort and intended to patronize the establishment in the future, the study only indicated that perceptions of credibility only partially increased these repurchase intentions. Therefore, future studies should examine this relationship where customers are more knowledgeable about the organization. References are available upon request.
EXPLORING THE USEFULNESS OF MYSTERY SHOPPING FOR SERVICES

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SUMMARY

The benefits of increasing customer satisfaction are well documented in literature, and many studies have supported a positive association with firms’ financial outcomes (Anderson, Fornell, and Lehmann 1994; Anderson, Fornell, and Rust 1997; Bernhardt, Donthu, and Kenett 2000; Gupta and Zeithaml 2006; Hooley et al. 2005; Mittal et al. 2005). Marketing scholars have prescribed several ways to collect customer satisfaction data (e.g., Mittal et al. 2005; Morgan, Anderson, and Mittal 2005). A core recommendation is that firms can benefit from using various additional sources, such as mystery shopping, in sampling customer satisfaction data collections (Griffin and Hauser 1993; Reichheld 1996; Rust et al. 2000). However, to date, there has been limited work on assessing the utility of mystery shopping data in terms of examining the links between mystery shopping data and firm performance.

Despite its strong potential, use of mystery shopping in practice is still limited. A recent study (Morgan et al. 2005) shows that firms predominantly rely on surveying existing customers (mainly through mail or telephone surveys), and only a few use alternative or complementary data sources. A possible reason for the scarce usage of mystery shopping could be the unknown impact of mystery shopping data, though a few studies have taken steps toward investigating their psychometric properties (see Finn 2001; Finn and Kayande 1999).

To attain a reliable test for criterion-related validity, we include four different criteria of firm performance (Wall et al. 2004) that comprise both subjective and objective indicators: (1) objective figures of annual firm sales, (2) objective annual sales per employee (Schneider et al. 2005), (3) sales managers’ indications of profit beforetax, and (4) market performance (Homburg, Hoyer, and Fassnacht 2002). By comparing customer and mystery shopper data, our aim is not only to justify the potential use of multiple sources of data but also to provide valuable insight into the criterion validity of mystery shopping data with firm performance. We test the links between customer satisfaction and the four indicators of firm performance using both customer survey and mystery shopper data.

We collected data from 56 travel agencies, which were randomly selected from 305 travel agencies of a franchise chain. In addition, every travel agency was responsible for generating sales and profits on its own. To limit the selection bias that might influence criterion-related validity, we restricted the sample to travel agencies that were comparable in terms of the following factors: (1) location (we chose only travel agencies in urban areas, not rural areas), (2) size (number of counters), and (3) specialization (we chose agencies that dealt mainly with leisure travel). In each travel agency, two employees were observed. Each employee was encountered by two mystery shoppers, who were prompted to approach the first (second) available travel agent when they entered the travel agency. This yielded four observations per travel agency and 224 observations in total. In 30 of the travel agencies in which mystery shopping was conducted, we also collected data from real customers. The customer survey was conducted during the same time frame as the mystery shopping data and included the same items as in the mystery shopper questionnaire. A total of 169 customers took part in the study.

We analyzed the data using structural equation modeling. Because of the small sample sizes, we selected a partial least squares (PLS) approach (Arnett, Laverie, and Meiers 2003; Chin 1998) and used SmartPLS (2.0; Ringle, Wende, and Will 2005).

Our results indicate that mystery shoppers’ customer satisfaction has a significant influence on all four criteria of firm performance. With respect to the customer survey “customer satisfaction” data, we found significant influence only on market performance.

Moreover, we found significant effects of mystery shopper evaluations on firm performance indicators, regardless of the inclusion of the customer survey data and control variables. Our empirical findings support previous contentions in research (Finn and Kayande 1999; Wilson 2001) that mystery shopping data can yield meaningful results. With respect to criterion-related validity, our findings provide support that mystery shopping is a valuable source in addition to the more commonly used customer surveys (Van der Wiele et al. 2005). Firms wanting to explore and better understand the relationship...
between customer satisfaction and economic business performance outcomes (Anderson and Mittal 2000) should consider using mystery shopping because of the insights it offers, in addition to using customer survey. From a management perspective, this implies that time, money, and efforts expended on gathering mystery shopper evaluations should be taken as considerable investments, which are likely to pay off in the future. Furthermore, using different sources of data, such as mystery shopping, might alleviate some of the methodological problems related to common method bias commonly found in survey methods (Podsakoff et al. 2003).

Nevertheless, given that marketing managers want to know the assessments of real customers, as well as changes in customer services that could help influence firm performance, their reliance on a combination of customer survey and mystery shopping data would be justified, which should add value to customer satisfaction survey data. That is, customer surveys show the perceptions of customers, while mystery shopping makes it possible to evaluate the execution of processes from the organization’s perspective (e.g., strategy), as satisfaction measurements are not well linked to goals and actions within the organization. By using mystery shopping along with customer satisfaction measurements, managers could develop a broader perspective to give real meaning to the concept of customer focus (Van der Wiele et al. 2005). At a time when a matrix of measures is recommended rather than relying on any one method, our study should encourage firms, especially those that are seeking additional sources of customer service assessments, to consider mystery shopping a reliable endorsement. For high-interaction contexts, such as travel agencies, we recommend frequent use of the mystery shopping approach in practice. References are available upon request.

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CONSUMER WILLINGNESS TO CO-PRODUCE: ENGAGING THROUGH SUSTAINABLE BUSINESS PRACTICES, COMPROMISE, AND CONFIDENCE

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SUMMARY

Heightened concern about the implications of current consumption levels and production processes provides a motivation for corporations to pursue sustainability. There is growing evidence that demand for genuinely sustainable products is rising (Harris 2007); consumers are valuing sustainability as a product attribute and often willing to pay more for it (Cotte and Trudel 2009). While sustainable practices do not view profit as the sole motive, they are not antithetical to business success; instead, they require a fundamental shift from a focus on immediate unfettered growth (the aim to get big) toward longer-term development (the aim to get better) (Daly 1996). Sustainable practices represent the maintenance of a persistent system (Costanza and Patten 1995) and strive for long-term viability in three areas: environmental (ecological), social (ethical), and financial (economic) dimensions (DesJardins 2007). This has been called the triple bottom line (Elkington 1997), as it expands traditional financially focused accountability to include social and ecological dimensions. Sustainability has consistently been operationalized as a one-dimensional concept, often environmentally focused but without explicit clarification that it is in fact “environmental sustainability” that is being examined. This study seeks to explore how consumers weigh the importance of the sustainability concept overall in their decision-making (relative to other attributes), and to understand the importance placed on each of the individual dimensions.

Over the last 30 years, firms have increasingly been encouraging consumers to become partners in service delivery. For example, Ikea requires consumers to assemble their own furniture and on-line banking allows consumers to manage their finances. As consumers are increasingly becoming co-producers products are no longer the core dimensions of marketing; instead they are seen as the artefact around which personalized experiences take place, and the value is found in the experience (Prahalad and Ramaswamy 2004; Vargo and Lusch 2004). With the increased interest in sustainability, sustainable business practices represent a real opportunity for firms to engage consumers in co-production. The incorporation of sustainability as a service attribute will motivate consumers to engage in coproduction with a firm. As a firm develops opportunities to coproduce sustainable practices, consumers’ willingness to engage in such actions will be affected by situational factors of confidence (certainty that action will make a difference) and compromise (how much consumers must give up). Consumers will likely exhibit more participation in sustainable coproduction when the compromise is smaller and the benefits are more evident (confidence).

Participants, who were 161 students who received partial course credit, were told that a national park system was reviewing its transportation options. They completed a choice-based conjoint with 15 choice tasks, choosing the transportation scenario they preferred most. The attributes were selected to explore the relative importance of the dimensions of compromise, confidence and sustainability in a coproduction context. Dimensions of compromise (financial; performance; convenience) and confidence (problem recognition; company commitment; perceived effectiveness) were drawn from Peattie (2001) and sustainability attributes were drawn from the “triple bottom line” (environmental, social, economic dimensions).

Average part-worth utilities and average importance scores for the sample were calculated. Both gender and New Ecological Paradigm (NEP) were used to segment the sample, and utilities and importance scores were calculated for each segment. The results indicate that environmental sustainability had the greatest influence on the respondent choices. The average importance scores of both the social and economic dimensions were also strong and these dimensions held considerable weight in respondent decision-making. This suggests that research and marketing materials that have neglected to consider these dimensions of sustainability may be underestimating their importance.

Compromise was the second most important construct, consistent with the attention to willingness to pay in the literature, and confidence was the third most important construct. The lack of influence by the confidence construct is surprising, given the established literature supporting the importance perceived consumer effectiveness and company commitment. However, while confidence attributes may not have ranked highly in impor-
tance in this analysis, each of the attributes demonstrated the ability to influence respondent decisions.

As firms strive to integrate sustainable practices they must consider how they communicate these to consumers and how they involve consumers in these activities. The results reveal important implications for both researchers and practitioners, demonstrating that while a strong focus on environmental and price attributes is justified, there is a need to consider other forms of compromise and dimensions of sustainability. Further, the importance of the confidence construct should be of particular interest to practitioners. Consumers who are inundated with messages of sustainability and “green washing” are becoming increasingly skeptical of the intentions and impact of sustainable business practices. Involving the consumer in the process of sustainable practices may offer a means of countering some of this skepticism.

This paper forms a bridge between two distinct research streams: services and sustainability. The conceptualization of sustainability as one-dimensional (environmental) may overlook the importance that consumers place on social and economic sustainability. Further, as marketers begin to employ sustainable coproduction practices as a management tool, they must recognize that the joint factors of confidence and compromise will impact the success of these activities in attracting consumers. Recognizing the role that consumers can play in delivering sustainable services provides firms with the prospect to gain the benefits of sustainable practices (i.e., image, brand awareness, loyalty) with the consumer bearing some of the risks, costs, etc. while consumer participation will likely engender more positive impressions of the firm’s sustainable practices.

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ASSESSING VALUE CO-CREATION: DART SCALE DEVELOPMENT AND VALIDATION

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SUMMARY

Through consumer participation in the value creation process, firms can potentially offer enhanced value propositions from which consumers can extract greater value (e.g., customized services and products). Co-creation of value is a significant part of current market exchanges as consumers now participate in the process of defining and creating value by interacting with companies to augment the overall value derived from the consumption experience. While extant research discusses the new service-dominant logic and how corporations can foster co-creation, little has been done to develop measures for its conceptualization within the context of consumer product/service experiences. This study contributes to the literature by developing a new scale for measuring value co-creation.

Prahalad and Ramaswamy (2004a) posit value co-creation as the new frontier of competitive advantage where connected, educated, and vocal consumers actively participate in customized design and/or delivery options. They state, “the meaning of value and the process of value creation are rapidly shifting from a product- and firm-centric view to personalized consumer experiences . . . the interaction between the firm and the consumer is becoming the locus of value creation and value extraction” (Prahalad and Ramaswamy 2004b, p. 5). Thus, the traditional nexus of value creation has shifted from that of the corporation imbuing their offering with value, which consumers then consume (Ramirez 1999), to encompass both the consumer and the corporation. Prahalad and Ramaswamy (2004a) propose a four-dimensional conceptualization of value co-creation that reflects the components needed to add value to a product or service experience. Their model comprises of four components – Dialogue, Access, Risk Assessment, and Transparency (DART). To date, psychometrically valid scales for assessing value co-creation have yet to be published in the literature. Our objective in this research is to address this gap in co-creation research by employing the DART model as a conceptual foundation for developing and testing of a valid scale for value co-creation.

Following various noted scale development procedures (Gerbing and Anderson 1988; Churchill 1979; DeVellis 1991; Ping 2004), a multidimensional scale was developed and validated to measure consumer co-creation of value. Our scale development followed the traditional three-step process. In the first step, we developed fifty items, submitted them for content and face validity checks, and in the process eliminated 13 of these items. In the second step, we focused on measure purification and model development through administering the 37-item scale to 327 undergraduate business students. After performing several factor analyses, we eliminated 14 items from the scale, and we subjected the remaining 23 items to a confirmatory factor analysis using AMOS 18 to purify a good fitting measurement model. After eliminating each item, we reran the analysis. A four-factor model specified to represent the four correlated factors using maximum likelihood extraction yielded an acceptable fitting model, chi-square = 543.6, df = 224 with all items loading significantly on their respective factors. The third step involved the validation of the measurement model and its reliability and construct validity. Based on our literature review and theory we tested two hypotheses:

H1: Shared responsibility is positively related to co-creation of value (DART).

H2: Co-creation of value (DART) is positively related to loyalty toward the provider.

We administered the DART scale to 269 undergraduate students who also answered questions on service loyalty and shared responsibility. A CFA was performed with the four factors found in Study 1, chi-square = 522.1, df = 224. All items, except for one risk-assessment item .49, loaded significantly on their respective factors providing evidence for convergent validity. The model fit was acceptable with NNFI = 0.915, CFI = 0.931 and RMSEA = 0.07 and all four constructs had acceptable calculated construct reliabilities (0.83–0.84) and AVE above .50, however the AVE was slightly lower than in study 1. Again, the square of the phi coefficient for all four factors was compared to AVE and all of them were lower further suggesting discriminant validity.

The structural equation model’s path coefficients are used to evaluate the hypotheses. The data and structural equation model supports our first hypothesis but only partially supports our second hypothesis. In addition, we provide preliminary evidence of nomological validity by
illustrating that our co-creation constructs possess distinct antecedent causes, consequential effects, or modifying conditions, and quantitative differences (Iacobucci, Ostrom, and Grayson 1995).

The DART scale provides an important first step in operationalizing the assessment of value co-creation as a business practice. The analysis supports the structural veracity of the measure but also suggests that additional exploration is necessary to fully understand the cause and effect relationships associated with value co-creation processes. Specifically, the current research does not support that co-creation has a strong and positive effect on customer loyalty. This result may reflect limitations related to the current research, or may simply suggest that further study is needed to truly understand the implications of the constructs. Alternatively, co-creation may create self-serving biases similar to those proposed by Bandapui and Leone (2003) in relation to high customer participation. Specifically, customers who are very involved in co-creation may differentially attribute greater responsibility for success to their involvement in the process and, in turn, devalue the relationship with a specific provider. Clearly, such theoretical relationships deserve greater attention and study. Future research suggestions and managerial implications are discussed. References are available upon request.

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USER EXPERIENCE SHARING: A CONCEPTUAL MODEL OF CONSUMER INITIATED VALUE CO-CREATION

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SUMMARY

User-Experience-Sharing (UES) can be considered a type of consumer-to-consumer interaction (e.g., Martin and Pranter 1989; Nicholls 2010). However, in the context of this study, UES focuses on interaction as consumer value co-creation as suggested by Gronroos (Gronroos 2006) rather than on consumer encounters as seen in conventional services marketing (e.g., Nicholls 2010). By definition, experience implies not only emotional evaluation of a service offering, but also competence (e.g., knowledge and skill) and active engagement (Prahalad 2004). In other words, value is about human experiences, rather than a function of service (Ramaswamy 2011). Therefore, this paper adopts a broader definition of value as experience that is not limited to evaluation of a service offering, but also includes competence and engagement efforts made by the individual. By adopting a broad definition, it accommodates the issue raised in McDonald and Uncles (2009) regarding consumers making or not making an effort toward the co-creation of value. Moreover, a broad definition of value as experience also qualifies knowledge and skills to be regarded as resources that are essential to value co-creation (Prahalad and Ramaswamy 2004). Sharing these experiences through interaction with others demonstrates consumers co-creatively integrating resources, that is, sharing as value initiation. Extending this thinking, Belk (Belk 2009) suggests that sharing is a pro-social and non reciprocal behavior. In online communities, this is particularly pertinent since sharing or integrating resources is largely undertaken by members to achieve better outcomes or to enhance well-being (e.g., Gruen, Osmonbekov et al. 2007). As a result, the concept of UES is proposed as a customer initiated value co-creation behavior. It represents initiative efforts made by consumers to create value with and for other consumers in a non-reciprocal context.

The User-Experience-Sharing Behavior Model (UESBM) was conceptualized to underpin the notion that UES is a volitional behavior of consumers who are willing and capable of sharing user experiences with others. UESBM is grounded in the Theory of Planned Behavior (Ajzen 1991) and can be used to understand factors influencing consumers to exhibit UES behavior. It is considered appropriate for testing UES for the following reason: TPB has been used as a valid framework to test sharing behavior in the organizational context, namely knowledge sharing (Chennamaneni and Raja 2007; Minbaeva and Pedersen 2010). Minbaeva and Pedersen (2010) adopt TPB and compare individual knowledge sharing behavior in two competing firms. A further variable that has been connected with TPB is that of autonomous motivation to underpin that UES is a voluntary behavior. Autonomous motivation, grounded in Self-Determination Theory (SDT) (Deci and Ryan 1985; 2000) refers to engaging in an activity volitionally and in contrast to “a motivation,” which refers to a lack of intention and motivation (Gagné and Deci 2005; Gagné 2009). In particular, autonomous motivation is a type of intrinsic motivation. It refers to volitional engagement in an activity either because it is fun, enjoyable or personally meaningful to one’s volitional value system (Deci and Ryan 2000; Gagné 2009). Gagné (2009), specifies that autonomous motivation is associated with positive outcomes, and proposes incorporating autonomous motivation with TPB to account for not only the level or amount of knowledge sharing, but also the quality of knowledge sharing. Gagné (2009) suggests that previous studies have indicated that autonomous motivation has a positive influence on volitional enduring behaviors such as volunteering and recycling behaviors. Füller, Mühlbacher, and Jawecki (2009), suggest that both empowerment and enjoyment have a strong impact on consumers’ intentions to continually participate in virtual co-creation tasks (i.e., future Internet-based new product development projects). Thus, Consumer Empowerment and Enjoyment in Helping Others are used here as autonomous motivations to underpin UES as a voluntary behavior.

There are seven constructs in total in the UESBM. Five constructs are associated with TPB: Attitude toward UES, Subjective Norms and Consumer Competence (representing Perceived Behavioral Control), Intention to Engage in User-Experience-Sharing, and UES behavior. Additionally, two constructs reflecting “autonomous motivation” (Deci and Ryan 2000): Enjoyment in Helping Others and Consumer Empowerment are incorporated in the UESBM. These are employed to strengthen the testing of volitional aspects of UES behavior, as conceptualized by Gagné (2009). For the purpose of this study, we propose the following hypotheses:

Hypothesis 1. Attitude toward UES will relate positively to Intention to Engage in User-Experience-Sharing.
Hypothesis 2. Subjective Norm will relate positively to Intention to Engage in User-Experience-Sharing.

Hypothesis 3. Consumer Competence will relate positively to Intention to Engage in User-Experience-Sharing.

Hypothesis 4. Consumer Competence will relate positively to User-Experience-Sharing.

Hypothesis 5. Intention to engage in User-Experience-Sharing will relate positively to User-Experience-Sharing.

Hypothesis 6a. Enjoyment in Helping Others will relate positively to Intention to Engage in User-Experience-Sharing.

Hypothesis 6b. Enjoyment in Helping Others will relate positively to User-Experience-Sharing.

Hypothesis 7a. Consumer Empowerment will relate positively to Intention to Engage in User-Experience-Sharing.

Hypothesis 7b. Consumer Empowerment will relate positively to User-Experience-Sharing.

The contribution of this research is the conceptualization of User-Experience-Sharing which represents an emergent consumer initiated value co-creation behavior. S-D logic (Vargo and Lusch 2004, 2008) creates a new avenue for re-examining current marketing theory and developing new marketing theory (Gummesson, Lusch et al. 2010) including consumer behavior research. The conceptualization of User-Experience-Sharing provides theoretical grounds underpinning consumer value co-creation behavior informed by consumer-to-consumer interaction (Libai, Bolton et al. 2010; Nicholls 2010; Nuttavuthisit 2010) but distinct from word-of-mouth and knowledge-sharing. Previous attempts to investigate consumer-to-customer value co-creation have been found in the literature, for example, intentional social action (Bagozzi 2000; Bagozzi and Dholakia 2002), customer-to-customer knowledge exchange (Gruen, Osmonbekov et al. 2005; Gruen, Osmonbekov et al. 2006; Gruen, Osmonbekov et al. 2007) and consumer engagement behavior (Van Doorn, Lemon et al. 2010). Distinctly, the conceptualization of User-Experience-Sharing entails consumers’ efforts made to co-create value in a non-reciprocal context. References are available upon request.

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WHEN CONSUMERS’ ROLE MATTERS: EXAMINING CONSUMERS’ APPRAISAL AND ADAPTATION AFTER AN ONLINE SERVICE FAILURE

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SUMMARY

This study investigated how consumers’ role clarity in their online shopping affected their appraisal and adaptation process toward an online service failure. Although many studies have examined service failure and recovery issues in the offline context, little work has focused on these issues in an online context. Yet, consumers’ responses to a service failure may vary considerably by offline versus online shopping contexts due to differences that occur in the respective levels and types of employee-customer interactions in both venues. Research reveals that most cases of offline service result from inappropriate employee behavior. In contrast, the e-tailing environment excludes most employee-customer interactions and requires consumers to act as partial employees to complete the transaction and initiate the service delivery process. Thus, how consumers may react to an online service failure has the potential to become very distinctive phenomena which have not yet received much research attention.

The purpose of this study was to examine consumers’ appraisal and adaptation processes after experiencing an online service failure in which they had served as partial employees. Drawing on appraisal theory, the research model employed for the study proposed that consumers’ attribution of controllability for a service failure would interact with their role clarity regarding online shopping, resulting in various emotional responses from consumers (i.e., anger, helplessness, guilt). In turn, these emotions would lead to coping behavioral intentions including complaint, distancing, and switching intentions.

A one-way between subjects experimental design was conducted in which the attribution of controllability of the cause of the service failure was manipulated. Data were collected via an online survey conducted on a national sample of online shoppers that was purchased from an online survey research firm that maintained a consumer panel of approximately 2.5 million consumers. Survey respondents were randomly assigned to an online questionnaire containing one of two experimental situations provided via a written scenario that depicted a high versus a low level of attribution of controllability. The online survey generated a total of 331 completed responses of which 302 were usable.

Structural Equation Modeling (SEM) of latent interactions using Lisrel 8.8 was employed to confirm the hypothesized relationship in the conceptual model. The measurement model was established first to assess construct validity. Hypotheses were then tested in the structural model. Prior to data analysis, manipulation checks were performed to verify that the high and low attribution of controllability manipulations were successful. Results revealed a final structural model that supported most of the study’s hypotheses ($\chi^2 = 897.288$, df = 448, p = 0.0, CFI = .958, IFI = .958, NNFI = .951, RMSEA = .0594). Specifically, results demonstrated that consumers’ role clarity had a negative influence on both their helplessness ($\beta = -.198$, p < .01) and guilt ($\beta = -.167$, p < .05) emotional responses. In addition, anger had a positive effect on complaint intention ($\beta = .169$, p < .01) and on switching intention ($\beta = .159$, p < .01) as well as a negative effect on distancing intention ($\beta = -.306$, p < .01). Helplessness had a positive impact on switching intention ($\beta = .116$, p < .01), and guilt positively influenced distancing intention ($\beta = .164$, p < .05) but negatively affect both complaint intention ($\beta = -.252$, p < .01) and switching intention ($\beta = -.119$, p < .01). Finally, when a service failure was attributed as being caused by the firm rather than by the consumer, consumers were less likely to feel guilty ($\beta = -.352$, p < .01) and were more likely to switch ($\beta = -.279$, p < .01).

Recognizing consumers’ roles as active participants in an online shopping context, this study revealed several interesting results that provide both theoretical and managerial insights. When an online retailer has high control over the service failure, consumers are less likely to complain to the retailer and ask them to solve the problem. Rather, consumers will be more likely to switch their business to other retailers. This positive impact of attribution of controllability on switching intention was even stronger as consumers’ role clarity concerning online shopping increased. Also, their role as partial employees in the online shopping context led consumers to respond with guilt when they thought they may have caused the failure or when reasons for the failure were not temporary.
These consumers were also less likely to complain or to switch to other retailers. Instead, they distanced themselves from the situation. In contrast to results reported in contexts concerning offline service failures, consumers’ attributions of controllability and role clarity did not impact their anger in our online service failure context. Severity of the failure, however, had a strong, positive impact on anger. Also, consumers’ role clarity helped to lessen their feelings of helplessness. References are available on request.

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WHAT IF A CO-PRODUCED SERVICE FAILS? AN INVESTIGATION OF CUSTOMER PARTICIPATION IN SERVICE RECOVERY

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SUMMARY

Increasingly, customers are actively engaged in co-production of goods and services, either by serving themselves or by cooperating with service providers (Claycomb, Lengnick-Hall, and Inks 2001). Encouraging customers to be “co-producers” is considered one of the next frontiers in attaining competitive effectiveness (Bendapudi and Leone 2003). Research on customer participation to date has focused mainly on “successful” co-production contexts (e.g., Prahalad and Ramaswamy 2004), while service recovery research has concentrated on service providers’ responses to the failure (e.g., Grönroos 1988). The role of customers in rectifying, amending, and restoring the loss of a failed service co-production has received little research attention in the literature. It is unclear whether and under what conditions customers are willing to participate in service recovery, how a customer’s attribution of service failure would affect his/her participation in recovery, and more importantly, how his/her participation in recovery would affect his/her satisfaction and future engagement in such co-produced services. To bridge this gap, we attempt to integrate the two research streams—customer participation and service recovery—by exploring the phenomenon of customer participation in service recovery with two studies.

In Study 1, we conceptualize a new construct, customer participation in service recovery (CPISR), and investigate the effect of CPISR on customer satisfaction with service recovery and intention toward future co-production. Customer participation in service recovery (CPISR) is defined as the degree to which a customer is involved in taking actions in response to a service failure (Dabholkar 1990). Following Meuter and Bitner’s (1998) classification of customer participation, we classify recovery efforts into three types based on the degree of customer participation in recovery: firm recovery, joint recovery and customer recovery. A 3 (CPISR) x 2 (service context) between-subject experiment was used. CPISR was manipulated at three levels: firm recovery, joint recovery, and customer recovery. Student online course registration and Internet set-up were selected as two service contexts. We found that CPISR positively affects customer satisfaction with recovery and customer’s intention toward future co-production. More specifically, joint recovery results in the highest level of satisfaction while customer recovery leads to the highest level of intention toward future co-production. This finding suggests CPISR serves as a learning mechanism to enhance customers’ future co-production expertise and efficacy, an effective channel for firms to transfer specialized knowledge and skills to customers and an alternative service recovery strategy to restore relationship equity.

With the demonstrated value of CPISR in Study 1, Study 2 further investigates how customers’ intention to participate in service recovery is influenced by their attribution of service failure and whether boundary conditions such as customers’ self-efficacy may moderate such influence. A 2 (attribution of service failure) X 2 (services) between-subject design was used. Attribution of service failure was manipulated at two levels: attributed more to the service provider (firm attribution) vs. attributed more to the customer (self attribution). Online course registration and Internet setup were selected as scenario contexts. The findings in the context of Internet setup support the proposition that the effect of attribution of service failure on expectancy of CPISR is contingent on self-efficacy. More specifically, when customers have low self-efficacy, customer attribution of service failure negatively affects customer’s expectancy of CPISR; namely, the more a customer attributes the failure to him/herself, the lower their expectancy. However, the negative effect is likely to be reduced (less negative) when customers have high self-efficacy. Further comparing the mean values of the four situations, low efficacy and self blaming customers report the lowest level of expectancy; while the expectancy is much higher for customers with high efficacy. As to the link between expectancy and intention, a significant and positive effect was found of expectancy on intention of CPISR.

This research and its findings significantly contribute to theory development. It answers an important but neglected question—“what if co-produced services fail?” This study makes a pioneering effort in exploring the phenomenon of customer participation in service recovery (CPISR) and develops a theoretical model to investigate the antecedents and consequences of the construct. By establishing the theoretical and managerial relevance of CPISR, it establishes a basis for promising future academic research. Managerially, the findings challenge the conventional wisdom that firm recovery, which has
been considered an important tool in restoring customer equity, may not be the best solution when addressing service failure in a co-production setting. Further, when customers blame themselves in co-production contexts, those who are less self-confident simply tend to opt out of future co-production. So while the firm may have redirected the blame for failure, the long-term costs are future reliance on firm produced (as opposed to co-produced) services. Clearly diffusing or simply owning responsibility for co-produced failure yields a more engaged, co-producing customer in the future. References are available upon request.

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UNTANGLING SOCIAL PRESENCE EFFECTS ON CUSTOMERS REACTIONS TO SERVICE FAILURE

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SUMMARY

Most customers can recall a service failure experience (Lewis and Spyarakopoulos 2001). When failures occur in servicescapes (Bitner 1992), the presence of other customers seems likely to impact evaluations of the incident. Despite progress in understanding social presence effects on consumption (Zhuang et al. 2006; Luo 2004; Mangleburg, Doney, and Bristol 2004; Dahl, Manchanda, and Argo 2001; Argo, Dahl and Manchanda 2005; Fisher and Dube 2005), whether and how the presence of others affects consumer reactions to a service failure is unknown. Seeking to enhance understanding of social presence effects in the servicescape, the following studies analyze social presence effects on customer evaluations following a service failure; examine cognitive and affective pathways through which social presence impacts evaluation; and build a nomological net that features social presence and outcome attribution. Our findings are relevant to researchers interested in service management theory and practitioners looking to improve service evaluation.

Investigations concerning the effects of social presence have thus far based upon two major theories: the evaluation-apprehension theory and the distraction-conflict theory. Evaluation-apprehension theory assumes that the desire to make a good impression and the fear of negative evaluation become more salient when in public (e.g., Baumeister 1982; Seta et al. 1989). Thus, individuals are more likely to view themselves from a third-party observer perspective (Duval and Wicklund 1972; Wicklund and Duval 1971) in order to either make a good impression or avoid a bad one (Green 1989). In this process, differences between the actual and ideal self may become salient and lead to enhanced affective influence on self-evaluations of the experience. Supporting this prediction, several studies report higher levels of embarrassment when a social audience is believed to be present (Costa et al. 2001; Dahl et al. 2001; Argo et al. 2005). Such strong self-directed emotion is likely to reduce negative cognitions regarding the service failure as the consumer becomes more concerned with self-impression management and less concerned with shifting blame from self to other.

An alternative theory of social presence effects, distraction-conflict theory, is based on the drive theory of social facilitation (Zajone 1965, 1980), which predicts that the presence of others increases attention to the unexpected, preparedness to respond and physiological arousal. As such, distraction-conflict theory predicts that aroused attention to others in the servicescape following a service failure will conflict with the more immediate task, for example, evaluation of the failure. Social comparison and threat monitoring may also compete for cognitive resources (Uziel 2007). As a result, high cognitive loads are likely and the directly affected customer will experience more difficulty forming a negative evaluation of the service failure.

For decades, advocates have marshaled supporting empirical evidence for each theory (Argo et al. 2005; Baron 1986; Dahl et al. 2001). Most recently, researchers have argued that there may be multiple processing pathways and outcomes associated with social presence (Uziel 2007). The present research applies this integrated model and posits that each different reaction to social presence can be made salient at a given moment due to a situational factor, outcome attribution. We argue that the evaluation-apprehension theory explains social presence effects when the service failure is externally-attributed, whereas the distraction-conflict theory accounts for social presence effects when the service failure is internally-attributed. Two studies are designed to examine these predictions among individuals with low cognitive load (study 1) and with high cognitive load (Study 2).

Study 1 demonstrated that compared with no social presence condition, social presence was associated with higher service evaluation pertaining to the service failure regardless of outcome attribution \( [M's = 3.31 \text{ versus } 4.25, t (106) = 3.09, p < .01] \). Further mediating analyses, however, uncovered the complexity of the above findings. In particular, the results demonstrated that anger fully mediated the relationship between social presence and service evaluation when a service failure was externally-attributed, whereas the distraction-conflict theory accounts for social presence effects when the service failure is internally-attributed. This indicated that when the service failure was externally-attributed, the affective process proposed by the distraction-conflict theory accounted for the social presence effects. When the service failure was internally-attributed, the cognitive process suggested by the evalu-
ation-apprehension theory drove the social presence effects.

Study 2 showed that under high cognitive load, the affective process underlying social presence effects during an externally-attributed service failure still held, that is, social presence (versus no social presence) attenuated other-directed negative emotion (i.e., anger) elicited by the service failure, and thereafter led to more positive service evaluations (M’s = 5.29 versus 4.12, t [53] = 2.66, p < .02). By contrast, during an internally-attributed service failure, high cognitive load blocked the cognitive process of social presence effects, and as a result, the effect of social presence on service evaluation disappeared.

To conclude, this research holds theoretical significance in that investigating social presence as a moderating factor related to consumer reactions to a service failure helps enrich the traditional service evaluation paradigm. This research also holds managerial significance as understanding the crucial role of social presence in service encounter may help service providers to be more conscientious about the social environment, which consequently leads to improved service evaluation.

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THE EFFECTS OF GROUP EMOTIONAL CONTAGION AND DEINDIVIDUATION ON COMPLAINT INTENTIONS IN GROUP SERVICE FAILURE

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ABSTRACT

Based on the theories of deindividuation and group emotional contagion, this study develops and tests a conceptual model of customers’ anger and complaint intentions in group service failure by using a true experimental research design. The moderating effects of group size and group familiarity are also discussed.

Keywords: Group service failure, group emotional contagion, deindividuation, anger, complaint intention.

INTRODUCTION

There has been abundant research on service failure in the literature of service marketing. Surprisingly, most of the studies focus on interactions between employees and individual customers. To the best of our knowledge, none of the research has been done on group service failure in which a group of customers interact with employees in the service setting, given the fact that group service failure events have been commonly observed in business.

This study first develops a conceptual model of group customers’ anger and complaint intentions in group service failure based on the theories of group emotional contagion and deindividuation. Next, we conduct a set of experiments to test the relationships of the model elements in the conceptual model by using partial least squares (PLS) structural equation modeling. Finally, we discuss the theoretical and managerial implications of our results.

GROUP SERVICE FAILURE

In group service failure encounters, there are two major types of customers: (1) customers are physically close to each other (e.g., passengers in the same flight, tourists in the same trip, etc.), who are called aggregate in social psychology (Wrightsman et al. 1977); (2) customers are not close to each other, but dispersive individuals who use the same service provider (e.g., customers of the same telecommunication service provider, customers using the same credit card services, etc.). Before service failure, both types of customers are lack of clearly common objectives and sense of group affiliation, and do not have interactional relationships with each other. Thus, individual customers do not completely possess the characteristics of group customers before service failure (Wrightsman et al. 1977). However, the situation would be quite different after service failure. After individual customers receive the same service failure, they will quickly unite together for a common purpose from the state of being loosely attached. Meanwhile, communications and interactions among group customers will increase dramatically. Accordingly, the aggregate has become a highly efficient and structured group (Levine and Moreland 1998).

A Conceptual Model of Group Customers’ Anger and Complaint Intentions in Group Service Failure

Figure 1 illustrates the conceptual model of group customers’ anger and complaint intentions in group service failure interactions and the corresponding hypotheses. We present the proposed relationships in the following section.

GROUP EMOTIONAL CONTAGION

The emotional contagion theory was first proposed by (Hatfield, Cacioppo, and Rapson 1992, 1994), which refers to “the tendency to automatically mimic and synchronize facial expressions, vocalizations, postures, and movements with those of another person and, consequently to converge emotionally” (Hatfield, Cacioppo, and Rapson 1994, p. 5). Several papers have provided empirical support for the existence of emotional contagion in service marketing (Pugh 2001; Tsai 2001; Luong 2005; Hennig-Thurau, Groth, Paul, and Gremmler 2006; Dallimore, Sparks, and Butcher 2007; Du, Fan, and Feng 2010). They mainly focus on the process of emotional contagion between individuals in service interactions.

In contrast, there are some papers that study group emotional contagion in the literature of organization behavior. For example, Barsade (2002) showed that emotional contagion occurs in groups in the organizational context, i.e., through group emotional contagion, people continuously influence the emotions and behaviors of others. Walter and Bruch (2008) suggested that driven by
mechanisms of affective sharing and affective similarity-attraction, individuals’ positive (negative) emotions can be quickly transferred to other group members and then this emotional contagion process continues to spread among group members, which gives a rise to a self-reinforcing spiral. They defined this spiraling relationship as “group affect spiral.” In addition, the greater the similarity of group members’ emotions and group relationship quality is, the stronger is the group affect spiral (Walter and Bruch 2008).

Therefore, as discussed above, emotional contagion can occur within a group. It is worth mentioning that this study considers the transfer of emotions among group members with homogeneous emotions. When an individual submerges in a group, emotional displays of those surrounding persons (i.e., facial, vocal, and postural expressions) will affect that individual simultaneously and overlappingly. In contrast to emotional contagion between individuals, the impact of group emotional contagion on an individual’s emotion is more effective and quicker. Hareli and Rafaeli (2008) called the process of such group emotional interactions as emotion cycles, i.e., an individual’s emotion influences others’ emotions, and others’ emotions can in turn influence that individual’s future emotion. Consequently, it results in the social presence of a specific emotion since group members can mimic others’ emotions (Hareli and Rafaeli 2008).

With respect to customers’ negative emotions, we focus on anger (i.e., a typical type of negative emotion) in this study. Based on the theory of group emotional contagion, in group service failure, anger displayed by group customers around an individual customer would be quickly transferred to that individual customer (for brevity, we use “anger displayed nearby” to denote “anger displayed by group customers around an individual customer” thereafter). In addition, when group emotional contagion occurs with higher levels of intergroup anger, it would help bring group customers’ anger to its climax more quickly (Smith and Bolton 2002).

Hypothesis 1: Higher levels of anger displayed nearby lead to greater levels of an individual customer’s self anger than do lower levels of anger displayed nearby through the process of group emotional contagion.

DEINDIVIDUATION

The Deindividuation Effect

The theory of deindividuation is mostly based on the crowd theory by Le Bon (1895) and has been empirically well established in the field of social psychology (Diener 1979, 1980; Diener, Lusk, Defour, and Flax 1980; Festinger, Pepitone, and Newcomb 1952; Postmes and Spears 1998; Zimbardo 1969). It suggests that persons submerged in groups with certain characteristics may lose self-awareness, self-evaluation and evaluation apprehension, resulting in antinormative and disinhibited behaviors. According to Postmes and Spears (1998), two major theories that address the effect of deindividuation involve

![Figure 1: A Conceptual Model of Group Customers' Anger and Complaint Intentions in Group Service Failure](image-url)
the classical deindividuation theory (CDT; Diener 1979, 1980; Diener, Lusk, Defour, and Flax, 1980; Festinger, Pepitone, and Newcomb 1952; Prentice-Dunn and Rogers 1982, 1989; Zimbardo 1969, etc.) and the Social Identity Model of Deindividuation Effects (SIDE; Reicher 1984; Reicher, Spears, and Postmes 1995; Tajfel and Turner 1986). Specifically, among the studies focusing on Classical Deindividuation Theory, Festinger et al. (1952) extended Le bon’s crowd theory to social psychology by stressing that deindividuation represents a loss of individuality through submergence in groups. Individuals do not pay attention to others in a group as individuals, which leads to decreased inner restraints, increased disinhibited behaviors and thus the loss of individual control (Festinger et al. 1952). Zimbardo (1969) further developed a theoretical framework of deindividuation and described deindividuated behaviors as emotional, impulsive, irrational, regressive, self-reinforcing and thus difficult to stop.

The other main research stream has attempted to explain the effect of deindividuation using the SIDE model, which is different from the classical deindividuation theory. The studies of the SIDE model state that deindividuation does not represent a loss of individuality, but a transition from self-identity to group identity. Consequently, deindividuation leads to increased levels of group salience and conformity to group norms through group immersion, the combination of anonymity, etc. This approach can be attributed to the self-categorization theory (SCT; Turner 1991), which argues that self-identity and group identity are two independent constructs. In groups, group identity tends to play a more important role in individuals’ cognitive functioning than self-identity (Reicher 1982). Therefore, there is an underlying difference between the classical deindividuation theory and SIDE model. The former theory emphasizes that deindividuation manipulations reduce self-awareness and self-control, causing antinormative and disinhibited behaviors. On the contrary, the latter states that deindividuation manipulations reinforce self’s conformity to group norms, instead of decreasing self-awareness.

In group service failure, group customers’ behaviors are not antisocial. Indeed, they unite together to fight against employees for the sake of their own rights. Thus, first, deindividuation does not lead to a loss of individuality, but only a reduced focus on self-identity. As a result, group behaviors are rational, normative and restrained in group service failure (Reicher 1987). Second, group events are often situation-specific. To fight for their common rights in group service failure, group customers tend to conform to situational or group specific norms. In addition, group customers’ behaviors are restrained and guided by situational group norms with increased responsiveness to environmental cues (Reicher 1984; Spears Lea and Lee 1990). Third, although group customers in group service failure are impulsive and irrational to certain degree, their behaviors of fighting for rights generally do not violate social norms and standards. Indeed, group customers consider their behaviors are just and should receive the support of the public. According to Postmes and Spears (1998), the above three characteristics are consistent with the difference between the SIDE model and classical deindividuation theory. Therefore, our study employs the SIDE model to explain the deindividuation effect of group customers in group service failure.

### THE DEINDIVIDUATION EFFECT IN GROUP SERVICE FAILURE

Consider group customers in the context of group service failure. At the beginning of group service failure, group customers usually do not enter the state of deindividuation immediately (e.g., irrational behaviors, loss of control, etc.), but negotiate with employees in a rational way. If employees do not handle it properly at this moment (e.g., a long time delay, inappropriate service recovery plan, bad attitudes, etc.), it is likely to stimulate high amounts of anger among the whole group of customers or at least some of them. Anger will be transferred among group customers through group emotional contagion, leading to high levels of negative affective tone for the whole group. The presence of group anger then produces the state of deindividuation. Wood, Saltzberg, and Goldsamt (1990) found that negative emotions can increase self-awareness, which appears to be inconsistent with the classical deindividuation theory. However, since group members with similar negative emotions are susceptible to affective similarity attraction (Barsade et al. 2000), it may lead to increasing levels of social integration, group cohesion, and mutual trust (Barsade and Gibson 1998). This will in turn enhance group identity for group customers experiencing group service failure together (Ellemers, Spears, and Doosje 1997). Therefore, the observations above are consistent with the explanation of the deindividuation effect of the SIDE model.

Hypothesis 2: Higher levels of anger displayed nearby lead to greater levels of an individual customer’s group identity than do lower levels of anger displayed nearby through the process of deindividuation.

Mackie, Smith, and Ray (2008) investigated the influence of group identity on intergroup emotions and found that when an individual shares certain group identity in a specific circumstance, the individual tends to conform to group norms and standards. Through three experiments, Mackie, Devos, and Smith (2000) showed that individuals with higher levels of group identity are more likely to experience anger in the context of group offensive actions. Group service failure causes a loss of group members’ rights. At this moment, group norms implicitly suggest that every individual customer should
Hypothesis 3: Higher levels of an individual customer’s group identity lead to greater levels of that customer’s self anger than do lower levels of an individual customer’s group identity.

COMPLAINT INTENTIONS

Deindividuated behaviors were described as emotional, impulsive, irrational, regressive and intense (Zimbardo 1969), uncivilized and violent (Diener 1976). In response to group service failure, group customers tend to exhibit the deindividuation effect, resulting in emotional, impulsive, intense and antagonistic behaviors. This is consistent with behavioral characteristics of complaint intentions. Therefore, similar to electric shock adopted by Zimbardo (1969), complaint intentions are appropriate to be used as a measure of deindividuated behaviors. According to the SIDE model, when an individual is submerged in a group, deindividuation manipulations can facilitate a transition from a self identity to a group identity. Consequently, the individual will conform to group norms and exhibit deindividuated behaviors, i.e., complaint intentions in group service failure.

Hypothesis 4: Higher levels of an individual customer’s group identity lead to greater levels of that customer’s complaint intentions than do lower levels of an individual customer’s group identity.

Leach, Iyer, and Pedersen (2006) suggested that anger is an effective driver of behaviors, i.e., intergroup anger is highly associated with group behaviors and increases group members’ desire of offending, attacking, and harming outgroup ones. For example, group members may initiate group activities to protect their own interests and exclude outgroups from enjoying the same benefits. Through experiments, Mackie, Devos, and Smith (2000) provided further evidence that intergroup emotions (especially anger) strengthen group members’ behavioral intentions toward outgroups. In addition, the relationship between anger and complaint intentions has been also documented in the literature of service marketing. Specifically, hostile and angry customers tend to exhibit stronger degree of complaint intentions (Maute and Dube 1999), or aggressive complaint behaviors (Bennett 1997). Bougie, Pieter, and Zeelenberg (2003) showed that for service providers, customers’ anger is more serious than their dissatisfaction since angry customers have stronger actions in response to service failure than dissatisfied ones. This suggests that customers’ anger influences complaint intentions.

Hypothesis 5: Higher levels of an individual customer’s self anger lead to greater levels of that customer’s complaint intention than do lower levels of an individual customer’s self anger.

GROUP SIZE

Group emotional contagion has been shown to be a process of spiraling escalation (Barsade 2002; Walter and Bruch 2008). Individuals in an emotional group will be influenced by others’ emotional characteristics and tend to imitate and exaggerate them (Barsade and Gibson 1998). Freud (1959) suggested that the greater the size of a group in which the same emotions can be simultaneously observed, the stronger does the automatic compulsory contagion develop. Thus, consider a group with many angry individuals in a service failure encounter. A greater group size will lead to more occurrences of emotional contagion and thus higher levels of self anger.

Studies focusing on the classical deindividuation theory suggest that a greater group size increases the degree of individual anonymity and results in reduced self-awareness. Thus, group members will become more aggressive and competitive as a whole (Festinger et al. 1952; Zimbardo 1969; Maruyama, Fraser, and Miller 1982). On the other hand, based on the SIDE model, some papers provide empirical support for the positive association between group size and the effect of deindividuation (Kugihara 2001; Postmes and Spears 1998). For example, Kugihara (2001) investigated the effect of group size on collective escape behaviors in emergency situations and found stronger salience of the aggressive norm in a larger group than in a smaller group. Through a meta-analysis, Postmes and Spears (1998) also provided support for the positive relationship between group size and the effect of deindividuation.

Hypothesis 6: Group size has a positive moderating effect on the relationship between: (a) anger displayed nearby and an individual customer’s self anger; (b) anger displayed nearby and an individual customer’s group identity.

GROUP FAMILIARTY

From the viewpoint of social interactions, it is easier to transfer emotions to others between familiar individuals. For example, when seeing family members in grief, an individual will also feel sad; however, when seeing a stranger in grief, the individual’s sadness will be significantly lessened (Hatfield, Cacioppo, and Rapson 1992). Walter and Bruch (2008) state that groups with high-quality relationships maintain strong interpersonal ties due to trust and mutual socio-emotional support (Baker, Cross, and Wooten 2003), which can strengthen group
members’ susceptibility to emotional contagion (Hatfield, Cacioppo, and Rapson 1992). Kimura and Daibo (2008) found that people are more susceptible to those with whom they share higher amounts of intimacy (e.g., friends, juniors, and seniors) than acquaintances with whom they share lower amounts of intimacy.

Through a field study, Oakes, Haslam, Morrison, and Grace (1995) showed that familiar groups are more likely to be homogeneous. In addition, group members tend to describe themselves using intergroup norms, which reinforce the levels of group identity. In a group experiment, Castellá et al. (2000) found that higher levels of group familiarity result in more uninhibited group behaviors. Postmes (2005) discussed the effect of group familiarity using an example of a parade. For instance, when hearing a shot, the parade in which people are unknown to each other will quickly fall apart, whereas a group of relatives and friends do not easily split under the same circumstance. This suggests that it helps an individual to increase group identity and enhance group cohesion by joining a familiar group.

Hypothesis 7: Group familiarity has a positive moderating effect on the relationship between: (a) anger displayed nearby and an individual customer’s self anger; (b) anger displayed nearby and an individual customer’s group identity.

**METHODOLOGY**

**Participants**

This study employed a two-by-two between-subjects experimental design, in which we manipulated the degree of group size (large versus small) and the degree of group familiarity (high versus low). In total, 482 business school students in a prestigious university of China participated in this study. On average, they aged 21.6 years old (standard deviation = 1.9 years), ranging from 18 to 23 years old. The entire study consisted of 48 consecutive experiments. Specifically, with respect to familiar and large groups, we conducted four experiments with 30 participants for each experiment (120 participants in total), who were from the same class. With regards to unfamiliar and large groups, another four experiments were undertaken with 30 participants for each experiment (120 participants in total), who were from ten different classes (i.e., three students were randomly recruited from each class). For familiar and small groups, we conducted 20 experiments with 6 participants for each experiment (120 participants in total). All of them were randomly recruited from one same class. Finally, for unfamiliar and small groups, 20 experiments were undertaken with around 6 participants for each experiment (119 participants in total). They were from six different classes and one student from each class formed a group to participate in one of the 20 experiments. On average, it took large groups 32.4 minutes (SD = 5.06) and small groups 24.6 minutes (SD = 6.27) to complete the experiment.

**Procedure**

**Stimuli Development.** Before the formal experiments, we conducted a small-scale survey on campus and found that students were mostly concerned with services provided by the university cafeteria. Photographic slides and videotapes have ecological validity for testing subjects’ emotional interactions as environmental simulations in the service setting (Bateson and Hui 1992). In this study, we attempt to stimulate students’ dissatisfactions by asking them to watch a video on a typical group service failure of the university cafeteria together. Specifically, the video recorded the entire process of a commonly seen scenario in which two students have their lunch in the cafeteria. At the end of the videotape, one of the students found a cigarette butt in her food when she almost finished the lunch (see Figure 2).

**Confederate.** As noted in Barsade (2002), confederates can be used as a stimulus to successfully stimulate the occurrence of group emotional contagion. This is because incorporating confederates into the experiment provides better control and decrease possible task-related variance (Barsade 2002). Accordingly, we chose four confederates in this study, including three male students (M1, M2, M3) and one female student (F1).

**Research Design.** We conducted the series of experiments in a multi-media classroom. Students were told to participate in a group activity organized by the student union of the university. They were totally unaware of the content of experiments, and even did not realize that they were actually participating in an experiment.

**Measures**

The measures were adapted from Mackie, Devos, and Smith (2000), Andreassen (2000), East (2000), Keng, Richmond, and Han (1995), etc.

**RESULTS**

**Reliability and Validity Assessment**

Table 1 presents the means, standard deviations, and correlation coefficients of all variables. The results suggest the acceptable reliability, convergent validity, and discriminant validity of the measures in our study.

**PLS Equation Modeling**

PLS Graph 3.0 was adopted to estimate the model paths and associated inner weightings (Chin 2001). The
### FIGURE 2
A Snapshot of a Cigarette Butt in the Food

### TABLE 1
Descriptive Statistics, Reliability Information, and Correlations

<table>
<thead>
<tr>
<th>Number of Items</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Anger displayed nearby</td>
<td>4.86</td>
<td>0.98</td>
<td>0.80</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Group identity</td>
<td>4</td>
<td>4.95</td>
<td>1.31</td>
<td>0.30</td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>3. Self anger</td>
<td>4</td>
<td>5.35</td>
<td>1.04</td>
<td>0.57</td>
<td>0.28</td>
<td>0.74</td>
</tr>
<tr>
<td>4. Complaint intentions</td>
<td>4</td>
<td>5.35</td>
<td>1.10</td>
<td>0.36</td>
<td>0.43</td>
<td>0.41</td>
</tr>
<tr>
<td>AVE</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.65</td>
<td>0.70</td>
<td>0.55</td>
</tr>
</tbody>
</table>

Notes: Values along the diagonal represent the estimates of Cronbach’s alpha internal consistency. All correlations are significant at $p < .01$ (two tailed).
model explains 8.8 percent of the variance in change in individual customer’s group identity, 33.9 percent of the variance in self anger and 28.2% of the variance in complaint intentions. The PLS results are reported in Table 2.

We are also interested in the impact of deindividuation and group emotional contagion on an individual customer’s complaint intentions. From Table 2, through the process of group emotional contagion, the direct effect of an individual customer’s self anger on complaint intentions is .319. In contrast, through the process of deindividuation, the direct effect of an individual customer’s group identity on complaint intentions is .344. In addition, group identity also has an indirect effect on complaint intentions at .039 (i.e., .319*.123), resulting in the total effect to be .383 (i.e., .344+.039). Therefore, both deindividuation and group emotional contagion have a significant impact on complaint intentions, which is consistent with the conceptual model. In addition, the effect of deindividuation on complaint intentions is relatively stronger than that of group emotional contagion.

### Moderating Effects of Group Size and Group Familiarity

The moderation effects of group size and group familiarity were examined with the regression analysis and Chow test (Antonides et al. 2002). Table 3 presents the results from the regression analyses.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Impact of</th>
<th>On</th>
<th>Path Coefficient</th>
<th>t-Value</th>
<th>Supported?</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Anger displayed nearby</td>
<td>Individual customer’s self anger</td>
<td>0.534***</td>
<td>16.03</td>
<td>Yes</td>
</tr>
<tr>
<td>H2</td>
<td>Anger displayed nearby</td>
<td>Individual customer’s group identity</td>
<td>0.298***</td>
<td>7.32</td>
<td>Yes</td>
</tr>
<tr>
<td>H3</td>
<td>Individual customer’s group identity</td>
<td>Individual customer’s self anger</td>
<td>0.123**</td>
<td>3.08</td>
<td>Yes</td>
</tr>
<tr>
<td>H4</td>
<td>Individual customer’s group identity</td>
<td>Individual customer’s complaint intentions</td>
<td>0.344***</td>
<td>6.17</td>
<td>Yes</td>
</tr>
<tr>
<td>H5</td>
<td>Individual customer’s self anger</td>
<td>Individual customer’s complaint intention</td>
<td>0.319***</td>
<td>5.95</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Notes: *p < .05, **p < .01, ***p < .001.

<table>
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<th>Group size</th>
<th>Dependent variables</th>
<th>Self anger</th>
<th>Group identity</th>
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<td></td>
<td>Independent variable</td>
<td>Coefficient</td>
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<td>Large</td>
<td>Anger displayed nearby</td>
<td>0.63</td>
<td>12.57***</td>
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<tr>
<td>Small</td>
<td>Anger displayed nearby</td>
<td>0.48</td>
<td>8.47***</td>
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<td>High</td>
<td>Anger displayed nearby</td>
<td>0.64</td>
<td>12.75***</td>
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<tr>
<td>Low</td>
<td>Anger displayed nearby</td>
<td>0.50</td>
<td>8.78***</td>
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H6a and H6b are supported. H7a is supported but H7b is not.

DISCUSSION

This research aims to develop and test a conceptual model of customers’ anger and complaint intention in group service failure based on the theories of deindividuation and group emotional contagion. We carefully design video-based stimuli to allow participants to experience a true group service failure and interact with each other in a natural manner. The results show that both the deindividuation effect and group emotional contagion occur among group customers in group service failure. Our results provide several theoretical and managerial implications for research in service marketing.

First, this study focuses on strong emotional interactions among customers in the context of group service failure and investigates the influence of group emotional contagion on customers. We provide empirical evidence that the process of group emotional contagion is mainly attributed to anger displayed nearby and positively moderated by two variables, i.e., group size and group familiarity.

Second, this study is the first to use theory of deindividuation to explain deindividuated behaviors of group customers in group service failure. The classical deindividuation theory suggests that antinormative and disinhibited behaviors are attributed to the loss of self-awareness of group individuals, while the SIDE model emphasizes that deindividuation results in a transition from self-identity to group identity, instead of a loss of individuality. Our experimental results indicate that in the context of group service failure, deindividuated behavior of customers can be appropriately explained by the SIDE model, rather than the classical deindividuation theory. Specifically, in group service failure, an individual customer submerged in a group does not lose self-identity, but shows a transition from self-identity to group identity and ultimately deindividuated behaviors (i.e., complaint intention) due to the influence of anger displayed by other group customers around. On the other hand, we provide support for the moderating effect of group size on the process of deindividuation, i.e., the transition is easier from self-identity to group identity for a large group than for a small group. This is consistent with the findings of Festinger et al. (1952) and Zimbardo (1969). In contrast, the moderating effect of group familiarity on the process of deindividuation is not significant. Therefore, even for an unfamiliar group, an individual customer can quickly exhibit group identity due to other customers’ stimulations in group service failure.

Third, this research uses a true experimental research design. Specifically, video-based stimuli are used to stimulate participants’ true feelings in the setting of group service failure. The agitation of confederates further enables real interactions among participants. This experimental method is convincing since participants’ true experiences assure the validity of measures in this study.

ENDNOTE

1 Note that Barsade et al. (2000) raised this argument in terms of group members with similar positive emotions. Nevertheless, it is more appropriate to consider negative emotions (e.g., anger) as similar emotions among group customers in service failure.

ACKNOWLEDGMENT

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THE PARTING OF THE WAYS: EMOTIONAL AND BEHAVIORAL REACTIONS IN RESPONSE TO ALTERNATIVE CUSTOMER DIVESTMENT STRATEGIES

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SUMMARY

Given the high importance that is often placed on concepts such as loyalty and retention, academics and managers sometimes seem to forget that not all customer relationships are actually beneficial for the firm. Unfair customers, for example, who insist on “being always right” and demand unwarranted privileges and compensation, can represent a burden for firms, employees, and other clients (Berry and Seiders 2008). Unfriendly customers may generate unpleasant work experiences for frontline employees and lead to lower job satisfaction and higher quitting intentions (Walsh 2011). And unprofitable customers can result in substantial financial cost for firms that increases more and more the longer the relationship is maintained (Haenlein and Kaplan 2009). In recent years it has therefore been argued that companies should consider not retaining certain customer relationships. Firms who consider taking this relatively untraveled road of customer divestment often wonder to what extent “parting ways” with some customers influences the relationship the firm has with other clients that should be retained. Can CRM actions that influence the relationship between the firm and one customer group be analyzed in a vacuum? Is there an impact between the way a firm treats one customer and the relationship it has with other customers? And, if such an impact does exist, are there customer divestment strategies that are less harmful than others?

Within our study we assume that customer divestment results in emotional reactions among the firm’s retained customers that depend on the specific divestment strategy chosen by the firm. To explain the relationship between divestment strategy type and emotional reactions we draw on two theoretical frameworks. The first one is attribution theory (Kelley and Michaela 1980; Weiner 2000) which explains how individuals attribute causes to events and behaviors they observe. The second one is the concept of attribute framing (Levin et al. 1998) which explains how an individual’s response to an attribute depends on whether the attribute is presented using either a positive or a negative frame (e.g., 5% of customers divested vs. 95 percent of customers retained).

Our empirical analysis is based on a survey among 428 U.S. consumers we investigate (a) the emotional reactions among the firm’s retained customers in response to customer divestment, (b) how these reactions differ across alternative divestment strategy types, and (c) the relationship between emotional reactions and subsequent behavioral intentions in response to customer divestment. Data collection was carried out using an online survey in which respondents were exposed to a scenario text describing a customer divestment situation within the mobile phone industry. In total, we used twelve different types of divestment strategies within the scenario text. These strategies differed in the causal attributions they evoke, specifically their locus of causality (divesting firm, divested customer, external market conditions) and their stability/likelihood or reoccurrence (low, high). Divestment strategies equally differed in the framing of the divestment scope, which was expressed in either a positive way (95% of relationships maintained) or a negative way (5% of relationships divested). Combined with the two tie strength randomization conditions, this resulted in 24 different scenarios – 6 for causal attributions (3 – locus of causality x 2 – stability/likelihood of reoccurrence) x 2 for framing of divestment scope (positive/negative) x 2 tie strength (strong/weak) – to which respondents were allocated randomly.

To test the hypotheses underlying our conceptual framework we subsequently estimated a series of regression equations. The first set of equations focused on the impact of customer divestment strategy type on emotional reactions while the second set of equations focused on the relationship between emotional reactions and behavioral intentions in response to customer divestment.

Our results show that, after taking account of divestment strategy characteristics and customer covariates, customer divestment results in (a) positive other-focused and positive self-focused emotional reactions and (b) behavioral intentions of exit (threatened withdrawal), negative voice, loyalty (passive acceptance), and switching support among the firm’s retained customers. Furthermore, we provide an indication that causal attributions regarding the behavior of the divesting firm (locus of causality and stability/likelihood of reoccurrence) influence emotional reactions toward customer divestment.

These findings represent important theoretical contributions since they imply that firm actions targeted
toward one specific customer group can impact the relationship with other customers who are not directly affected by this strategy. CRM actions therefore do not occur in isolation, which calls for an extended analysis scope when looking into the implications of certain CRM strategies. From a managerial perspective, our results allow us to provide recommendations for companies that would like to engage in customer divestment. Specifically, we show that firms should (a) choose divestment strategies in which the divested customers themselves are blamed for the divestment, (b) perform customer divestment on a regular basis, and (c) not use internal reasons (e.g., the wish to increase profits) to justify customer divestment. In doing so, companies can foster the presence of positive self-focused emotional reactions (i.e., feelings of pride, superiority, being on top of the world, and self-esteem) among their retained customers.

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THE EFFECTS OF MORAL IDENTITY, MORAL AWARENESS, AND ANGER ON MORAL DISENGAGEMENT OF CONSUMER REVENGE TO SERVICE FAILURE

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Lloyd Harris, University of Warwick, United Kingdom

SUMMARY

An important psychological process of the impact of moral identity (MI) on unethical decision making is moral disengagement. The social cognitive model of moral psychology places MI in the central position in explaining moral judgment of ethical and unethical decision making (Aquino and Reed 2002; Winterich, Mittal, and Ross 2009). Moral identity refers to a self-schema organized around a set of moral trait associations, such as fairness and helpfulness (Aquino and Reed 2002; Reed, Aquino, and Levy 2007). MI has regulating function on moral judgment and behaviors, when MI becomes relevant and accessible for processing social information that are pertinent to the moral behaviors in question (Aquino and Reed 2002; Reed et al. 2007; Shao, Aquino, and Freeman 2008). Moral identity can affect moral cognition and judgment, such as moral disengagement (Detert, Treviño, and Sweitzer 2008). Indeed recent research finds that one important process of the impact of MI is through moral disengagement (e.g., Aquino, Freeman, Reed, Lim, and Felps 2009; Detert et al. 2008). Moral disengagement refers to a set of cognitive mechanisms that deactivate moral self-regulatory processes so that people make unethical decisions without apparent guilt or self-censure (Bandura 1999). Examining the effect of MI on moral disengagement is an important issue, as moral disengagement promotes unethical decision-making and behaviors (Aquino, Reed, Thau, and Freeman 2007; Bandura 1999; Detert et al. 2008).

We propose three conditions influencing the effect of MI on moral disengagement: (1) motives of the behavior, (2) moral awareness of the behavior, and (3) emotional reaction to the service failure. Specifically, we propose that the effect of MI on moral disengagement depends on a number of cognitive and affective factors. On the cognitive side, we argue MI has a negative effect on moral disengagement of behaviors (1) with an unethical motive; and (2) for people with higher moral awareness of the unethical behaviors. One the affective side, we propose that (3) negative emotional reaction (i.e., anger) to the cause of an unethical behavior will attenuate the negative effect of MI on moral disengagement of the unethical behavior.

We tested the above hypotheses in the context of negative word of mouth (NWOM) stemming from service failure. Service failure occurs often in practice (Grégoire, Tripp, and Legaux 2009) and it is quite common for consumers to take certain actions, including revenge, in response to service failures. These negative actions could have significant negative impact on the involved companies. Therefore, it is of high importance to examine the factors that affect consumer cognitive, affective and evaluative responses to service failures. We conducted three experiments to test the three conditions of the negative effect of MI on moral disengagement of NWOM.

Study 1 supports the main negative effect of moral identity on moral disengagement of vindictive NWOM, but not support-seeking NWOM. Study 2 confirms the results of Study 1, and finds that MI has a stronger negative effect on moral disengagement of vindictive NWOM for people with higher moral awareness of vindictive NWOM. Study 3 supports the findings of Study 1 and Study 2, and further supports that righteous anger (toward the firm) attenuates the negative effect of MI on vindictive NWOM. Overall, these three studies support the proposition that the effect of moral identity on moral disengagement is conditional on both cognitive evaluation of the unethical behavior and emotional reactions to the cause (i.e., service failure) of the unethical behavior.

The results of these three studies offer a number of important contributions to the literature. For MI literature, we do not only support the negative effect of MI on moral disengagement of specific behaviors, but also extend our knowledge on MI’s regulatory function of moral cognition by identifying its cognitive and affective conditions. Although prior research suggests that MI is negatively associated with general moral disengagement traits, the causal effect of MI on moral disengagement of specific behaviors is not clear. The study addresses this gap. More importantly, identifying the conditional effects of MI on moral disengagement advances prior knowledge on the boundaries of the regulatory effects of MI. We identify and support that motives of moral behavior is a key condition of MI regulation. MI regulates behaviors only when the behaviors involve morally relevant motives. Second, MI regulates behaviors of those who have higher
moral awareness of the issue involved. Finally, and probably more importantly, we provide very important initial evidence on the moderating role of emotions on MI’s regulatory function. We find that anger (as a negative emotion) toward the cause of unethical behaviors (i.e., consumer revenge stemming from service failure) does not only have main positive effect on moral disengagement, but also undermines the effect of MI on moral disengagement. It suggests that people do get blinded by anger in their moral cognition and moral judgment. Although prior research has noticed the importance of identifying the boundaries of MI’s regulatory functions, this study represents pioneering effort on integrating moral emotions and moral identity in explaining moral judgment. This is in alignment with the recent debate and interest of moral emotions in the moral psychology literature.

On the other hand, this study advances the literature on consumer responses to service failure. Prior research on this area main focuses on the cognitive processes. This study provides a new angle of examining this issue by focusing on moral identity (a social identity angle) and moral emotion (i.e., righteous anger) perspectives. We do not only introduce the effect of MI, but also support the interactions of MI, moral cognition and moral emotion in explaining consumer reaction to service failure. Finally, for the consumers’ emotions literature, we provide important evidence on the prior proposition (but with rare evidence) that emotions do not necessarily only have main effects on thinking and doing, but may activate or deactivate other morally relevant information input (e.g., MI). Hence it contributes to our knowledge on the motivating effects of moral emotions, in contrast to the prior primary focus on emotions-as-information perceptive, by showing that emotions may be important information input for moral judgment, meanwhile they act as affective context for information processing.

Briefly, our studies are limited in a number of regards. First, we use hotel noise as an example for service failure. Future study can use other types of service failures. Second, we demonstrate that emotional reactions may moderate the effect of MI by using anger as an example. Future research can examine other types of emotions, especially positive emotions, and investigate whether positive emotions (e.g., happiness) would enhance, instead of undermine, the effect of MI. Third, future research can also examine other types of consumer revenge behaviors, instead of NWOM. References are available upon request.

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TRANSFORMATIONAL LEADERSHIP AND CUSTOMER SATISFACTION: THE MEDIATING ROLE OF SERVICE RESPONSIVE CAPABILITY AND INNOVATIVENESS

Hua Chang, Drexel University, Philadelphia

SUMMARY

In today’s economy, markets are fast changing due to rapid technological change and evolving customer needs. To achieve a sustainable competitive advantage in such a dynamic marketplace, an organization should monitor and respond effectively and quickly to changes in customer needs (Day 1994). Day (1994) suggests that an organization should continuously discover what customers need, anticipate their future needs, and then quickly fulfill those needs through high quality products and services. In this regard, an organization’s service responsive capability, its competence in satisfying customer needs through effective and efficient actions, and service innovativeness, its openness to new ideas and the ability to adopt and implement new ideas (Cohen and Levinthal 1990), are critical for the organization’s competitive advantage and sustained success (Jaworski and Kohli 1993).

However, little research has been done to examine the role of a specific type of leaders – transformational leadership in employees’ service responsive capability and service innovativeness, and employees’ service performance and customer satisfaction. This study thus attempts to fill this gap by proposing a process model investigating the process through which transformational leaders influence employees’ service performance and customer satisfaction. Specifically, it is proposed that transformational leadership is associated with employees’ service responsive capability and innovativeness, which in turns lead to high level of service performance and customer satisfaction. Service responsive capability and service innovativeness mediate the relationship between transformational leadership and service performance and customer satisfaction.

This study proposes that transformational leadership (Bass and Avolio 1995) plays a significant role in fostering employees’ responsive capability and service innovativeness. Service responsive capability is defined as the competence of a service employee in satisfying customer needs through effective and quick response (Jayachandran, Hewett, and Kaufman 2004). Service innovativeness refers to employees’ creativity and development of innovative ideas in the process of rendering services to customers. According to Bass and Avolio (1995), transformational leadership is conceptualized as comprising four unique behavioral components: inspirational motivation, idealized influence, intellectual stimulation, and individualized consideration. Through the coaching and mentoring behavior of transformational leaders, followers may develop and possess a set of skills or techniques that could help them address various issues posed by diversified customer needs. Such a set of skills and a responsive mindset thus enhance employees’ market or customer response knowledge and expertise, which enable them to respond to customer needs more effectively. Further, transformational marketing leaders tend to articulate a vision that is appealing and evocative to followers and motivate them for high standards to meet customer needs (Piccolo and Colquitt 2006). Transformational leaders encourage followers to challenge existing assumptions and to seek different perspectives and new ways to solve problems (Jung, Chow, and Wu 2003). Through this proactive thinking process, employees become more creative and develop more innovative ideas, products, and services (Mumford et al. 2004). This process also prepares employees with a better sense of potential customer requests or needs. When faced with changing customer needs, well-prepared employees could quickly respond to the needs in a very efficient way.

In addition, transformational leaders serve as charismatic role models for followers. As transformational leaders in service industry tend to place a strong emphasis on customer interests and customer satisfaction, they are more likely to treat being responsive to customer needs as one of key priorities. When motivated followers observe the exemplar behaviors of their leaders, they are more likely to emulate those behaviors and work diligently to achieve the same goal. Therefore, transformational marketing leaders affect their employees through motivating them to diagnose customer needs and explore new ways to meet those needs, preparing them with relevant knowledge and skills, and setting a role model of being responsive and innovative.

Therefore, under the guidance of transformational leadership, employees are more responsive to customer needs and more innovative in the way they meet customer needs. In today’s fiercely competitive market, a firm can be successful only when it moves beyond customers’ current needs and discover and fulfill their future needs. To achieve these goals, a firm should develop its market
responsive capability and innovativeness to keep itself in pace with rapid changes. This calls for a need for transformational leadership in the firm to articulate an appealing vision for the employees and ensure that it is always leading the market through innovation and proactive market orientation.

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ABSTRACT

Existing streams of literature in services marketing and new service development are integrated to synthesize a conceptual framework that highlights the role of Internal Marketing Orientation (IMO) for enhancing organizational and project level antecedents of NSD performance.

INTRODUCTION

New service development (NSD) has attracted little research scrutiny in the services marketing and innovation literature and only recently has emerged as an important research issue (De Jong et al. 2003; Ottenbacher and Harrington 2010), although it constitutes an important aspect of organizational performance as it enhances service firms’ competitive position (De Jong et al. 2003). Despite the existence of studies stressing the importance of the different development stages (Kindstrom and Kowalkowski 2009; Vermeulen 2004), or the impact of environmental or contingency factors on NSD success (Atuahene-Gima 1996), mechanisms that improve interpersonal relationships and integrate organizational functions during NSD are yet to be identified (Froehle et al. 2000; Perks and Riihela 2004). Given the importance of service innovation for organizational performance (Han et al. 1998), the purpose of the present study is to provide new academic and managerial insights by proposing both organizational and project-level drivers of NSD project performance.

Developing new services depends heavily on the effective management of intra-organizational relationships and the coordination of organizational functions, as significant interactions among departments are required during innovation activities (Perks and Riihela 2004). Managing effectively intra-organizational relationships inside the organization reduces development uncertainty (Lievens and Moenaert 2000) and improves overall company performance (Atuahene-Gima 1996). In this context, we explore the role of Internal Marketing Orientation (IMO) as a mechanism for improving intra-organizational relationships and cross-functional integration during the NSD process. IMO refers to the company’s orientation regarding the employees and promotes the creation of effective relationships between the company’s hierarchical levels (Rafiq and Ahmed 1993) so that the company’s strategic responds to internal customer’s needs more effectively (Gounaris 2008). Although IMO is useful in the management of the organization’s employees, as it can generate positive employees outcomes such as job satisfaction (Gounaris 2008) and work motivation (Bell et al. 2004), its importance for aligning employees with organizational goals has not been adequately explored (Gounaris 2008).

THE ROLE OF IMO FOR INTERFUNCTIONAL RELATIONSHIPS

The management of intra-organizational relationships is crucial in the sense that they have a direct effect on firm’s innovation performance (Perks and Riihela 2004). However, the role of IMO as a mechanism that improves relationships in an organizational context has theoretically been highlighted in only few studies. Actually, Varey and Lewis (1999) have first highlighted the importance of IMO for the development of political behaviors between different departments or employees during work interactions. In the same vein, Gumnessson (1991) suggested the term “tribal warfare,” so as to describe the relationships between departments that operate as “tribes” which have its own goals and favor their own members and not the organization as a whole. As departments are dependent on those performing in the preceding stages and those that follow, it becomes imperative that employees must see the linkage between what they do and their impact on the “next customer” (Ahmed and Rafiq 2003). This internal customer-supply chain perspective is replayed in interactions across different organizational levels and results in a network of complex relationships that
are difficult to manage (Ahmed and Rafiq 2003) but vital for NSD success, as effective market intelligence dissemination across departments allows a better understanding and response to customer needs (Lings 2004). To this end, we explore the role of IMO in influencing the level of interfunctional trust, conflict and cross functional integration.

IMO and Conflict

Many IM approaches are based upon the recognition that effective strategy implementation requires to deal with inter-functional conflict (Rafiq and Ahmed 1995), and suggest IMO as a mechanism that reduces departmental isolation and inter-functional friction (Rafiq and Ahmed 1993). Actually, IMO can improve interfunctional relationships through enhancing cross-functional integration between the company’s employees and management (Rafiq and Ahmed 1993), so that the company responds better to employees’ needs (Ahmed and Rafiq 2003). Moreover, managers that display a high degree of IMO reduce employees’ dysfunctional behaviors (Ramaswami 1996), facilitate information exchange (Ballantyne 2003) and favor behaviors that are compliant with organizational goals (Piercy and Morgan 1990). The crucial role of IMO for dealing with intra-organizational conflict is also illustrated by the importance of training, which reduces language barriers between functions and perceived conflict resulting from them (Griffin and Hauser 1996) while also enhances managers’ understanding of the goals and priorities of other functions, thereby “reducing interfunctional misunderstandings due to differences in employees’ thought worlds” (Dougherty 1992). In taking previous evidence into consideration, we acknowledge the important role of IMO in integrating diverse perspectives and ideas within an organization, but future research should emphasize the impact of IMO on interfunctional conflict (P1).

IMO and Trust

IMO is considered as “a philosophy for managing the organization’s human resources from a relationship marketing perspective” (Ahmed et al. 2003) or as “the climate that encourages employees to adopt market-oriented behaviors” (Lings and Greenley 2010). With regard to an innovation context, though several authors underline the importance of trust (Gupta and Wilemon 1990; Song et al. 1996), academic research is fragmented. Implementing IMO can prove quite beneficial for employees, as through informal interactions between managers and their subordinates, the former discuss the problems that their employees face, identify their wants and needs within their roles and from their employment, and communicate this information throughout the organizational hierarchy in order for appropriate responses to be designed and implemented (Lings and Greenley 2010). Thus, by ensuring that employees’ needs will not come second to those of managers and by creating an environment where employees feel safe and capable to develop new competencies, trust is highly likely to be developed. With the exception of Rodriguez et al. (2007) the IMO-trust linkage lacks empirical evidence and constitutes an issue needing further investigation (Ahmed and Rafiq 2003; Garcia et al. 2008). Thus, we propose that scholars examine the role of IMO in enhancing the formation of interfunctional trust (P2).

IMO and Cross Functional Integration

Innovation activities require interfunctional integration, as it allows better info dissemination and use (Song
The role of IMO in integrating different functions so as to cooperate effectively is considered critical (Lings and Greenley 2010). Actually, Ahmed and Rafiq (2003) theoretically stress the role of IMO in improving NSD process quality by improving top down communication and inter-functional integration (Ahmed et al. 2003; Varey and Lewis 1999), and, thus, enhancing cooperative behaviors and facilitating the innovation process. These views are consistent with Grönroos’ (1981) view that IM represents an integrating mechanism that improves company’s coordination toward achieving its external market objectives. Adopting an IMO helps resolving the difficulties associated with internal marketing practices (Gounaris 2008), as Marketing’s department role for IMO implementation is pivotal in understanding employees’ values and communicating their expectations company-wide (Gounaris 2008). As effective NSD requires the integration of employees from many different functions (Akamavi 2005) and prior research on NSD has not identified specific organizational-level antecedents that influence positively cross functional integration required during an NSD project (Perks and Riihela 2004), we propose that **IMO can provoke a positive effect on cross functional integration during NSD (P3).**

The role of IMO for service innovation effectiveness is mostly displayed in a normative context (Varey 1995; Ahmed and Rafiq 2003). The extant literature emphasizes the role of internal communications and interpersonal relationships in encouraging cooperation and information sharing within members of different functions (Ahmed and Rafiq 2003) and, thereby, increasing employees’ creativity (Tsai 2002). Moreover, IMO overcomes the difficulties of getting new ideas diffused across the organization through cross-functional integration and as a result it facilitates the innovation process (Gupta and Rogers 1991). IMO is also considered the degree to which any organization commits to produce value for its employees through effectively managing relations at different hierarchical levels (Gounaris 2008). IMO’s importance for NSD lies on the fact that market intelligence gathered during the service encounter is disseminated to various departments through internal communications allowing better responsiveness to customer needs (Varey 1995). NSD is enhanced through effective internal communications and cross-functional integration, while at the same time current marketing strategy may also be amended accordingly. Therefore, the basic premise of our conceptual model is that services organizations that are oriented to their internal employees are facilitating the NSD process. Considering Lings’ (2004) efforts to investigate the IMO-organizational performance linkage, we lay the ground for additional research into the fuzzy role of IMO for organizational performance, by proposing a direct effect of **IMO on NSD performance (P4).**

### THE ROLE OF INTERFUNCTIONAL RELATIONSHIPS FOR NSD PERFORMANCE

Although there is a growing body of research into NSD including common practices and success factors (Atuahene-Gima 1996; Froehle et al. 2000), more research is needed to identify NSD drivers (Atuahene-Gima and Li 2000). As the extant literature “largely ignores or assumes away the political processes, jockeying for influence, conflicts and communications difficulties that arise in innovation” (Atuahene-Gima and Li 2000; Ruekert and Walker 1987), we make recommendations for investigating behavioral antecedents of NSD performance.

#### Integrating Cross Functional Integration in NSD

The creation of new services is a multidisciplinary process that demands information exchange, close collaboration as well as the integration of different functions (Perks and Riihela 2004; Griffin and Hauser 1996). Cross-functional integration reflects the recognition by functional units of their interdependence and their need to cooperate effectively for the benefit of the organization (Olson et al. 2001). Indeed, firms identified as having “best practices” in NPD employ cross-functional integration more extensively than other firms (Griffin 1997). Although the role of cross functional integration during NPD has widely been acknowledged (Moenaert et al. 1994; Moenaert and Souder 1990; Pinto et al. 1993), yet our understanding of the role of cross-functional integration for NSD performance remains cloudy (Perks and Riihela 2004; Froehle et al. 2000). A review of the extant literature reveals that despite NSD performance relies on the expertise and co-operation of employees from different departments working in cross-functional teams (Lievens and Moenaert 2000), research ignores cross-functional interfacing during NSD projects (Perks and Riihela 2004). Consequently, we propose the investigation of **the impact of cross functional integration on NSD performance (P5).**

#### The Role of Trust for NSD

Trust has been conceptualized as “a confidence in the motives of the other party in conditions involving risk” and it is suggested to improve interfunctional relationships (Gupta and Wilemon 1990), as it represents a necessary basis so as to attain a working environment with open communication, team spirit, and cooperation (Webber 2002). However, its role for innovation performance is pivotal as innovation entails high levels of uncertainty and depends on relationships based on mutual trust (McDonough 2000). The existence of such affective bonds enhances the quality of interfunctional relation-
ships as when trust exists, employees that participate in development projects are more inclined to clarify problems, generate new and creative ideas, while they indicate a greater motivation to cooperate (Jassawalla and Sashittal 1998). Although there is some evidence regarding the role of trust for enhancing NPD performance (Dayan and Di Benedetto 2010; Dayan et al. 2009; Garcia et al. 2008), little attention has been given in the services literature concerning the role of trust during NSD. As mistrust has been considered one of the main causes for the poor results in NPD (Souder 1988; Gupta and Wilemon 1990; Song et al. 1996), the lack of empirical evidence lead us to call for more research regarding the role of trust for NSD performance (P6).

As innovation activity requires interactions among functions which hold different viewpoints, conflict is often unavoidable (Song et al. 2006; De Luca and Atuahene-Gima 2007). However, trust has been employed as a mechanism that reduces the level of conflict (Langfred 2004), as it is thought to enhance informal cooperation and social interaction (Dawes and Massey 2007) while improving members’ relationship effectiveness (Massey and Kyriazis 2007) and affiliative behaviors (McAllister 1995) during NPD. Moreover, trust suppresses the negative effect of relationship conflict during innovation activities (De Clercq et al. 2009), while both cognition- and affect-based trust decrease dysfunctional conflict (Massey and Dawes 2007). As few studies examine the role of interfunctional conflict during innovation (De Clercq et al. 2009), we hope this research will motivate scholars to further explore the role of intra-organizational conflict for project relationship effectiveness during NSD (P7).

Interfunctional Conflict and NSD

Conflict is defined as “the perceived incompatibilities or disagreements among exchange partners” (Song et al. 2006). Extant literature on innovation highlights the importance of dealing with different opinions across different functions in conditions of high uncertainty and interdependence such as NSD activities (Gobeli et al. 1998). The importance of interfunctional conflict for innovation performance has repeatedly been emphasized in the NPD literature (Song and Dyer 2006; Xie et al. 1998), as several researchers examine conflict either in an intragroup or in an interfunctional level (De Luca and Atuahene-Gima 2007; Li and Calantone 1998). Actually, disagreements and conflicts between employees from different functional areas about innovation-related issues are often unavoidable in order to achieve cross-functional integration (De Luca and Atuahene-Gima 2007; Li and Calantone 1998). Regarding services innovation, the impact of interfunctional conflict on employees’ relationship effectiveness during NSD projects has yet to be addressed (P8) (De Clercq et al. 2009), despite that the lack of empirical evidence for such an important area of concern is crucial in the sense that innovation activities require significant resources and influence organizational performance (Han et al. 1998).

RELATIONSHIP EFFECTIVENESS DURING NSD PROJECTS

As cross-functional teams have become a vital asset in order to enhance innovation performance (De Luka and Atuahene-Gima 2007; Froehle et al. 2000) and innovation projects demand continuous interaction between team members, scholars have recently investigated perceived relationship effectiveness as an antecedent of innovation performance (Pinto and Pinto 1990; Ruckert and Walker 1987; Dawes and Massey 2007). Although the outcome dimension in NSD performance has traditionally focused on task outcomes related to time, budget and performance (Pinto and Pinto 1990), a significant body of literature has linked conflict to psychosocial outcomes such as perceived relationship effectiveness (Pinto and Pinto 1990; Dawes and Massey 2007). Perceived relationship effectiveness is defined in terms of how “worthwhile, equitable, productive and satisfying a member perceives his working relationship with other team members from another functional area” (Rodriguez et al. 2007; Perks and Rihela 2004). Psychosocial outcomes generated from a project may influence the team members’ behaviors in future projects (Rodriguez et al. 2007), as innovation performance depends on the existing relationships among the functional areas in terms of cooperation and communication (Rodriguez et al. 2007) and the effectiveness of cross-functional relationships is strongly associated with successful NPD outcomes (e.g., Souder 1988). Thus, as project level relationships are crucial for NSD performance, we naturally propose that the role of perceived relationship effectiveness in enhancing NSD performance should be explored (P9).

DISCUSSION AND MANAGERIAL IMPLICATIONS

How can service organizations improve their innovative capability? To address this question more research is needed as, despite consistent calls for exploring drivers of service innovation (Droege et al. 2009; Oke 2007), very little effort has been put into exploring the drivers for the innovations realized in the internal environment of service firms. Overall, this study proposes some critical antecedents of NSD performance and proposes IMO as a mechanism which enhances NSD performance through
the mediation of behavioral constructs such as interfunctional trust and conflict. Consequently, as NSD success requires effective cross-functional integration (Perks and Riihela 2004), management can increase the level of trust and cross-functional integration, while also mitigate conflicts’ negative impact on innovation performance by implementing the IMO philosophy. By incorporating IMO in an innovation setting, we extend the potential benefits that service firms can attain through IMO implementation by recognizing its advantages for NSD performance, such as improving interfunctional relationships and managing conflicts more effectively. This study also extends the services marketing literature by displaying the role of internal contingency factors such as the level of intra-organizational trust and conflict during innovation performance and their potential effect on NSD efforts, as few previous studies investigate NSD project effectiveness from an internal perspective (Froehle et al. 2000). Furthermore, the importance of conflict management during NSD is displayed, as conflict’s negative outcomes can negatively influence innovation performance (Song et al. 2006). As current theory and understanding of the strategies and tactics for resolving conflicts during NSD is still inadequate (Droege et al. 2009), scholars should pay close attention to this void in order to provide mechanisms that uncover employees’ behaviors that influence interfunctional conflict. Overall, this study contributes toward providing an internal perspective of NSD project performance by unraveling the importance of behavioral antecedents of the NSD success.

Some practical implications can be drawn as well from this study. The main practical contribution of this study is the determination of specific interfunctional mechanisms and behaviors that should be taken into consideration during NSD, apart from financial external success criteria. One such mechanism is the implementation of IMO throughout a service firm, as apart from a better response to employees’ needs (Lings and Greenley 2010), it can enhance firm’s innovative capability by improving both interfunctional relationships and project members’ relationship quality. Consequently, we extend present knowledge for IMO by identifying its importance for employees’ cooperation between different hierarchical levels and not simply for front-line personnel. Furthermore, we explore the role of employees’ relationships and particularly the importance of conflicts for NSD performance. As resolving conflicts is an important driver of NSD success, managers concerned with having successfully developed services should employ IMO practices such as training and rewards in order to deal effectively with conflicts raised during NSD. Equally important remains the effective management of interfunctional forces, as it is accepted that they influence employees’ cooperation during innovation activities (Perks and Riihela 2004). IMO’s role is also pivotal as it can create an environment where interpersonal trust is fostered among employees’ and improve their relationships (Lings and Greenley 2010).

**FUTURE RESEARCH**

However, this study is not free of limitations. First, the model proposed can mainly be applied to services firms, as IMO’s importance for products has yet to be investigated. Second, most implications proposed should be examined in relation to external success criteria, as, i.e., resolving conflicts or creating trust is not important unless NSD effectiveness and efficiency is enhanced. Moreover, the importance of these issues may alter under different service contexts. Regarding this study’s research insights, we suggest that future work should investigate the role of intra-organizational relationships for NSD project effectiveness and efficiency by investigating the degree to which resource allocation during NSD projects is influenced by intra-organizational relationships. Moreover, different perceptions across organizational levels should be explored, as managers’ and employee’s perceptions may be significantly differed due to their role in the NSD process.

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ANTECEDENTS AND CONSEQUENCES OF JOB SATISFACTION AND ORGANIZATIONAL COMMITMENT IN NON-PROFIT CHARITY ORGANIZATIONS: ROLE OF INTERNAL MARKETING

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SUMMARY

Market orientation with its focus on final customers has attracted a lot of research attention in the last few decades. Internal market orientation (IMO) with its focus on employees as internal customers, however, has received relatively less research attention in the service marketing literature. This study examines the IMO as the antecedent of employee satisfaction and organizational commitment as the intervening variables and employee job performance as the consequence in charity organizations in China.

Literature Background

Although current research has made significant contributions to the IMO literature, most studies to date have used private and for-profit organizations as the central focus of their investigations. Charity organizations which engage in delivering various important social and community services such as blood donation, disaster reliefs, et al. have been relatively ignored in this stream of research. Furthermore, even though the importance of establishing symmetry between internal market-orientation and external (customer driven) – market orientation leading to successful organizational performance has been pinpointed in the literature, no study to our knowledge has empirically examined such symmetry. This study is designed to examine the integrated IMO model framework.

Conceptually, job satisfaction has been postulated to be an important consequence of internal marketing (Sasser and Arbeit 1976; Berry 1987). When an organization views its employees as internal customers paying attention to their needs and seeks to improve job design, internal communications and compensation, it is reasonable to expect that the employees will become more satisfied. Conceptual models delineated by Ahmed and Rafig (2003) and Tansuhaj, Randell, and McCullough (1988) have identified job satisfaction and organizational commitment as two important outcomes of internal marketing. Lings (2004) concurred. Subsequently, the positive relationship between the level of IMO and job satisfaction has also been empirically validated (Gounaris 2006; 2008a). The following hypothesis is proposed:

H1: There is a positive relationship between IMO and job satisfaction.

Kohli and Jaworski (1990) in their original proposed MO model incorporated employee responses including team spirit, job satisfaction and organizational commitment as consequences of MO implementation within a firm. Subsequent tests confirmed these relationships (Jaworski and Kohli 1993). Evidently, a higher level of MO can enhance organizational commitment and instill a team spirit as well as a sense of pride causing employees to strive toward a common external customer oriented goals. Both Ruekert (1992) and Siguaw, Brown, and Robert (1994) confirmed such relationship.

Based on the fact that IMO is more internally market-focused than MO, one will expect that the relationship between IMO and organizational commitment to be more direct and intense. The following hypothesis is proposed:

H2: There is a positive relationship between IMO and organizational commitment.

Studies designed to examine the relationship between job satisfaction and organizational commitment have been reported in the literature. Deshpande (1996) found that a higher level of job satisfaction resulted in a higher level of organizational commitment. Clive and Richard (1996) studied a group of private and public enterprise employees and found a positive relationship between job satisfaction and organizational commitment. Kontoghiorghes and Bryant (2004) found by studying a group of health care insurance industry workers that job satisfaction was one of the most important contributors to organizational commitment. Similar findings of a positive relationship have also been reported (Bateman and Strasser 1984; Mowday, Porter, and Steers 1982). Furthermore, the results appear to be rather robust across three different industries: banking, service and manufacturing (Chang and Lee 2006). The following hypothesis is proposed:
H3: There is a positive relationship between job satisfaction and organizational commitment.

Although there are continuing debates about the relationship between job satisfaction and job performance, there is some evidence to suggest that the two can be positively related (Jaworski and Kohli 1991; Black and Gregersen 1997). Hartline and Ferrell (1996) reported a positive relationship between employee satisfaction and perceived customer service performance.

Similarly, the results obtained in studying the relationship between organizational commitment and job performance have been equivocal. Some reported that the relationship was non-existent (Becker, Billings, Eveleth, and Gilbert 1996; Mathieu and Zajac 1990; Mowday, Porter, and Steers 1982). However, sufficient evidence exists in recent research to point in the direction of a positive relationship between job satisfaction and performance as well as organizational commitment and job performance (Ashforth and Saks 1996; Benkoff 1997; Van Scotter 2000). Different dimensions of organizational commitment have been identified by Meyer and Allen (1991) pointing to the possibility of differential impacts of organizational commitment on job performance. Based on the above discussions, we propose the following two hypotheses:

H4: Job satisfaction is positively related to job performance.
H5: Organizational commitment is positively related to job performance.

Method and Results

Structural equation modeling approach was used in the research design linking IMO to job performance via employee job satisfaction and organizational commitment.

The results show positive relationships between the antecedents and consequences of both intervening variables. Managerial implications for charity organizations are discussed. Limitations and suggestions for further research are presented.

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IN SEARCH OF THE GIFT OF FEEDBACK: THE MODERATING ROLE OF TRUST ON RETAILER-CUSTOMER COMMUNICATION

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ABSTRACT

The common practitioners’ adage is that feedback is a gift. Indeed, feedback allows companies to gauge their performance, understand their customers, and to improve products and services. Yet, many consumers don’t complain, they simply exit the relationship. A key question then becomes – how can consumers be put in the “giving spirit” all year long? Based on communication theory the authors tested the relationship between communication quality and feedback. Furthermore, as trust is the foundation of good relationships, a moderating effect is investigated. Consistent with predictions, for customers having stronger trust in the retailer, communication quality positively affected feedback provided.

INTRODUCTION

The common adage in business circles is that feedback is a gift – but is it? Situating feedback within consumer complaint/compliment behavior (CCB) research. Hirschman (1970) outlines two reactions to customer dissatisfaction; stop buying (exit) or complain (voice). Singh (1990) expands the types of voice to include: public complaints (made directly to sellers), private complaints (negative word-of-mouth to friends and family and exiting), and third party complaints (to the Better Business Bureau, legal counsel, and professional organizations), where feedback then falls into the category of public complaints.

Of note is that the categories are not mutually exclusive, as negative word of mouth (WOM) often supplements public complaining (Halstead 2002; Kolodinsky 1995). If negative WOM is occurring, it would seem that savvy businesses would prefer to also hear the feedback and have the opportunity to react. Research that suggests that growing consumer cynicism is reducing complaints to the seller but possibly increasing the informal WOM (e.g., Goodman 2006). As such, the quest to find ways to increase customer feedback becomes increasingly relevant, especially as it costs five times more to get a new customer than to retain a current one (Peters 1988), and ten times more to lure back dissatisfied customers (Massnick 1997). In a global context, companies looking to export their businesses must also educate consumers that complaining is a gift in order to gain valuable feedback from consumers (Heung and Lam 2003; Voss et al. 2004). Regardless of the context, global or local, the cost of not receiving feedback can be significant (Massnick 1997; Peters 1988). Managers should not boast that they hardly get any complaints. Organizations that do not solicit feedback are “effectively flying blind” (Morgan 2008, p. 309). Clearly there is a need for companies to educate customers about the benefits of complaining directly to them (Lau and Ng 2001) to help them improve unsatisfactory performance (Davidow and Dacin 1997).

Customer feedback goes beyond complaining or complimenting; it characterizes an engaged customer that takes active steps to improve the relationship by sharing thoughts and feelings, offering suggestions in addition to providing positive or negative comments. While not at the level of coproduction, feedback is an important part of the customer’s role in building a relationship based on mutually satisfying exchanges. Feedback, then, is the “gift” of the opportunity to know how firms can improve their performance, or know that they are satisfying customers (Soderlund 1998; Voss et al. 2004). Ongoing customer feedback allows firms to gauge customer perception (Sampson 1998), learn what the customers want and need (Voss et al. 2004), and discover what they know (Kumar and Bhagwat 2010). It can act as a benchmark for product/service improvement, provide feedback for improving quality (Voss et al. 2004) and assist in the development of new products/services (Opoku 2006). Especially in tough economic times, the implication is clear – feedback, including complaints “are diamonds – they should be held up to the light, studied, and, above all, treasured” (Scontrino 1997, p. 495). Missing out on feedback means lost opportunities to improve, retain customers, and gain market advantage.

As feedback certainly appears to be a gift, the question for researchers and practitioners then becomes how to encourage “gift” giving all year long? We turn to communication research for a model to consider.

Interpersonal Communication Theory

According to interpersonal communication research, “when a sender discloses more personal information, the receiver also tends to disclose information (Collins and Miller 1994; Taylor and Hinds 1985)” (as cited by Chou, Teng, and Lo 2009). Extending the concept to business to
consumer (B2C) communication, the company could act as the sender of information (i.e., via in-store signage, employees, etc.) as they interact with the customer, and the receiver (or customer) might then be willing to disclose more information back to the company. Based on this research, it would seem logical to test the relationship between communication quality (from the company, to the customer) and feedback (from the customer, back to the company).

Communication Quality

Communication quality relates to the accuracy and completeness of information received from relational partners and “has been found to be positively related to satisfaction (e.g., Mohr and Spekman 1994), coordination (Mohr, Fisher, and Nevin 1999), trust (e.g., Anderson and Narus 1990), commitment (e.g., Mohr et al. 1999), and coproduction (Auh, Bell, McLeod, and Shih 2007)” as cited by (Walz and Celuch 2010, p. 97).

In B2C, research has shown a link between communication quality and advocacy behavior (including word of mouth) (Walz and Celuch 2010), however to the best of the authors’ knowledge, there has been no research assessing the relationship between communication quality and feedback. As WOM provides firms with no actionable feedback on their performance, this paper contributes to the literature by examining the role that communication quality plays in driving feedback in the retailing context, to ensure that companies are not “flying blind.”

Mohr, Fisher, and Nevin (1999), in their B2B study, found that collaborative communication (which includes improved two-way communication) enhanced outcomes including dealer commitment and satisfaction. Soderlund (1998) in a B2C airline study shows a link between satisfaction and feedback. Linking the two together, there is support for the notion that customer feedback might also be driven by the retailer’s communication quality, in addition to the interpersonal communication literature.

In the B2C realm, Crosby, Evans, and Cowles (1990) point to the importance of the quality of the interaction between salespeople and customers in moderating trust and loyalty, however, no connection is made to feedback. Similarly, Guenzi, Johnson, and Castaldo (2009) found a relationship between trust in salespeople and overall store trust, thusly, increasing loyalty. Trust in salespeople and the quality of the interaction with salespeople is rooted in the salesperson’s communication and actions, as such it is no surprise that “communication is an important driver of customer trust (Bendapudi and Berry 1997; Doney and Cannon 1997; Morgan and Hunt 1994; Spreng et al. 1996). This is especially true when the company’s communication is perceived as credible, clear and complete” (Guenzi et al. 2009, p. 298).

Palmatier et al. (2006) in their meta-analysis of factors affecting relationship marketing effectiveness (feedback was not included as one of the customer-focused outcomes) found that “expertise and communication are the most effective relationship-building strategies across all elements of a relationship” (p. 149). In later work, Palmatier (2008) goes on to state that “communication appears to be the most universally positive antecedent in terms of strengthening initial levels of trust and commitment, as well as relating to positive growth rates in the future” (p. 62), therefore, it would follow that trust should come into the discussion.

Trust as a Moderator of Communication and Feedback

While trust itself has received significant research attention, research found on the relationship between trust and feedback was negligible. Chou, Teng, and Lo’s 2009 study showed that trust mediated the relationship between website disclosure and online user disclosure in a B2C context. This study supports the interpersonal communication literature as consumers trust companies that disclose more of their identities online, and reciprocate more willingly with their own personal information.

Dirks and Ferrin (2001) note Mayer et al.’s (1995) model where increased trust in a work relationship will positively affect chances of taking a risk with that partner, including sharing more information. Soderlund (1998) found that providing feedback is more difficult (higher barriers to transmission) than WOM. Thus, in a higher trust relationship, feedback may be more likely. Furthermore, Dirks and Ferrin (2001) found six of ten studies showing a direct relationship between trust and information sharing with partners, and found more consistent support in the literature for the moderating relationship of trust, where “trust influences the relationship between a partner’s action and an individual’s response to that action” (p. 460), although not within the B2C realm. As such, trust as a moderator in organizational relationships is supported in the literature. Relating this back to interpersonal communication theory, it is hypothesized that:

H1: The relationship between retailer communication and customer feedback will be moderated by trust. Under conditions of high trust, we expect that communication quality will be positively related to customer feedback, whereas under conditions of low trust, we do not expect communication quality to significantly influence feedback.

METHOD

The customers of a large regional coffee house were surveyed at five of their locations, to study aspects of customer-retailer relations. This study employs a cross-
sectional, single retailer approach that provides control over contextual effects (cf., Garbarino and Johnson 1999; Jap and Ganesan 2000; Liu 2007). Even though the relationships are constrained to a single retailer, an acceptable amount of variance can be expected given that the retailer has multiple retail locations where customer experiences could differ.

Given the market’s fascination toward many known national retailers such as Starbucks and new entrants in the market such as McDonald’s, the coffee market is one of interest. A large regional coffee retailer was chosen as a specific context for studying relationships for the following reasons: it has been in business for 90-plus years (showing potential for strong customer relationships); the offering includes both a strong product and service component; customer interactions with the retailer vary greatly in frequency and duration; and the coffee house in question holds substantial market share in its geographical area, yet it has more than three major competitors (to account for choice alternatives).

Measures

The questionnaire included measures of respondent perceptions related to the communication quality of the retailer, their trust in the retailer, their feedback behavior, and demographic descriptors. Table 1 includes a complete description of construct items.

Perceived communication quality of the retailer. Communication quality broadly assessed the customer’s perception of the quality of communication received from the coffee house (Mohr and Spekman 1994). The construct was made up of two, five-point items, rated from strongly disagree to strongly agree, relating to the accuracy and completeness of information received from the coffee house. Communication quality was included as a construct because of its pivotal role in relationship creation and evolution (e.g., Palmatier 2008).

Trust in the Retailer. Two aspects of retailer trustworthiness were captured from respondents and combined to form the trust construct. Benevolence was appraised with two, five-point items assessing respondents’ belief that the coffee house acts in the best interest of the customer and values the relationship (Ganesan 1994; Kumar, Scheer, and Steenkamp 1995). Integrity was measured with two, five-point items assessing respondents’ belief that the coffee house can be characterized as an organization that upholds ethical standards (e.g., “keeps its promises”) (Verhoef, Franses, and Hoekstra 2002).

Customer Feedback Behavior. This construct assessed the extent of feedback provided to the retailer by the customer. Three, five-point items, scaled from “not at all” to “extremely well,” measured customers’ agreement with statements regarding their willingness to provide feedback, suggestions, and share their thoughts and feelings, to/with the coffee retailer about their products and services. These were adapted from the B2B literature (Holden and O’Toole 2004; Mohr, Fisher, and Nevin 1996).

Sample and Procedure

Purposive sampling was used to assure variability across retailer-customer relationships and that the sample size was large enough to detect the effect of moderation. Store intercept surveys were conducted in five stores over a four-week period; customers of the coffee house were sampled to reach those at “active stages” of the relationship ranging from trial to loyalty. In addition, members of a community organization were also surveyed to expand the representativeness of consumers that held varying levels of relationships with the coffee house (through an email linked to an online survey).

Both paper and online versions of the questionnaire were distributed, and all respondents were informed of the purpose of the study and that their responses would be anonymous. This procedure resulted in a total of 661 usable surveys for individuals identified as customers. The average age of the respondents was 32 (with a range of 18–76). Fifty-eight percent of the respondents were female. Thirty-five per cent of respondents had some college, and 34 percent held a bachelor’s degree. Managers/professionals and full-time students accounted for 34 percent and 42 percent of respondents, respectively. A majority of the sample (52%) had been a customer of the coffee house between one and five years. The average number of visits per month to the coffee house for a respondent was nine.

RESULTS

The purpose of this study was to test for moderation, that is, whether the effect of perceived quality of retailer communication on customer feedback behavior varies across levels of trust in the retailer. As a precursor to analyses, confirmatory factor analysis was used to assess the convergent validity of measures and also check for cross-loadings, before testing hypotheses. Hair et al. (2006) suggest item loadings larger than .50 and ideally over .70. With respect to the measurement models, observed indicators were all statistically significant (p <.05) for their corresponding factors.

Fit statistics of the measurement model (c $^2 (24) = 101.87, p = .000, GFI = .97, AGFI = .94, RMSEA = .07, CFI = .97) suggest that the observed indicators are representative of constructs. Table 1 presents items and loadings for the measures used in this study.
A series of pair-wise confirmatory factor analyses was conducted to assess the discriminant validity of the measures. For each pair of measures, the chi-square was significantly smaller for the model representing two separate constructs in comparison to the alternative model uniting the constructs as one. Therefore, trying to force measures of different constructs into a single underlying factor led to a significant deterioration of model fit in comparison to the two-factor model (Gerbing and Anderson 1988).

Summated scores of the multi-item scales were used to address the research hypotheses. Descriptive Statistics and Correlations for the three constructs: Perceived Communication Quality of the Retailer (CQ), Trust in the Retailer (trust), and Customer Feedback Behavior (feedback) are presented in Table 2, including the mean (average scores) and standard deviation (variability) and chi squares (to determine if correlations are significant). Reliability is presented on the diagonal. The Cronbach’s alpha greater than .70 for the constructs supports that the overall construct measures are reliable (Hair et al. 2006).

Hierarchical regression analysis, involving a three-step process increasing in complexity, was used as a means of testing the hypothesized moderating relationships (Cohen and Cohen 1983). In the first step, communication quality was entered as a predictor of feedback. Results of the hierarchical regression analyses are presented in Table 3. In the first step model, communication quality explained 7 percent of the variability in customer feedback. In the second step, communication quality and trust were entered as predictors of feedback. These variables significantly increased the explained variance to 16%. As a precaution, the variance inflation factor (VIF) was examined to assess the effects of collinearity among the independent variables. The observed VIF was 1.6 indicating that the impact of collinearity was relatively small.

In the third step, to test the moderating effect of trust, the interaction term (communication quality x trust) was added to the second step model to see if the interaction explained a significant additional amount of variance in feedback. Given that the interaction term will correlate with the variables from which it was created, past convention advocated mean centering to address this issue (e.g., Aiken and West 1991). However, we did not employ this option as recent evidence suggests that there is no advantage to mean centering in terms of addressing collinearity issues or stability of estimates (Echambadi and Hess 2007). In this step, predictions are supported by the data given that the interaction term significantly explained an additional amount of variance in feedback ($R^2$ change =

### TABLE 1
Results of Confirmatory Factor Analysis

<table>
<thead>
<tr>
<th>Constructs and Items</th>
<th>Coefficient Standardized</th>
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<tbody>
<tr>
<td><strong>Communication Quality</strong> <em>(scaled: strongly disagree/strongly agree)</em></td>
<td></td>
</tr>
<tr>
<td>My perception of ________ is that it . . .</td>
<td></td>
</tr>
<tr>
<td>Provides accurate information about its products and services.</td>
<td>.80</td>
</tr>
<tr>
<td>Gives complete information about its products and services.</td>
<td>.81</td>
</tr>
<tr>
<td><strong>Trust</strong> <em>(scaled: strongly disagree/strongly agree)</em></td>
<td></td>
</tr>
<tr>
<td>My perception of ________ is that it . . .</td>
<td></td>
</tr>
<tr>
<td>Has customers’ best interest at heart.</td>
<td>.72</td>
</tr>
<tr>
<td>Goes out of its way for customers.</td>
<td>.76</td>
</tr>
<tr>
<td>Won’t take advantage of its customers.</td>
<td>.84</td>
</tr>
<tr>
<td>Keeps its promises.</td>
<td>.82</td>
</tr>
<tr>
<td><strong>Feedback</strong> <em>(scaled: not at all/extremely well)</em></td>
<td></td>
</tr>
<tr>
<td>How well do these statements describe what you actually do?</td>
<td></td>
</tr>
<tr>
<td>Provide a lot of feedback (positive or negative) to ________ about its products and services.</td>
<td>.79</td>
</tr>
<tr>
<td>Share your thoughts and feelings about ________ products and services with the organization or its employees.</td>
<td>.72</td>
</tr>
<tr>
<td>Take the time to provide helpful suggestions to ________ .</td>
<td>.81</td>
</tr>
</tbody>
</table>

Note: All standardized coefficients are significant at $p < .05$. 

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.02, significant at \( p < .01 \) level) after controlling for the
direct effects of communication quality and trust. Such
effects are consistent with common ranges (\( R^2 \) changes
.02–.03) reported for moderator effects in non-experi-
mental studies (Champoux and Peters 1987). Results
support the predictions of moderation, that is, that the
effect of communication quality on feedback varies across
levels of trust.

As recommended by Cohen and Cohen (1983) and
others (Stone and Hollenbeck 1984; Aiken and West
1991), to identify the nature of the interaction, whether the
effect is positive or negative, a graphical representation of
the slopes was plotted for individuals one standard devia-
tion above the mean (Group Mean = 4.9) and one standard
deviation below the mean (Group Mean = 2.8) for trust in
retailer.

Figure 1 displays the interaction effect on feedback.
The impact of increasing quality of retailer communi-
cation on customer feedback was positive and marginally
significant under conditions of higher trust in retailer (F =
2.98 (1, 115), \( p < .07 \)). In contrast, the impact of increasing
quality of retailer communication on customer feedback
was slightly negative albeit nonsignificant under condi-
tions of lower trust in retailer (F = .70 (1, 98), \( p < .40 \)).

In summary, consistent with predictions, trust in the
retailer was found to interact with communication quality
of the retailer to moderate the relationship between commu-
nication quality and customer feedback behavior. Specifi-
cally, for customers having stronger trust in the retailer,
communication quality positively affected their feed-
back. In contrast, for customers having weaker trust in the
retailer, communication quality was slightly negatively

<table>
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<th>TABLE 2</th>
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<tr>
<td><strong>Descriptive Statistics and Correlations for Perceived Communication Quality of Retailer, Trust in Retailer, and Customer Feedback Behavior</strong></td>
</tr>
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<tr>
<th>Mean</th>
<th>Standard Deviation</th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
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<tr>
<td>X1 Communication Quality</td>
<td>3.95</td>
<td>.68</td>
<td>.78</td>
<td></td>
</tr>
<tr>
<td>X2 Trust</td>
<td>3.86</td>
<td>.69</td>
<td>.61**</td>
<td>.86</td>
</tr>
<tr>
<td>X3 Feedback</td>
<td>2.37</td>
<td>1.02</td>
<td>.27**</td>
<td>.40**</td>
</tr>
</tbody>
</table>

** Correlation is significant at \( p < .01 \).
Reliabilities are shown on the diagonal.

<table>
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<th>TABLE 3</th>
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<td><strong>Hierarchical Regression Analyses Testing the Moderating Effect of Trust in Retailer on Perceived Communication Quality of Retailer and Customer Feedback Behavior</strong></td>
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<td>Feedback = (.27**) Comm. Quality</td>
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<td>50.97**</td>
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<td></td>
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<td>Feedback = (.04) Comm. Quality + (.38**) Trust</td>
<td>.16</td>
<td>.09</td>
<td>63.42**</td>
<td>70.49**</td>
</tr>
<tr>
<td>Feedback = (-.46**) Comm. Quality + (-.15) Trust + (.93**) Comm. Quality X Trust</td>
<td>.18</td>
<td>.02</td>
<td>46.73**</td>
<td>11.36**</td>
</tr>
</tbody>
</table>

Note: Standardized coefficients appear in parentheses.
* \( p < .05 \); ** \( p < .01 \).
related to customer feedback (although the effect was nonsignificant).

**DISCUSSION**

Even though feedback is widely recognized as a “gift” by both practitioners and academics, little if any work exists on understanding how to make consumers more “generous.” This study merges B2C and B2B literature, to address how trust interacts with communication quality to impact feedback in a retail context. Results of the present research suggest that it is the combined influence of retailer communication quality and trust that is important in understanding how to increase customer feedback.

Academically, these findings are of interest because, to the authors’ knowledge, this study is the first time these constructs have been examined in an integrated approach. This research builds off interpersonal communication theory and B2B relationship research, contributing to a deeper understanding of relational dynamics in the B2C context. Also the authors pick up a thread from Walz and Celuch (2010), where they ask if low trust helps explain why the majority of dissatisfied customers do not complain directly to retailers.

For practitioners, this study reinforces the adage that feedback is a gift, and by extension that missing out on feedback might translate into lost opportunities to understand customers, retain customers, improve or innovate products, services, and processes, and potentially gain market advantage. For customers that have stronger trust in the retailer, communication quality can positively affect the amount of feedback that they provide. Practitioners can now turn their attention to improving communication quality while establishing trust to keep their customers “in a giving spirit” – willing to provide the organization with valuable feedback. It is not sufficient to simply increase communication quality, as interpersonal theory might suggest. This possibility highlights the importance of retailers attempting to establish trust early in relationships and actively maintaining trust in ongoing relationships (e.g., Selnes 1998; Whitener et al. 1998). Under conditions of low trust, resources put toward increasing communication quality are all for not. If you don’t have trust, it is a moot point.

Future research could look to incorporate indirect feedback such as tipping (Sampson 1998) into the construct, and the dimension of time could be added to determine what could be learned from ascertaining if there was a time lag to complaints or compliments, through follow up letters (Voss et al. 2004), or emails. Another opportunity would be to separate out the valence of feedback (compliments from complaints) consistently in the measures, even considering two separate constructs, as done in B2B work by Holden and O’Toole (2004). Future work could also seek out the tier or profitability of customers and run the analysis based on the more profitable group, as such improvements by management would not be focused on the low-profit or unprofitable customer groups. Similarly, some customer segments may have higher desire for relationships (Palmatier 2008) and thus expenditures could be focused on those segments. Alternatively, researchers could test whether these relation-
ships hold or differ when feedback activities are company-initiated (where counter staff asks for feedback, etc.).

In conclusion, while the B2C context continues to lag behind the B2B in understanding aspects of successful relationships, the present study points to communication quality and trust playing important roles in the feedback process. The authors’ intent is to inspire new directions in B2C research toward developing high quality retailer-customer relationships.

REFERENCES


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CONCEPTUALIZING THE IMPACT OF TRUST ON VALUE CO-CREATION IN BUYER-SERVICE PROVIDER RELATIONSHIPS

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SUMMARY

Although the concepts of trust and value co-creation in buyer-seller relationships are prominent issues on the academic research agenda, our knowledge of how they are linked and influence each other is still very limited. Trust is a multidimensional phenomenon that constitutes a crucial component in most types of human relationships (Das and Teng 2001; Massey and Dawes 2007). On the interpersonal level, it arises in situations marked by considerable risk and interdependence, as the perception of the counterpart’s ability, benevolence and integrity mitigates the state of vulnerability and uncertainty inherent to business relationships in service industries (Mayer, Davis, and Schoorman 1995). However, the concept of trust itself remains elusive and blurred, and requires further clarification (Nooteboom 2007; Rousseau et al. 1998).

Nevertheless, trust is commonly acknowledged to be a key element of any customer relationship (Berry 1995; Grönroos 2004), which consists of a chain of individual transactions. These have to be considered, however, in their relational context, as customers rather assess the overall relationship to a salesperson than separate transactions (Harker and Egan 2006; Ravald and Grönroos 1996). We conceptualize this interrelation of individual exchange episodes and the overall relationship by adopting Holmlund’s (1996) model of different interaction levels in relationships. Differentiating between acts, episodes, and sequences in the overarching relationship not only enables analyzing the development of trust occurring within it. It also highlights the significance of interaction between salesperson and customer, as personal contact between these actors is vital (Pressey and Mathews 2000). Not only are interpersonal relationships more intense and last longer than individual-to-firm connections, they are also more easily formed and stronger (Lian and Laing 2007; Palmatier et al. 2007).

The personal interaction between customer and salesperson is furthermore key for another dynamic process taking place within business relationships: the co-creation of value. Holbrook (2006, p. 212) characterizes customer value as an “interactive relativistic preference experience” as it is contingent on a relationship between a customer and an offering. Since customers appraise the value of a service in comparison to another, it is comparative as well as personal and context-dependent. Therefore, value implies a preference judgment and is not embedded in an offering per se, but arises from the customer’s interactive consumption experience (Holbrook 2006).

The co-creation of value, in turn, “clouds who is seller and who is customer, because each is involved in creating value for the other” (Woodruff and Flint 2002, p. 187). However, while customers are not only co-creators but ultimately the arbiters of value (Grönroos 2004; Vargo and Lusch 2006), service providers – represented by the salesperson – can only impact on customers’ value fulfillment by seeking direct interaction with them. To do so, the salesperson has to identify what actually is valuable to buyers (their value systems) and participate in their value-generating process or value chain. Thus, the customer’s processes – instead of the service offered – become the focus of a relational strategy, and the service provider’s skills, resources and internal practices are adapted accordingly. Without any form of interaction, however, value co-creation is impossible (Grönroos 2004; Grönroos and Ravald 2009). This means that co-creation is contingent on buyer-seller interaction as the “locus of value creation” (Prahalad and Ramaswamy 2004, p. 10).

Therefore, since the purpose of interaction and business relationships is the co-creation of value (Vargo 2009) and trust constitutes a key antecedent for the development of favorable buyer-seller relationships in service industries (Berry 1995; Dwyer, Schurr, and Oh 1987; Morgan and Hunt 1994), the two concepts are presumably strongly linked. The intertwined dynamic processes of service production and consumption are essential for the customer’s perception of the overall service and their relationship to the salesperson (Grönroos 1990; Gummesson 1998). This complex interplay entails considerable interdependence for both actors, and interaction can be personal and intense (Gummesson 1998; Sheth and Parvatiyar 1995). Furthermore, the complex interplay within the relationship to co-create value generates a high degree of risk and vulnerability. We assume, therefore, that trust between the customer and salesperson is necessary for the co-creation of value as it provides an “internally guaranteed certainty” (Luhmann 1979: 93) that the other party will not behave opportunistically. Nevertheless, to our knowledge this potentially signifi-
cant interrelation has not been conceptualized yet. In this regard, this work has a number of key contributions to make. We conceptualize the development of trust and its impact on interaction and value co-creation in interpersonal customer-salesperson relationships in service industries. Our propositions are intended to guide and facilitate future empirical research into these issues. In doing so, we provide conceptual clarification of three highly important concepts in marketing research – trust, customer value and its co-creation – and suggest initial insight into how these might be intertwined, thereby contributing to our understanding of the multifaceted human behavior and interaction in interpersonal business relationships. References are available upon request.

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THE THIN LINE BETWEEN LOVE AND HATE OF ATTENTION

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SUMMARY

The level of attention that a customer receives in a retail setting is important and is critical to the salesperson’s and the store’s ability to establish customer relationships (Gremler and Gwinner 2008). However, attention is a double-edged sword; it can negatively affect relationships if it is unwanted or unneeded. An overly attentive salesperson can feed customer’s skepticism about the salesperson’s motive (Campbell and Kirmani 2000), which results in a negative evaluation of the store (D’Astous 2000). Previous literature has indicated that customers like an attentive salesperson and being ignored by the salesperson can lead to a negative experience (Bitner, Booms, and Tetreault 1990). In spite of attention’s recurrence in the literature, little is known about particular dimensions of attention that lead customers to respond positively or negatively toward a retailer. We predict that a customer’s satisfaction and dissatisfaction with a salesperson’s attention is more complicated than the literature has portrayed. Given that there is little knowledge on how to anticipate and respond to customer’s varying needs for attention, this study investigates the internal and external cues that affect customers need for attention.

Attention is the initiation of communication through verbal or nonverbal cues, in order to establish rapport with a customer. Rapport is the customer’s perception about the relationship that they have with the salesperson (DeWitt and Brady 2003). Attention is critical in the establishment of rapport between a customer and a salesperson (Gremler and Gwinner 2008).

Initiating contact is a tricky proposition in rapport. The rapport management literature states that a salesperson’s behavior can be seen as either tending or threatening to the customer (Campbell, Davis, and Skinner 2006). Tending includes acts that reinforce a customer’s sense of autonomy and need for association (Clark, Drew, and Pinch 2003). Acts that threaten a customer’s sense of autonomy and need for association are considered to be threatening (Brown and Levinson 1987). Overly attentive salespeople can be seen as threatening a customer’s ability to make decisions concerning products or services (autonomy) and the customers’ right to associate with whom they choose (associations). Conversely, complements or actions which reinforce feelings of autonomy or association are perceived as tending to the customer (Clark, Drew, and Pinch 2003). In the literature, initiating contact has been seen as threatening autonomy. When initial contact becomes too threatening, sales representatives will have a difficult time establishing rapport (Jap 2001). The optimal level of attention should be those set of behaviors that minimize the number of threatening behaviors.

Using in-depth interviews, data was collected from 17 respondents who related incidents involving the level of attention attained from sales associates in sixty-eight distinct attentive incidents. A number of criteria were identified that lead to the consumer’s motivation for attention seeking (e.g., product category, knowledge, store factor, purchase size, self-assurance, time, and group shopping) and the perceived level of attention received from a sales associate (e.g., initial contact, availability, approach, and recognition). A match/mismatch taxonomy was created to display the four scenarios in which a customer’s desires are matched or not matched by the sales associates: customer dating, customer longing, customer stalking, and customer autonomy. Customer dating refers to a situation in which customers desire attention from a salesperson and the salesperson provides the appropriate level of attention to the customer. Customer autonomy occurs when customers do not desire attention and do not receive attention from salespeople. Customer longing occurs when a customer’s desire for attention exceeds the level of attention that the salesperson provides. Customer stalking takes place when the salesperson provides too much attention to the customer.

This research adds to existing literature on attention by classifying the match/mismatch model of attention. Previous research has found that low pressure and quickness of the sales associates leads to repeat purchase intentions (Paul et.al. 2009). In a similar vein, the results of this study show that customer dating and customer autonomy leads to repeat purchase intentions. Customer dating is similar to past findings; in that, this match is highly connected to the responsiveness (quickness) of the sales associate (Paul et al. 2009). Customer autonomy is related to a low pressure scenario, given that the customer wants to shop alone and not be bombarded with questions by the sales associates.
What is most critical is the mismatch between the level of attention the customer desires and the level of attention given by the sales associate. Customers are very time sensitive (Robinson 1990), they want to have sales associates available when they need them. When sales associates cannot be found, this can lead to the customer switching service providers (Keaveney 1995) and negative word-of-mouth. Past research has neglected to establish that customers who do not receive adequate attention will still remain with some service providers because of the lack of attractive alternatives. This is an important finding that reveals that product lines can strength the attractiveness of a business more than desirable service. Past research has generally focused on a lack of attention from sales associates as a negative aspect of the relationship between the customer and the salesperson (Keaveney 1995). Customer stalking builds onto this body of literature by discussing the consequences of giving the customer undesired attention. Interestingly, customer stalking can be done by more than one sales associate during a visit. These stalking behaviors lead to a number of unfavorable consequences for the service provider which past research has neglected to discuss. References are available on request.

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A TANGLED WEB: VIEWS OF DECEPTION FROM THE CUSTOMER’S PERSPECTIVE

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SUMMARY

Deception is relatively commonplace among interactions between consumers and businesses. For instance, salespeople may use closed influence tactics, which can be described as deceptive and characterized by hidden objectives, in order to make a favorable impression upon a customer (Brown 1990). The vast majority of research posits that all deception will have a negative impact on the relationship, whereas the authors suggest that although deception will not have a positive impact on the relationship, it may not necessarily be detrimental. There is also disagreement among previous researchers regarding whether intent is a necessary component of deception. This research will determine whether consumers share this view.

Previous literature has focused heavily on deception as it pertains to advertising and, in the psychology literature, how it relates to personal relationships. Throughout the past research, a spotlight has been placed on deception from the company’s perspective, leaving the customer’s perspective in the shadows. In addition, there has been much disagreement regarding whether intent is a necessary component of deception. The purpose of this research is to explore deception from the customer’s perspective through (a) examining the factors that customers consider when the deception occurs, (b) understanding how deception affects the relationship between the customer and the company/salesperson, and (c) determining whether intent is a necessary component of deception.

The authors used a qualitative approach to gather data. In-depth interviews were conducted, transcribed, and coded. All transcripts were analyzed by two researchers individually, after which any discrepancies were discussed jointly and a consensus was reached. The analysis of the transcripts involved an iterative reading strategy. Following the procedure used by Strauss and Corbin (1990), three stages of coding were used—open, axial, and selective coding.

Through the qualitative in-depth interviews, the authors discovered two main themes of deception, cognition and attribution, in addition to several subcategories of each theme. Cognition themes describe the intellectual processing of the deception. Three subcategories related to cognition emerged: unrealistic perception, unrealistic expectations, and insufficient knowledge. Attribution themes refer to causal inferences made by consumers and the consequences that arise from these inferences. The three subcategories that emerged from the interviews include intent, controllability, and responsibility.

Furthermore, several moderators were uncovered that impact the relationship between the perceived deception and the outcome of the deception. The four moderators have been termed dependence, experience, involvement, and magnitude.

Through this research, the authors show that intent is not a necessary component of deception from the customer’s perspective. Furthermore, the authors show that deception, as defined by marketers, is not always equivalent to what customers perceive as deception. This research demonstrates that deception is not always detrimental to the relationship and can be managed.

This research provides a more comprehensive definition of deception, whereas previous research has looked at deception from a more outcome-based perspective. The previous definitions have included the concepts of perception, expectations, knowledge, and intent, but not in a collective manner. This research integrates these four existing concepts with the addition of controllability and responsibility. These six dimensions provide a more enriched view of deception from a consumer’s perspective. In addition, the moderators that were uncovered allow for better understanding of how consumers react when a deception occurs. It is important to understand that these moderators show that based on customer perspective, not all deception necessarily leads to a negative outcome.

Key words: deception, intent, cognitive dissonance, attribution, perception, expectations, controllability, responsibility, dependence, involvement.

References are available upon request.
SUMMARY

The aim of this study is to provide an insight into managing the employee-customer relationship for service advantage. Data was collected using a questionnaire on dyads of employees and customers in a service industry. A total of 96 dyads participated in the study. The results show the absence of symmetry on the drivers of customer loyalty between employees and customers and suggest that what the employees do and how they evaluate their interaction with the customer has very limited explanatory power on actual customer loyalty. On the other hand, the evaluations of customers explain a significant proportion of the variance of customer loyalty. The results show the drivers of customer loyalty as seen by the customer and the employee are different in importance respects especially the importance of store competition which is a major moderator of various relationships in the customer findings. The findings have significant implications for academics and managers and are discussed in the appropriate sections of this paper.

The study makes the following contributions: first it highlights that using employees or other organizational personnel to answer questions on customer satisfaction or loyalty may be misplaced since their perceptions may not coincide with those of actual customers. The most direct way to understand customers is to get responses from them. Second, the use of dyads presented a unique opportunity to match responses of employees on a one-to-one basis with those of the customers allowing for comparison of the symmetry in the responses. Third this study extends understanding of the role of competition in the highly competitive market of personal care services. Competition is not only a predictor of customer loyalty but also a critical moderator of the relationship between customer service evaluation and customer loyalty. Finally, the study raises important questions as to how service employees could be managed in services where personal relationships with customers may be more important than other organizational investments. References are available upon request.

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ANTECEDENTS AND OUTCOMES OF COGNITIVE AND AFFECTIVE CUSTOMER TRUST: A MULTI-CHANNEL PERSPECTIVE

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SUMMARY

Trust is a central concept in relationship marketing theory, leading to positive relationship outcomes, such as commitment (Morgan and Hunt 1994) and loyalty (Sirdeshmukh, Singh, and Sabol 2002). However, it is often studied solely in relation to one main target of trust: the organization (e.g., Garbarino and Johnson 1999) or the salesperson (e.g., Guenzi and Georges 2010). However, given the complexity of the multiple encounters between the customer and an organization (Payne and Frow 2004), it is possible that customers develop trust into different “agents” of a company (Sirdeshmukh et al. 2002). There are very few studies that examine trust concomitantly in more than two targets (e.g., Doney and Cannon 1997; Sirdeshmukh et al. 2002; Dimitriadis and Kyrezis 2008), but these studies suggest that customer trust develops during three types of service encounters: face-to-face interaction with service representatives and remote contact with self-service channels (e.g., online) and marketing communications channels (e.g., advertising, direct marketing, marketing literature).

Furthermore, trust is often portrayed as a process that develops gradually and is shaped by the customer’s own personality, assessment of the service encounter and accumulated experience (Swan and Nolan 1985). The literature highlights two key stages that contribute to the creation of trust, notably a managerial stage that involves the planning and policy aspects of trust-building operations (e.g., Sirdeshmukh et al. 2002), and an experience-based stage that forms from the previous interactions (e.g., Johnson and Grayson 2005). Hence, our study encompasses three disparate elements into an integrative framework and evaluates their relative importance empirically by examining the antecedents of overall trust (evaluations of previous customer experience, management policies and service encounters) and the outcome of customer loyalty.

We propose a multidimensional view of customer trust, by analyzing cognitive and affective dimensions of trust, as trust manifests when people make an emotional involvement in another person (Lewis and Weigert 1985) and requires a “move from reliance on rational cognitions to reliance on emotion and sentiment” (Elliott and Yannopoulou 2007, p. 991). However, only a few articles make the distinction between the affective and cognitive dimensions of this focal construct (e.g., Swan et al. 1999; Johnson and Grayson 2005; Massey and Dawes 2007).

We obtained 654 full responses from US consumers who currently own at least one annual insurance policy (average length of eight years) using stratified random sampling nationally representative of the U.S. population. Insurance providers usually have long-term relationships with customers and multiple interactions with the three targets of trust specified in our research framework. The measures for each construct were based upon scales validated by previous studies, except the management policies construct, for which we devised a new scale derived from qualitative interviews with twenty marketing directors from the financial services industry.

The confirmatory factor analysis done in AMOS 18.0 with maximum likelihood estimation resulted in model fit indices within their common benchmarks (\( \lambda^2 = 914.5, \text{df} = 328, p < 0.001, \lambda^2/\text{df} = 2.79, \text{CFI} = .972, \text{TLI} = .952, \text{RMSEA} = .052 \)), suggesting a good fit to the data. All items had standardized loadings above 0.7, the reliability estimate for each scale was above 0.9 and the average variance extracted (AVE) for each construct was above 0.7, supporting convergent validity. Testing the structural model involved freeing the paths in accordance with the eighteen individual hypotheses. All the paths were significant at \( p < = 0.05 \), thus all hypotheses were supported. While the chi-square statistic was significant, the other fit statistics indicated a good model fit (\( \lambda^2 = 1410.44, \text{df} = 442, \lambda^2/\text{df} = 3.19, \text{CFI} = .965, \text{TLI} = .961, \text{RMSEA} = .058 \)).

Our results indicate that both management policies and satisfaction with previous experience are antecedents to trust, directly influencing cognitive and affective trust and also acting indirectly, through building consumer trust in front line employees, self-service channels and marketing communications. This indirect influence is stronger than the direct influence, suggesting that organizations need to place their efforts more in building trust in the interaction channels in order to increase their customers’ trust. Analysis of the impact across the three interaction channels showed that although all three were significant, front line employee interaction was substantially more important than marketing communications or self-service channels. Cognitive trust is formed mainly by trust in the front line employees, management policies and practices and satisfaction with previous experience, with
only a weak influence coming from trust in self-service channels and marketing communications. Affective trust is mainly driven by trust in the front line employees, management policies and practices, marketing communications and satisfaction with previous experience. Finally, our results reveal that customer loyalty is influenced by both cognitive and affective trust and satisfaction with past experience. Affective trust emerges as having the strongest influence, while cognitive trust has the weakest influence among the three.

Our contribution is three-fold: (a) we bring support to the dimensional nature of customer trust, by identifying the different antecedents of cognitive and affective trust; (b) we show the pervasive influence that management policies have on both cognitive and affective trust, thus providing actionable insights for service providers to increase their customers’ trust; and (c) we identify three types of interaction channels that have a significant impact on building cognitive and affective trust (front line employees, self-service channels and marketing communications) thus showing their mediating effect in building overall trust in the organization. Our findings have potentially significant managerial implications, in particular regarding the implementation of customer oriented policies at every touch point and ensuring that every service encounter provides a satisfactory customer experience. The relatively strong effects of both management policies and previous customer experience reinforce the critical importance of getting the core service offer right, especially at “significant moments” (e.g., insurance claims). More research is needed to identify the potentially distinct role of different types of management policies in building overall trust, as well as the role of moderating variables such as relationship age, interaction frequency and indirect experiences in driving the formation of cognitive versus affective trust. The study could be extended to other service industry contexts and potentially to other countries for cross-cultural comparisons. We are currently engaged in extending the research in these directions. References are available upon request.

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Performance Evaluations, Perceived Customer Orientation, and Behavioral Responses

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Summary

Customer orientation has been widely recognized as a source of competitive advantage (Day 1994; Deshpandé et al. 1993; Hult and Ketchen 2001; Narver and Slater 1990). Notwithstanding, while previous research has placed great emphasis on customer orientation from a firm’s perspective, only little effort has been made to look at customer orientation through customers’ lenses. First, only anecdotic evidence exists that customers do evaluate a firm’s customer orientation that is, that they form perceptions about the degree to which a company puts customer’s needs first (Dorsch et al. 1992; Dean 2007; Walsh and Beatty 2007). Second, a literature review reveals conflicting results on the causal order of perceptions of a service firm’s customer orientation, performance perceptions, and behavioral outcomes. Studying business-to-business banking services, Webb et al. (2000) find perceived customer orientation to drive performance perceptions and behavioral outcomes. Similarly, Brady and Cronin (2001) contend that perceptions of a service provider’s customer orientation determine performance evaluations and behavioral consequences. In contrast, Dean (2007) suggests a reverse relationship assuming that customers evaluate a service firm’s customer orientation based on their experiences during service encounters.

This paper investigates predictors and outcomes of perceived customer orientation. More precisely, tharticle centers on service customization as a predictor of perceived customer orientation. According to Rust and Chung (2006), service customization pertains to a provider’s efforts “to personalize and individualize service products and service delivery” (p. 561), which means adapting or tailoring service products and delivery to individual customer needs (Shostack 1987). This paper suggests that interactions customers have with service providers elicit assessments of whether firms focus on “what is most valuable to customers and do as much as possible for them” (Dorsch et al. 1998, p. 131). The paper further posits that these assessments influence individuals’ responses to that organization (Brown and Dacin 1997; Brown et al. 2006). Based on this rationale, this article proposes a causal chain between service customization, perceived customer orientation, trust, reputation, and referral behavior. Distinguishing between service outcome customization and service delivery customization, the study allows a more detailed understanding of how service customization affects perceived customer orientation.

To test the hypotheses, a quantitative study was conducted. The empirical study focuses on professional financial services as an appropriate context in which to assess service customization as a potential source of perceived customer orientation. Data were collected in a cross-industry mail survey using the key informant design (Kumar et al. 1993). The sampling frame was acquired from a national business ranking assessing firms according to their market performance. The final sample contained 123 cases.

Data were analyzed in a two-step approach. In a first step, the measurement model was estimated focusing on reliability and validity of the construct measures (Bagozzi et al. 1991; Fornell and Larcker 1981; Nunnally 1978). After establishing the measurement model, the structural model was analyzed using structural equation modeling and the maximum likelihood estimation procedure. After assessing the overall model fit, the path coefficients of the hypothesized relationships were calculated using the Amos 17.0 software program.

Though the overall chi-square-statistic is significant ($\chi^2 = 204.7$, $df = 128$, $p < 0.001$), the structural model provides satisfactory levels of goodness-of-fit ( $\chi^2/df = 1.6$; CFI = 0.94; TLI = 0.93; RMSEA = 0.07). Furthermore, the empirical results provide support for four of the six hypotheses. The study revealed a significant impact of service delivery customization on perceived customer orientation. The proposed relationship between service outcome customization and perceived customer orientation, however, turned out to be insignificant. The study further supports the hypothesis of a positive relationship between (a) perceived customer orientation and trust and (b) perceived customer orientation and reputation. Finally, the results of the empirical study indicate that trust in the service provider relates positively to WOM. By contrast, the hypothesized positive relationship between reputation and WOM did not find support.

This paper contributes to the literature by identifying service customization as antecedent of perceived customer orientation. While service outcome customization does not have a significant impact on perceived customer orientation, customization of service delivery strongly affects customer attributions. These results echo findings on the relevance of customizing the service encounter to
enhance customer satisfaction (Bettencourt and Gwinner 1996). Further, the paper adds to the literature by linking perceived customer orientation to constructs central in business relationship research. Taking into account that service providers should build up reputation and foster trustful relationships with their customers, the paper identifies perceived customer orientation as a valuable source. Attributions of customer orientation affect a service provider’s reputation and shape customers’ trusting beliefs. Operating through the development of trust in the service provider, perceived customer orientation further enhances favorable customer referrals.

Further, this paper offers several avenues for future research. First and foremost, to test its generalizability, the framework should be tested in other than financial services. Second, future studies should investigate effects on a firm’s financial performance, since service customization does not only enhance favorable customer responses but also increase costs (Chan et al. 2010). Finally, subject and drivers of service customization warrant further investigations to better understand how service firms can govern perceptions of customer orientation. References are available upon request.

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SOCIAL SERVICES: AN APPLICATION AND EXTENSION OF SERVICE-Dominant Logic

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SUMMARY

Social services are vital to many individuals and provide much needed resources. Housing, food, and even medical assistance are available to individuals who are in economically challenged situations. These services not only provide needed resources, they are also intended to give recipients the peace of mind of knowing that they and their children are provided for. Unfortunately, some describe consumer interactions with social services as difficult and worse (Morgan 1993; Shipler 2005). To date, however, researchers have made no systematic exploration of these exchanges. To address this, we have endeavored to provide a marketing perspective on social service provision. Specifically, this research will follow a transformative service research (TSR) perspective to provide a conceptual exploration of how social service provision potentially impacts the individuals whom come into contact with the service. We accomplish this by applying Service Dominant Logic to social service provision and in the process expand its theoretical scope.

Much of the research of disadvantaged consumers has focused on the qualities of individuals in disadvantaged positions or on the marketplace they encounter. A call has been made for research that makes a perceptual shift from “who” is disadvantaged to what structures and processes these consumers encounter and how these contribute to disadvantage and vulnerability (Baker et al. 2005). Following this perspective and based on prior research of disadvantaged consumers, we develop a framework of consumers’ interactions with social services and examine this from an S–D Logic perspective. In this process we answer the question of how closely what we understand about current social service provision matches what is considered “typical” service provision.

The framework describes two forces – consumers and boundary spanners – that come together in interactions that ultimately lead to consumer response. Consumers come to the interactions at an economic disadvantage and may be perceptually, if not actually, captive to the service. They may see no alternative to receiving social service other than doing without much needed resources. Boundary spanners come to the interaction as gatekeeper of a much needed resource and wield high levels of perceived power. This power imbalance has important psychological ramifications on consumers. In the interaction, resource allocation, resource sensitivity, privacy, compliance, and boundary spanner actions are critical to the success of the interaction. How these are dealt with influences the success of the service at providing for the consumer and also at lifting the consumer to self-sufficiency. After the interaction, consumers either continue receiving the service or they exit. Exit is the goal; however the form exit takes is also important to understand. Self-sufficient and frustrated exit both occur and have differing ramifications on consumers. Issues inherent to each part of the framework are detailed.

We then use the S–D Logic perspective as a basis for examining this framework. We examine the characteristics of both the social service interaction and members of the exchange. S-D logic is focused on co-creation of value, relationships, customer centricity, and intangible resources (Vargo and Lusch 2004, 2006, 2008). One could assume that social service provision in action should be very similar to what is called for in S–D logic; co-creation of value through resource delivery in relational and customer focused processes. Yet, more differences than similarities exist between social service provision and what the S–D Logic call for in typical service delivery.

As the new framework is examined, each portion of the original S–D Logic framework is applied to social services. In this process, similarities and differences are exposed. Additionally, the S-D Logic framework is extended to deal with issues that are implied in the original discussion of the logic as well as to include areas not previously discussed. As this is developed the importance of the boundary spanner and his/her actions in social service interactions becomes expressly clear. This is not only true in social services but in services in general. As such, we propose a new premise to the Service-Dominant Logic that will promote additional understanding of the logic and service provision. The importance of the boundary spanner in impacting the success or failure of service provision is explicitly described in this new premise.

In conclusion, we discuss the importance of delivering social services in a manner that is focused on co-creation of value, that understands the privacy and other needs of consumers, and that is consumer resource sensitive. We also discuss the role of the boundary spanner as key in future reform efforts in social services. We offer general proposals for social service reform.
Hill and Macan (1996) describe the need for welfare reform that is customer oriented. Ostrom and colleagues (2010) make explicit the need for research that understands how services impact consumers. This paper and the framework provided herein provide information to begin answering both needs. We provide a general understanding of the interactions that occur in social service provision and the characteristics of the members of exchange. We supplement this with a service-dominant logic perspective of the framework that illuminates shortcomings in social service provision from a consumer perspective. These are beginning steps in understanding how social service provision impacts consumers; emotionally, psychologically, and behaviorally. A more nuanced understanding of these will benefit reform efforts and through this will also assist consumers. More research is needed in each of the areas described here and in each portion of the framework. References are available upon request.

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ALLOCATING OPTIMAL MULTI-PERIOD BUDGET TO LOYALTY AND SALES PROMOTION PROGRAMS

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SUMMARY

This study employs a first-order Markov-type market share model to examine the differential unit cost of marginal effect and the ratio of effect and spending for promotion and loyalty programs on market share. Nonlinear programming and sensitivity analysis with a spreadsheet is used to help determine optimal budget allocations for both programs over a multi-period during which the dual aim is to keep the overall budget to a minimum and to maintain growth in market share. We apply this approach to data from a 2009 consumer panel provided by Taylor Nelson Sofres (TNS) Global Taiwan for the adult milk product category, based on the given initial size of market share and loyalty effect and on an estimation of the promotion effect, using empirical data concerning the outlay budgeted for these two programs. Finally, the proposed model and methodology, we focus on an important implication for marketing that the criterion presents. This is based on the differential marginal cost for promotional and loyalty programs that helps firm choose between retaining existing customers by an increase of budget and attention on loyalty programs or securing new customers by a similar increase on promotional programs, but in either case maintaining a targeted growth of market share.

Keywords: market share growth, budget allocation, Markov Market Share Model, loyalty program, promotion program, sensitivity analysis.

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SOCIALIZING TO COPRODUCE: PATHWAYS TO CONSUMERS’ FINANCIAL WELL-BEING

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SUMMARY

Debt management has increasingly become a serious problem for many Americans, one exacerbated by the current credit crunch. In theory, a debt management program can help consumers work out comprehensive repayment plans with lower interest rates agreed by all their creditors. If consumers can continuously follow their credit counselors’ advice, reduce unnecessary spending and deposit their payments regularly as planned, over a few years their debt can finally be paid off. Unfortunately, it proved very hard for consumers to remain in the program until completion. The low retention rate may not only prevent the organization from achieving its business goals, but also push more consumers to file for bankruptcy and become financially distressed. As such, finding ways to engage consumers in the debt management program becomes a critical issue and has significant managerial and policy ramifications.

The purpose of this study is to investigate the process of customer organizational socialization and how it may promote consumer coproduction behaviors and thus enhance their financial well-being. One of the most important reasons for the low retention rate of the debt management program is due to its difficulty to gain consumers’ compliance with credit counselors’ directions to consistently perform prescribed behaviors. Consumers do not become effective coproducers of the service delivery process spontaneously. They need to be appropriately “socialized” to the program in order to fulfill their role expectations. In this paper, we argue that consumers are socialized through three processes: learning their role expectations (role clarity), acquiring relevant capabilities (task mastery) and identifying with an organization’s goals (goal congruence). When consumers are properly socialized, they are more likely to engage in a variety of co-production behaviors, which may in turn enhance their own financial well-being. In addition to organizational socialization, service quality is also included in the study as a driver of consumer coproduction to test whether organizational socialization may influence consumer coproduction beyond the influence of service quality.

Data were collected via a self-administered survey. Thirty-five hundred clients who have enrolled in the debt management program of a national credit counseling organization for at least four months were randomly selected to receive the survey. A total of 374 questionnaires were received, out of which 10 were unusable and eliminated from the study. Thus, a total sample of 364 respondents was obtained. A structural equation modeling (SEM) procedure was employed to establish the construct validity and test the hypotheses. The findings of this study untangled the relationships between three organizational socialization processes, service quality and three levels of consumer coproduction behaviors. Specifically, for consumers’ compliance, the threshold level of consumer coproduction, consumers’ task mastery is the strongest predictor. These results imply that the most effective way to gain consumers’ compliance is to augment consumers’ confidence to effectively perform in debt management programs. For individual initiative, service quality is the strongest predictor among the proposed antecedents. It means in order to encourage consumer coproduction beyond the level of minimal requirements, offering a superior service is the key. For civic virtue, which is the highest level of consumer coproduction and is beyond consumers’ own interests, consumers’ goal congruence has a positive effect. In summary, although service quality is an important determinant of consumer co-production, organizational socialization greatly influences consumer co-production beyond and above the effect of service quality. Additionally, this study found that both co-production and intention to remain influence consumers’ financial well-being. Specifically, the first two levels of consumer co-production-compliance and individual initiative-augment consumers’ financial well-being. In contrast, intention to remain diminishes consumers’ financial well-being.

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REMOTE SERVICES-SATISFACTION: AN INITIAL EXAMINATION

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SUMMARY

Changes in markets, customers, and technologies are enabling new business models, capabilities, and products, such as the infusion of services (i.e., “solutions”) into goods-dominant firms, products co-created with customers or network partners, and offerings customized to customer behavior observed over time (Marketing Science Institute 2010). Some technologies such as remote services enable service transactions over the internet and the generation of services without establishing personal contact.

Remote services constitute such an emerging type of technology-mediated service in the business-to-business context. A study conducted by the consulting firm McKinsey & Co. estimated that 11 percent of service jobs around the world could be carried out remotely (Farrel, Laboissiere, and Rosenfeld 2005). Particularly in high-technology industries such as IT, medical healthcare and mechanical engineering, remote services are established instruments that are often used for remote repair, remote diagnosis and maintenance (Biehl, Prater, and McIntyre 2004). These services significantly change the delivery process of services, since they are provided in an interactive technology-mediated production process, exclusively allowing the service providers to access and modify the service object over long distances.

Remote services have the potential to be beneficial for both service providers and customers based on the increased flexibility regarding the service delivery, time savings regarding the problem solving and costs reduction concerning travel costs of technicians and unplanned system failures. Despite these potential advantages the acceptance by the customers is still fairly low. As more providers offer their customers remote services, understanding what creates a satisfying experience becomes crucial. Although the antecedents to customer satisfaction are well documented in classical contexts (Oliver 1997; Szymanski and Henard 2001; Yi 1990), customer satisfaction in a remote services context has not been subjected to conceptual or empirical scrutiny. More specifically, no systematic research into the determinants of remote services-satisfaction has been conducted. No research has been conducted even though the findings from such studies would add value to strategies designed to augment remote services-satisfaction and guarantee that remote services-customers will be satisfied. Against this background, remote services are considered as a major research priority and researchers call for more empirical studies (Ostrom et al. 2010).

Hence, our objective is to provide the initial evidence for the determinants of remote services-satisfaction. We examine and document the role of (1) remote service technology, (2) remote service workflow, (3) economic value, (4) information exchange, (5) interaction, (6) remote service individualization, and (7) auxiliary services in customer remote services-satisfaction assessments. We rely on qualitative evidence gathered through in-depth interviews to develop a conceptual model which includes determinants of remote services-satisfaction. We then test this model across users of remote services in a second B2B-industry. We close the study by discussing implications of the findings and directions for future research.

Even though satisfaction is central to increase competitiveness of new technology-mediated services, no research has examined the determinants of remote services-satisfaction. One objective in this study was to begin to fill this gap in the literature. To this end, we document that (1) remote service technology, (2) remote service workflow, (3) economic value, (4) information exchange, (5) interaction, (6) remote service individualization, and (7) auxiliary services have a significant influence on remote services-satisfaction levels. We further document the relative magnitude of these effects. References are available upon request.

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THE EFFECTIVENESS OF SOCIAL MEDIA MESSAGES IN ORGANIZATIONAL BUYING CONTEXTS

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SUMMARY

Business-to-business (B2B) marketers are struggling with the successful implementation of B2B social media strategies due in part to a lack of academic and practical understanding of the phenomenon. Based on organizational buying and branding theories, we highlight key factors likely to influence the effectiveness of social media message strategy. While some academic journals and industry reports have suggested that the B2B marketers can merely adopt the techniques used by their business-to-consumer (B2C) counterparts, we contend that these studies ignore the meaningful differences that exist between the two contexts. The purpose of this study is to highlight factors that are likely to improve the effectiveness of B2B and B2C social media messages. Thus, this study contributes in advancing our knowledge of the factors that influence the effectiveness of a B2B social media message.

Organizational buyers tend to be highly involved and utilize a formal, rational decision making process, whereas B2C consumers tend to demonstrate less involvement and are more informal when purchasing a product or a service; they tend to be relatively more impulsive when purchasing an offering. Additionally, B2B marketers generally pursue different branding and marketing communication strategies (Brown, Bellenger, and Johnston 2007). More specifically, B2B marketers tend to promote their corporate brands much more than individual product brands (Mudambi 2002), and generally make more functional appeals to their constituents (Turley and Kelly 1997). Personal selling tends to be the most effective communication vehicle for these marketers due to the technical complexity of business products, the relatively small number of potential buyers, and the extensive negotiation process (Hutt and Speh 2010). Still, other mediums, including advertising and social media, can be important supplements for B2B marketers.

The effectiveness of social media message execution is likely to depend on the type of brand strategy message, actual message appeal, direct calls to action that emphasize selling, and attempts to encourage information search. That is, we expect to see the use of corporate brand names, functional appeals and links or cues for information search to be most effective in a B2B social media execution. Furthermore, we anticipate that direct calls to action with an emphasis on selling, are likely to have a negative effect on the B2B social media message effectiveness. We suggest that B2B marketers promote their corporate brand names, make functional appeals and include cues that encourage information search. The presence of these elements is likely to increase the quality of a message and may improve the effectiveness of company’s social media site. Managers should focus on these elements when disseminating information via social media. In turn, they should avoid the use of more consumer-oriented direct calls to action. In addition, we contend that promoting individual product brand names and using emotional message appeals should be avoided.

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MARKET-DRIVING BEHAVIOR: PERFORMANCE CONSEQUENCES IN HIGH-TECH START-UPS

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SUMMARY

Research on market orientation has been concentrated so far on being market-driven. The market-driven approach to market orientation implies that companies orientate their entire business on the consumers’ needs, consequently create goods that have a problem solving character, and fulfill those needs. The present study deals with the second facet of the market orientation construct, namely being market-driving. When applying the market-driving approach companies actively influence and shape the market and the consumer himself in order to improve the companies’ position on that market. This approach, however, is comparably underdeveloped in literature.

The present paper covers these shortcomings by conducting a survey-based empirical study on the perceived performance consequences of market-driving behavior. More concretely, the impact of technological and market turbulence on the relationship between market-driving and performance outcomes is investigated.

Hypothesis 1: There is a positive relationship between market-driving behavior and business performance.

Hypothesis 2: The lower the technological turbulence, the greater the relationship between market-driving behavior and performance.

Hypothesis 3: The lower the market turbulence, the greater the relationship between market-driving behavior and performance.

Our sample consists of high-tech start-ups as these companies and their environments seem especially appropriate for the examination of market-driving behavior. We integrated one measure for each stakeholder group. Technology turbulence and market turbulence were taken as moderators. We used reflective and – on the second-order level – formative specifications for our constructs. We chose Partial Least Squares (PLS) as the most accepted variance-based SEM approach, which accommodates models that combine formative and reflective constructs.

The study shows that there is a significant positive relationship between market-driving behavior and performance as indicated in H1. Further conclusions can be drawn from the moderating effects. The moderating effect of technology turbulence as predicted in H2 is supported. While the impact of market-driving on performance is stronger in technologically non-turbulent environments, a significantly positive influence of market-driving behavior can be observed in both sub-groups. Similarly, market turbulence, as predicted in H3, moderates the relationship between market-driving behavior and performance. A significantly stronger effect can be observed in markets with relatively low turbulence. Again, a significant positive impact of market-driving on performance exists in both sub-groups. Consequently, the general positive relationship between market-driving and performance seems to be a very robust one across contexts.

Our results show that high-tech start-ups can increase their performance by being market-driving even in relatively stable environments. In analogy to the research on market-driven behavior – more research is needed to understand antecedents and situation-dependent performance consequences of this facet of market orientation. References are available upon request.

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INTERFIRM KNOWLEDGE TRANSFER IN CO-OPETITIVE BUYER-SUPPLIER RELATIONSHIPS: THE CASE OF PLURAL GOVERNANCE

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SUMMARY

The current business environment has led to the development of organizations where firms cooperate and compete simultaneously. This phenomenon of firms simultaneously cooperating and competing is known as co-opetition (Brandenburger and Nalebuff 1996). Further the growing competition and rapid technological changes have underscored the importance of continuous knowledge transfer between the firms and is considered as a source of competitive advantage (Grant 1996). However, in co-opetitive relationships, the firms may not share knowledge if they feel that they may loose their competitive advantage over the knowledge. Thus the problem under these relationships is to determine how much and what knowledge needs to be shared and under what conditions. Further, recent studies of interfirm marketing relationships suggest a concept of “plural governance” in which the buyers purchase components from independent suppliers and also make similar components internally (Heide 2003). The current paper suggests that the plural governance leads to co-opetitive relationships between the buyer and the supplier as they not only cooperate but also there is a possibility of competition between them in the future. In a co-opetitive business environment, the supplier may impede knowledge sharing, if he regards the buyer as a potential competitor and hence would try to protect its core knowledge from the buyer’s opportunistic behavior. Given this situation, it is important to understand what the buyer should do to facilitate knowledge transfer from the supplier under conditions of plural governance.

Theoretical Framework and Hypotheses

Loebecke, Fenema, and Powell (1999) analyze knowledge transfer in co-opetitive relationships by using the concept of prisoners’ dilemma. On the basis of game theory, the researchers suggest two main dimensions of inter-organizational information sharing under co-opetitive relationships – synergy and leveragability. Synergy refers to the extent to which cooperation between the partners yields additional value from interdependent knowledge sharing which is more than the sum of individual partner’s knowledge. On the other hand, leveragability refers to the potential of the knowledge recipient firm to increase its value from knowledge sharing by exploiting the shared knowledge by its own that is beyond cooperation, thus leading to “competitive threat” for the partner providing the knowledge. The highest likelihood of knowledge sharing between the co-opetitive partners is a situation of low competitive threat and high synergy as it creates positive attitude toward knowledge transfer process because there is more gain from synergy than what the other party might derive from the knowledge received. Thus it becomes crucial to investigate that under a plural governance situation what buyer should do to reduce the risks and foster the benefits that will create situations of low competitive threat and high synergy with the supplier.

The current paper intends to answer the above question by suggesting that the buyer, under the plural governance mechanism, should increase “transparency” in the buyer-supplier relationship. Transparency refers to the openness or the closeness of the firm providing the knowledge (Hamel 1991). Transparency will increase the supplier’s belief that the buyer will perform activities that result in positive outcomes and will not pursue actions that result in negative outcome for the supplier. The strength of this belief may lead the supplier to have confidence in the buyer’s reliability and integrity and thus will create conditions of high synergy and low competitive threat. Thus,

P1: Under the plural governance, the higher the transparency in the buyer-supplier relationship, (a) the higher will be the synergy between the buyer and the supplier and (b) the lower will be the competitive threat by the buyer.

P2: Under the plural governance, the knowledge transfer between the supplier and the buyer will be most effective when there is high synergy between the buyer and the supplier and low competitive threat by the buyer.

Moderators

Studies suggest that when partners have shared vision they tend to commit themselves more to the relationship rather than looking at their own interest that may be detrimental to the other partner (Ouchi 1980). Also, the
increased participation not only reduces the conflicts and potential competitive threat of inter-organizational relationships but also improves their quality and coordination (Lee and Kim 1999). Formalization increases the partner confidence in the other partner’s reliability and integrity which leads to less protective behavior to withhold the knowledge from the other partner (Mohr and Sohi 1995). Communication is defined as the formal and informal sharing of meaningful and timely information and can be categorized into direct and indirect influence strategies (Anderson and Narus 1990). The direct communication strategies like requests, recommendations, promises etc. lead to gaining compliance and commitment from the partner thus facilitating the knowledge transfer between the partners. Thus,

P3: Under the plural governance, the formation of shared values, increased participation, increased formalization, and increased use of direct communication strategies will increase (a) the positive relationship between the transparency in the relationship and the synergy between the buyer and the supplier and (b) the negative relationship between the transparency in the relationship and the competitive threat by the buyer.

Power is the ability to evoke a change in other’s behavior; including the ability to cause others to do something they would not have done otherwise (Gaski 1984). Coercive bases of power represent a power struggle that may increase the level of conflict inherent in the relationship, thus reducing the transparency. Thus,

P4: Under the plural governance, the use of power by the buyer will decrease (a) the positive relationship between the transparency in the relationship and the synergy between the buyer and the supplier and (b) the negative relationship between the transparency in the relationship and the competitive threat by the buyer.

Discussion and Implications

The paper through the lens of plural governance, contributes to the literature of inter-organizational knowledge transfer under co-opetitive relationships. The paper suggests that the buyer should facilitate increased transparency in the buyer-supplier relationship. Further, the buyer should enhance shared norms by encouraging training, socialization, and rotation of the members both in the buying and the supplying firm. Buyer should also encourage increased participation of the supplier and should adopt direct influence strategies that are rational and non-coercive in nature. Further, buyer should use formalization strategies like formal meetings and written statements that increase the supplier’s confidence in the relationship. Last, the buyer should avoid using mechanisms like centralization as they are a source of power and thus create more conflicts than synergy in the buyer-supplier relationships. Buyer-supplier relationships in plural governance without such strategic conditions and skills are dysfunctional with respect to increasing knowledge transfer between the partners and thus overcoming their competitors. References are available on request.
ANALYZING THE MEDIATING EFFECT OF LEARNING ORIENTATION ON THE RELATIONSHIP OF MARKET ORIENTATION AND COMPANY PERFORMANCE IN TIMES OF MARKET TURBULENCE

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SUMMARY

The marketing concept postulates that to achieve a competitive advantage firms should identify and satisfy customer needs more effectively than their competitors (Day 1994) and much of the extensive market orientation literature examines the extent to which firms adhere to this (Kohli et al. 1990; Narver et al. 1990). Most research indicates that market orientation is positively associated with performance (Kirca et al. 2005), however, there is little understanding of how this is deployed to achieve a competitive advantage (Grinstein 2008). Narver et al. (1998), e.g., state that “given the substantial evidence suggesting a positive relationship between market orientation and performance, the logical next question is how a business can best create and increase a market orientation.”

In this context scholars suggest that a market orientation must be accompanied by a strong learning orientation (Baker et al. 1999, Slater et al. 1995), as it enables firms to maintain a long-term competitive advantage by continuously improving the processing of market information. It helps companies to question long-standing market assumptions or beliefs and to manage disruptive change (Day 1994). Moreover, as Dickson (1996) postulates, a strong market orientation can be readily copied, but the learning environment that organizes and translates the output of these behaviors into a comparative advantage cannot. Notably, in dynamic and competitive markets, which are characterized by the high rate of change in the composition of customers and their preferences, the ability to learn faster than competitors might be the only source of competitive advantage (DeGeus 1988), as products and services are likely to have to be continuously modified to cater to customers’ changing preferences. In particular, a strong learning orientation may facilitate required changes in the market offering and finally lead to improved performance (Fiol et al. 1985).

Though researchers have proposed that market orientation should be accompanied by a strong learning orientation, only few studies have empirically explored this relationship (Ali et al. 2010). Accordingly, in this research the impact of market and learning orientation on company performance is explored. In addition, the moderating effect of market dynamism on these relationships is investigated. As indicated above, it is suggested that the postulated relationship of market and learning orientation becomes even more important in dynamic market environments.

To conduct the research a cross-sectional online survey was conducted. The sample was obtained from the German Chamber of Industry and Commerce and covered companies in 12 different industries: automotive, biotech, electrical, pharmaceuticals/chemicals, engineering, software and IT, construction, telecommunication, energy and commodities, retail, logistics, and services. In spring 2010, 290 qualified responses from managing directors or heads of marketing were received.

To obtain valid and reliable data, previously validated scales were used for all constructs in this study. The questionnaire was developed and pre-tested using a small sample of practitioners and academics, before the final instrument was mailed to the sample. Partial least squares, a broadly accepted variance-based structural equation modeling technique, was used to evaluate the proposed theoretical model (Wold 1985). It has already been used in research similar to this study (e.g., O’Cass et al. 2007a, 2007b; Voola et al. 2010).

The findings indicate that market orientation has no direct relationship with company performance. This result contradicts the predominant view that market orientation directly, positively impacts company performance (Ellis 2006; Vieira 2010), but is in line with other studies investigating the market orientation and learning orientation interface (Baker et al. 1999b; Jimenéz- Jimenéz et al. 2007). However, an indirect effect could be identified. Market orientation is positively related with learning orientation, which in turn positively impacts overall company performance. Hence, a strong learning orientation appears to mediate the relationship of market orientation and company performance. Accordingly, it can be assumed that market orientation is most effective, when a strong learning orientation is present. This confirms Dickson’s (1996) reasoning that a strong market orientation can be readily copied, but the learning environment that organizes and translates the output of these behaviors into a comparative advantage cannot.
The results also suggest that a competitive market environment positively moderates these relationships (between market orientation and learning orientation, as well as between learning orientation and company performance). However, with regard to market dynamism the study displays mixed results. Whereas market dynamism positively moderates the relationship of market orientation on learning orientation, no significant relationship could be found regarding the moderating effect of market dynamism on the relationship of learning orientation and company performance. Despite this latter finding overall results regarding the moderating effect of the investigated moderators are in line with expectations. Hence, it can be reasoned that in more dynamic and competitive market environments a combination of market orientation and learning orientation might help companies to achieve a competitive advantage. References are available upon request.

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STRATEGIC CONFIGURATIONS OF INTER-ORGANIZATIONAL RELATIONSHIPS: A METHODOLOGICAL PERSPECTIVE

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SUMMARY

The concept of strategic fit refers to the internal harmony in organizational configurations, i.e., the inner consistency between strategic choice and a set of complex multidimensional constellations of conceptually distinctive and mutually reinforcing characteristics of organizational structure that commonly coalign together. This concept is well developed within the literature pertinent to organization, strategy and management studies. It is argued in the literature that such a strategic fit is a desirable property through which performance increases (Venkatraman 1990). Configuration-based studies have demonstrated that attributes of strategy and critical contingencies (e.g., environmental or organizational contexts) interact to restrict the range of viable organizational forms, which in turn gives rise to the possibility that a limited number of superior configurations account for a sizable proportion of observed organizations (Miller 1986). However, despite the importance of this theory’s implications, the extant literature is characterized by poor juxtaposition of different statistical modeling.

This article builds on the configuration perspective and reports on a research exclusively designed to address the issue of strategic fit in configuration research. In particular, we examine the fit between business strategy consisting of prospectors, analyzers, and defenders on the one hand and a set of relationship characteristics on the other. These relationship characteristics consist of trust, commitment, cooperation, information sharing, and relationship specific investment and are highlighted in theoretical explanation of both relationship performance and overall firm performance in the marketing literature. Drawing on the strategic fit methodology literature, this study applies four seemingly complementary approaches of the fit conceptualizations, namely mediation, moderation, covariation, and profile deviation to the characteristics of business relationships and investigates their coalignment with business strategy to assess these methods and compare their outcomes. Each of these four methods has unique implications for how the relationships among constructs are conceptualized.

Appropriate hypotheses pertinent to each of the four alternative fit approaches are developed and tested using the data collected from 658 senior marketing managers of the services industries in the U.S. The results of analyzing our configuration models with the same dataset were not completely consistent across the four different specifications of coalignment. The two classical approaches to fit, i.e., moderation and mediation, only loosely support the pertinent hypotheses, whereas the two neo-classical approaches to fit, i.e., profile deviation and covariation, fully supported their pertinent hypotheses.

Venkatraman (1989) considered the covariation perspective as complementary to the profile deviation approach. This is because fit as profile deviation considers the simultaneous impact of relationship characteristics on performance constructs, while fit as covariation stresses the interdependency of relationship characteristics in their alignment with business strategy. Findings of this study strongly suggest that researchers should consider using both approaches to measuring fit as complementary tests for future research in configuration theory, rather than using them interchangeably. References are available upon request.

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THE IMPACT OF NETWORKING CAPABILITY AND TIE STRENGTH ON PRODUCT INNOVATION

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SUMMARY

Since the landmark contribution of Granovater’s hypothesis on the strength of weak ties, the strength of interorganizational ties has been employed by researchers in cross-level research aimed at analyzing the structure of interfirm networks and its impact on firm-level innovation. Research has shown that the strength of relationship ties, whether they are strong ties or bridge (weak) ties, has a positive impact on new product development (NPD) performance. However, despite this purported impact of tie strength, previous research examining the effect of tie strength on NPD performance has paid little attention to the firm capability that may drive tie strength to a positive performance outcome. Extant research largely neglects the provocative insight from Burt that structure/position alone does not create network benefit, but that the entrepreneurial effort of an actor to turn the structure/position into an advantage does. Thus, although research on the performance outcomes of network structures is valuable, we do not know exactly how capability drives network structure benefits. Additionally, current research on the impact of network structure on performance assumes that networks are exogenous and firm actors are randomly assigned to networks and positions. Yet, if we accept the notion that firm actors act strategically, this assumption is questionable at best and is violated in a majority of cases. We need to deepen our understanding of what the firm involved in interfirm relationships should do to successfully manage its network relationships as it evolves along its developmental pathways.

To address these gaps in the research, we propose and empirically test a model of interfirm relationships based on networking capability. We define networking capability as the ability of a firm to search for and find network partners, manage network relationships, and leverage network relationships with external entities to achieve resource (re)configurations and strategic competitive advantage. Central to our argument is our view that network benefits come from the ability of firms to search/find, manage, and leverage network ties. Innovative performance is therefore likely to be a function not only of the network structure but also of the strategic orientation of the active firm actors toward action. We focus on networking capability because our goal is to better understand what drives network structures rather than network structure benefits, which have already been adequately addressed in the literature. Moreover, focusing on networking capability provides a firm-based, network-level view of a firm’s ability to extract greater levels of value from networks. We assume that firms create their networks strategically and we develop a research design and statistical approach that addresses the endogeneity problem that likely contaminates many of the existing estimates of network structure effects on performance. We employ data (a two-stage, multi-respondent approach) collected from firms in China to test our hypotheses.

We find that networking capability is a reliable predictor of NPD performance as well as that strong ties and bridge ties jointly impact NPD performance. Also, strong ties and bridge ties positively impact NPD performance. But our results also show that, even though tie strength matters, networking capability has greater power than tie strength in explaining NPD performance outcomes. Our results show that networking capability underlies the development of networks that help the firm sustain its NPD performance. If firms differ in networking capability, then the form of network structure that is beneficial to network outcomes may vary. Networking capability reinforces the impact of tie strength on NPD performance. Our results illustrate that network ties may be created to reach out to others that hold diverse and novel knowledge. Variation in capabilities can be the basis for the firm to form network relationships and to derive network benefits. The networking capability perspective therefore offers a theoretical explanation for how tie strength characteristics influence NPD performance, which contributes to marketing scholars’ increased focus on relationship management. We demonstrate that networking capability is more important for firms operating in uncertain environments. A firm with the ability to create and manage the overall architecture of its network can selectively modify its network ties portfolio, thereby influencing the interorganizational field in which it is embedded and maintaining a match between innovation strategy and firm performance on the one hand and changing environmental conditions on the other. Such management of network resources should thus have NPD performance implications. The implication of our findings is that firms should nurture strong networking capability to enhance their product development.

Key words: New product development, networking capability, strong ties, bridge ties, network relationship management.
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SUMMARY

Innovation has been documented as a firm’s primary source of competitive advantage. Increasingly, we have observed firms forming alliances with others for the purpose of product innovation (Lee, Johnson, and Grewal 2008; Rindfleisch and Moorman 2001). It is therefore not surprising to see that recent strategy research has gone beyond treating firms as autonomous entities with their own internal resources competing against each other. Instead, firms are viewed according to the set of allied relationships in which the firms are embedded. This set of allied relationships serves to enhance their competitiveness (Kogut 2000; Shankar and Bayus 2003; Swaminathan and Moorman 2009) and particularly, innovativeness (Rindfleisch and Moorman 2001; Shan, Walker, and Kogut 1994).

Strategic alliance is defined as an interfirm relationship in which alliance firms put together resources such as knowledge, capital, and market access to form either an equity or non-equity-based relationship (Dyer, Kale, and Singh 2001; Gulati 1998). A firm may engage with a wide range of alliance partners for different purposes such as to enhance marketing capabilities (Swaminathan and Moorman 2009), to enter new markets (Jensen 2003), to obtain novel knowledge (Kogut 2000), and to improve innovation (Rindfleisch and Moorman 2001; Shan, Walker, and Kogut 1994). Such a collection of direct alliances by a firm is called alliance portfolio (Lavie 2007; Lavie 2006; Wuyts, Dutta, and Stremersch 2004). An alliance portfolio is similar to the idea of an egocentric network in that a focal firm, which is called ego, has a set of immediate alliance partners, so-called alters, and they are connected with each other (Wasserman and Faust 1994). In this research, we study how individual firms can utilize their alliance portfolio to advance innovation (Wuyts, Dutta, and Stremersch 2004).

The current study builds on network theory with a particular focus on international alliance portfolio and argues that local firms from emerging economies could take advantage of their alliance portfolios through the use of structural hole positions and centrality, two important network structural characteristics. Using longitudinal data collected from 81 publicly traded firms across five years (2001–2005) in China, the results demonstrate that a Chinese local firm’s innovation increases when it occupies more structural hole positions but decreases when its network centrality increases. Such relationships are further contingent upon the local firm’s alliance experience and its foreign partners’ resource commitment to their alliances. References are available upon request.

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PERFORMANCE IMPLICATIONS OF CUSTOMER RELATIONSHIPS:
A COMPOSITIONAL APPROACH

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SUMMARY

Customer portfolio management, due to its high relevance for business practice, has received increasing attention in recent years (Homburg, Steiner, and Totzek 2009). The majority of research has focused on how to generate portfolio value through better customer segmentation strategies (Gopalan 2007; Johnson and Selnes 2004). However, empirical examinations of accumulated value creation of multiple customers remain scarce.

The purpose of this article is to reveal the accumulated value that multiple customers contribute to a supplier from both the economic and the social perspectives by integrating resource dependence theory and social exchange theory (Blau 1964; Pfeffer and Salancik 1978). Specifically, we focus on three key issues: (1) How does a supplier’s economic dependence on multiple customers impact a supplier’s relationship effectiveness from resource dependence perspective? Dependence—one firm’s needs to maintain the exchange relationship with another firm to achieve its desired goals—has been one of the key topics of channel research over the last two decades or more (e.g., El-Ansary and Stern 1972; Gilliland, Bello, and Gundlach 2010). However rich as this research has been, previous research tends to focus on a single dyadic supplier-customer relationship, which only provides a piecemeal and incomplete understanding of the portfolio value. To address this issue, we introduce economic dependence diversity to capture a supplier’s heterogeneity of economic relationships with multiple customers and examine how economic dependence heterogeneity impacts a supplier’s relationship effectiveness with its customers. (2) How does a supplier’s fairness perception toward its multiple customers impact its relationship effectiveness from a social exchange perspective? Recent studies show that fairness perceptions of outcome distribution (distributive fairness) and procedural control (procedural fairness) play a key role in shaping relationship effectiveness in a single dyadic relationship (Griffith, Harvey, and Lusch 2006). However, little is known about how aggregated fairness perception toward multiple customers impacts a supplier’s relationship effectiveness with its customers under dependence situations. (3) What are performance implications of a supplier’s customer relationships? Researchers argue that customer relationships have the potential to influence a supplier’s economic effectiveness and such relationships are usually a double-edged sword (Baker 1990; Uzzi and Gillespie 2002). Some researchers suggest that a supplier can achieve cost reductions and/or greater operational flexibility by maintaining strategic partnerships with a few preferred customers (Sriram, Krapfel, and Spekman 1992), while other researchers argue that a supplier may be victimized by the absence of a portfolio of relationships (Uzzi 1999). Despite the above theorized arguments, little empirical evidence has been provided. Our study capitalizes on the research opportunity and examines how economic dependence diversity and aggregated fairness perception impact relationship effectiveness with multiple customers and how such relationship effectiveness subsequently influences a supplier’s financial performance.

We collected data on suppliers’ relationships with their multiple business customers in the food supply industry though both online and paper surveys. The food supply industry was selected because supplier-customer relationships in this industry carry two important characteristics that are relevant to our research questions. First, the market structure in the food supply industry causes producers’ dependence on customers, but not vice versa. Second, producer-customer relationships in the food supply industry entail “midget-giant” relationships and the market structure represents the imbalance of market power between producers and customers, which has the inherent risk of entrenching unfair practices in producer-customer relationships (Tallontire and Vorley 2005). In the survey, producers were asked to identify up to four customers they were mostly dependent on and responded to the survey questions on their relationships with those customers. Valid responses come from 92 producers in the Midwest area. We then used structural equation models to empirically test our hypotheses.

Our findings suggest that economic dependence diversity and aggregated fairness perception promote suppliers’ effective relationships with customers, which in turn lead to the success of the suppliers’ business. Our study offers important managerial implications as it provides a framework for firms to evaluate their customer portfolio and leverage customer relationships for market value. Specifically, first, a supplier’s disproportionate economic dependence on one dominant customer in its customer portfolio is problematic for relationship effectiveness. Second, the study underscores that effective channel relationships depend on social value reflecting the fair distribution of relationship outcomes and task allocation procedures besides the economic incentives. Managers
can better determine their customer portfolio strategies to achieve their financial growth through a careful analysis of the composition of economic relationships with their customers and their overall perception of fairness. Balanced economic dependence and equitable interactions are necessary before vulnerable suppliers can forge effective and profitable channel relationships. References are available upon request.

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THE IMPACT OF SOCIAL AND CONTRACTUAL ENFORCEMENT ON RESELLER PERFORMANCE: MEDIATING ROLE OF COORDINATION AND INEQUITY OF SHARING E-BUSINESS BENEFITS

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SUMMARY

Manufacturer-reseller relationships are increasingly becoming technology-infused as distribution managers are employing e-business tools to streamline existing channels. ... Previous marketing research found that resellers adopt e-business tools only when they see clear benefits of using them for themselves (Osmonbekov 2010) and the impact of the adoption of e-business tools on reseller performance is mediated by relationship states, such as coordination, conflict and reseller adaptation (Osmonbekov, Bello, Gilliland 2009). Also, Gilliland, Bello and Gundlach (2009) found that the relationship governance processes, such as social and contractual enforcement, have differential impact on channel relationship states of coordination and conflict. The study attempts to contribute to the governance literature by examining the direct impact of social and contractual enforcement governance processes on reseller performance. Second, we examine the mediating role of the channel relationship states, namely coordination and perceived inequity, in the governance-performance linkage. To achieve these goals the study develops and tests a theoretical model by drawing from marketing literature as well as insights gained from in-depth interviews with managers at reseller firms. The study develops and tests the following hypothesis:

H1a: Social enforcement is positively related to relationship performance.
H1b: Contractual enforcement is negatively related to relationship performance.
H2a: Social enforcement is positively related to coordination.
H2b: Contractual enforcement is positively related to relationship coordination.
H3a: Social enforcement is negatively related to perceived inequity.
H3b: Contractual enforcement is positively related to perceived inequity.
H4: Channel relationship states (channel coordination and perceived inequity) mediate the link between enforcement types (social and contractual enforcement) and relationship performance.

The results of the empirical test involving a sample of 224 resellers and using structural equation modeling suggest that social and contractual enforcement differentially impact relationship performance, while coordination and perceived inequity play a mediating role. References are available upon request.
MANAGING CONTRACTUAL BREACHES WHEN LEGAL ENFORCEMENT MAY NOT BE AN OPTION

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SUMMARY

Acts of negligence, malicious intent, or changes in environmental conditions can result in situations where a contracting partner does not fulfill their obligation. Such instances of contractual breach occur commonly in business-to-business settings and may enable conflict to erode productive business associations. The notion of efficient breach of contract as a simple, discrete cost-benefit calculation has been shown to be a limited perspective as a much broader set of considerations surrounds contractual breach situations. The impetus of future dyadic business relations and network reputational effects weigh heavily on potential enforcing parties. In contrast to classical contract law, modern contract law acknowledges the need for adjustment and resolution of contractual conflict in an amicable fashion.

When contracts are breached they can be addressed through avoidant, endogenous, or exogenous means. An avoidant approach entails failure to acknowledge the existence of the breach due to fear of invoking the ire of customer. Endogenous remedies refer to breach resolutions prescribed in the contract. Exogenous remedies to contractual breach are options for managing the breach without resorting to legal recourse. The primary purpose of exogenous remedies is to mitigate the negative impact of enforcement on the breaching party. As breaches represent a potentially contentious situation, flexibility and harmonization are of paramount importance. Providing the customer with alternatives can decrease their perception of coercion and help minimize conflict; a necessary ends in the protection of future exchanges.

The purpose of this research was to investigate the antecedents, contexts, strategies, and outcomes of these exogenous alternative forms of contractual breach management. Given that a wide array of exogenous alternatives are available in contractual breach situations that can minimize relational impact while maximizing organizational and personal outcomes, we address three primary research questions:

RQ1: What factors lead to the use of enforcement options outside of the prescribed damages in the breached contract?

RQ2: What are the alternatives outside the prescribed terms in the contract (exogenous alternatives) that can be used to manage instances of contractual breach?

RQ3: What are the potential consequences of using exogenous alternatives on individuals and firms and are win-win solutions viable?

In pursuit of this ends, we utilized a theoretical sampling plan to obtain perspectives from 40 marketing and sales managers representing a wide array of industries. The sample was comprised of managers possessing a mix of marketing and sales positions with experience ranging from five to 35 years. The interviews were recorded via telephone, transcribed verbatim, and resulted in 257 single-spaced pages of data.

We used a grounded theory design and found several different strategies used by selling firms to resolve a contractual breach through alternative means residing outside the letter of the contract. These alternatives vary in nature and are classified into integrative, compromising, or accommodating options consistent with extant conflict management literature. We also examined the contingencies leading to the use of exogenous alternatives and their outcomes on both organizational and individual levels. Peer debriefing, member checking, constant comparison, refutability, and comprehensive data treatment were all employed to maximize the validity of the findings.

Many factors were found to influence whether or not exogenous alternatives would be employed in resolving a specific customer breach. The reason for the breach, personal relationships, business relationships, seller’s market conditions, and contractual conditions all impacted the decision process. The exogenous alternatives themselves were integrative (incremental business acquisition, contract extension, change of terms, relationship-specific investment adjustment, and sale of excess capacity), compromising (split the payout up over an extended time period, raise other prices, allow the customer to earn breach amount back with incentives, and request quid pro quo for a contract the seller has breached), or accommodating (formal apology and letter of understanding. The
type of alternative utilized was found to impact outcomes on both organizational and personal levels.

Understanding how selling firms initiate and customers respond to exogenous alternatives is vital in the resolution of a potentially destructive situation. Through a grounded theory approach, we extend this knowledge by identifying the many integrative, compromising, and accommodating available for managing contractual breaches. We also explicate the conditions under which these alternatives are likely to be used and their impact on organizational and personal performance. References are available upon request.

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INTEGRATING RESPECT, EMOTION, AND CITIZENSHIP BEHAVIORS INTO BUSINESS-TO-BUSINESS MARKETING RELATIONSHIPS

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SUMMARY

Business-to-business (B2B) marketing relationship research has traditionally followed a more rational approach, where trust has been found to play a primary role in the development of B2B marketing relationship success (Dwyer, Schurr, and Oh 1987; Moorman, Zaltman, and Deshpande 1992; Morgan and Hunt 1994). Trust has been viewed in a cognitive fashion, as an alternative to monitoring and to reduce governance costs (Doney and Cannon 1997). We suggest that respect – an emotion-laden construct – may also be important. In marketing, there is anecdotal evidence that respect is an important determinant of relationship success (e.g., Berry 1996; Bitran and Hoech 1990; Butcher, Sparks, and O’Callaghan 2003; Murphy et al. 2007). Despite the perceived importance of respect (Bagozzi 2006), however, we are not aware of any empirical research on this topic. The role of emotions in a B2B context has also been minimally addressed (e.g., Kiely 2005). We suggest that respect, as well as emotion, play important roles in B2B relationships, evidenced in part by their impact on citizenship behaviors.

Respect is the belief that a relationship partner is valuable and has worth, a definition we developed out of an extensive multi-disciplinary literature review and informed by twenty-two in-depth interviews. Our interview participants felt excitement and fulfillment in respectful relationships, but felt frustrated, angry, or indignant in relationships that lacked respect. The interview participants also explained how respectful relationship partners go the ‘extra mile’ for each other – they engage in citizenship behaviors. Interpersonal citizenship behaviors are extra-role behaviors directed at relationship partners from other organizations and they have a number of positive consequences – they enhance productivity, free up resources, and increase the stability of organizational performance (Podsakoff, MacKenzie, Paine, and Bacharach 2000).

Our central prediction was that respect (or lack of) is an important determinant of citizenship behaviors in B2B relationships. Specifically, we hypothesized that B2B relationships with (without) respect inspire positive (negative) affect because they are self-affirming. In turn, this encourages (prevents) citizenship behaviors. We also predicted that these outcomes were a particular consequence of respect (and not of trust).

While trust and respect are closely related, there are important conceptual differences. Trust is a belief that another party is credible and will act in a manner that demonstrates non-malfeasance. In contrast, respect is recognizing and valuing the other’s personhood, rights, merits, and talents. Although there is clearly substantial overlap between these two constructs – being trustworthy, for example, may be a respected characteristic – they do have distinct antecedents and consequences. In particular, we argue that respect in a relationship inspires positive affect because both parties feel valued. In contrast, when there is trust in a relationship, parties have more certainty about the outcomes of the relationship and are less likely to incur governance costs.

The emotional consequences of respect are in various literatures (e.g., Barclay, Skarlicki, and Pugh 2005; Buckley, Winkel, and Leary 2004; Lawler and Thye 1999). Appraisal theory (Lazarus 1991) provides insight into the kinds of emotions that might arise from respect and, along with group-value research (Smith and Tyler 1997), why this would be mediated by self-esteem. Support for the relationship between respect and citizenship behaviors is also found in other research (Piery, Cravens, Lane, and Vorhies 2006).

In our study, 114 participants read one of four scenarios online, in which we manipulated elements of a B2B relationship designed to affect trust and respect independently. After reading the scenario participants completed measures of trust, respect, affect, self-esteem, and citizenship behaviors. Our findings suggested that respect has a unique impact on citizenship behaviors in a business-to-business relationship marketing context, mediated by affect. The relationship between respect and emotion, in turn, was mediated by self-esteem. Unexpectedly, both respect and trust were related to negative emotional outcomes.

Our study makes a number of contributions; it tested key outcome variables related to respect (self-esteem, emotion, and citizenship behaviors) and simultaneously explored the role of trust within these relationships. We
demonstrated that respect and trust have unique antecedents, and that respect explained variance in citizenship behaviors that trust did not. Theoretical contributions include incorporating the role of emotion into our understanding of these relationships, introducing citizenship behaviors as an outcome variable, and expanding the more rational, cognitive lens traditionally used in B2B relationship research. Managers benefit by coming to an improved understanding of what role respect plays in B2B marketing relationships – that it has the potential to generate negative emotions, which in turn divert time and energy away from work into coping with the emotions; or alternatively that it has the potential to generate positive emotions, which in turn motivate marketers to go the extra mile for their relationship partners.

In the future, it is critical to fully explore the specific relationship between respect and trust. Second, there are additional outcomes in B2B relationships that may be explained in part by respect – for example, word-of-mouth, commitment, and cooperation. Third, it is important to understand more fully the reasons why citizenship behaviors matter to relationship marketing success, as these have not been widely researched in a marketing context despite their ability to impact on overall relationship performance. References are available upon request.

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THE ROLES OF FORMAL CONTRACT, GUANXI AND BOUNDARY SPANNER’S LEARNING IN ALLIANCE INNOVATION: EVIDENCE FROM CHINA

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ABSTRACT

By testing data from China, we find that formal contract and guanxi positively influence boundary spanner’s learning and alliance innovation. Further, we examine the synergy of formal contract and guanxi. What is more, our results indicate that formal contract is statistically stronger than guanxi in shaping alliance innovation.

INTRODUCTION

Nowadays more and more companies tend to achieve competitive advantages by alliance innovation. However, it is estimated that the ratio of failure in alliance innovation reaches up to 50 percent and 70 percent (De Man and Duysters 2005). Sivadas and Dwyer (2000) emphasize that the main reason accounting for the high failure rate of alliances is that either party can opportunistically employ the alliance to learn the other’s business or technological secrets. To address this, extant literature has demonstrated that control mechanisms must be applied to alliance management (Williamson 1985). Transaction cost economics (TCE) claims that opportunistic behaviors exist in the inter-organizational exchanges, such as lying, holding up from partners, calculated efforts to mislead and non-compliance (Wathne and Heide 2000). Some authors advocate that managers should craft a formal contract to prevent those opportunistic behaviors (Lui 2009). Nevertheless, other scholars argue that formal contract is not a good tool to prevent exchange hazards from occurring (e.g., Dyer and Singh 1998). According to relational exchange theory (RET), owing to lack a well-established legal system, managers tend to depend on relational mechanisms (such as trust, relational norms, and shared goals) to coordinate exchanges (Liu et al. 2009; Li et al. 2010). Scholars have advocated that in China guanxi better reflects the connection or tie between individuals (e.g., Hammond and Glenn 2004). Based on TCE and RET, we consider formal contract and guanxi as two instruments in alliance governance. In addition, to ensure the success of alliance, amounts of literature have illustrated that inter-organizational learning is indispensable for alliance innovation (Nielsen and Nielsen 2009).

A careful review of previous studies, however, has identified several limitations. First, although many scholars have demonstrated that transactional mechanisms and relational mechanisms must be used together in alliance governance (e.g., Poppo and Zenger 2002; Liu et al. 2009), a paucity of literature has further illustrated which mechanism is more effective and worthy of focus. Second, guanxi is an important factor in Chinese business practice (Lee and Humphreys 2007). However, little considers the role of guanxi as relational mechanism in alliance innovation in China. Third, while existing literature has emphasized the importance of inter-organizational learning on the alliance innovation (e.g., Nielsen and Nielson 2009), they ignore the role of boundary spanners in conducting the inter-organizational learning and alliance innovation. Boundary spanners are considered as the conduits of, or sensors for learning and knowledge (Salk and Simonin 2003; Janowicz-Panjaitan and Noorderhaven 2009). To highlight the role of boundary spanners in inter-organizational learning, we create boundary spanner’s learning (BSL) and define it as one special form of inter-organizational learning in which boundary spanners absorb and assimilate tacit knowledge as well as form mutual experience through sharing information, jointly making sense of information and developing relationship-specific memory. Last, it has been widely held that control mechanisms must be applied to alliance management (Heide 1994; Jap and Anderson 2003) and learning activities are indispensable for fulfilling alliance innovation (Nielson and Nielson 2009). Nevertheless, few studies have clearly addressed how to adopt them together to ensure alliance innovation.

The purpose of our paper is to address these challenges by examining the effects of control mechanisms (formal contract and guanxi) and learning activities (BSL) on the alliance innovation. We define BSL to highlight the role of boundary spanners in inter-organizational learning. We also consider the direct effects of formal contract and guanxi on BSL and alliance innovation respectively. Then, this paper further examines the role of BSL in alliance innovation. In the end, by uncovering the synergy between formal contract and guanxi in BSL and alliance innovation, we aim to find which one is more effective and important in the context of China.
RESEARCH HYPOTHESES

The Effects of Formal Contract on BSL and Alliance Innovation

Hazardous and opportunistic behaviors inevitably appear in the inter-firm exchanges, hindering knowledge transfer. For example, one partner can utilize the alliance to learn the other’s business or technological secrets for its own interests (Muthusamy and White 2005). For another thing, because excess leakage of information can lead to dilute one company’s internal sources of competitive advantage, boundary spanners are reluctant to share any important information about their company with partners. TCE views formal contract as an effective governance for the inter-organizational exchange. Heide (1994) suggests that six governance processes can be written into the contracts: role specification, planning, adjustment processes, monitoring procedures, incentive systems, and means of enforcement. Hence, in an alliance, formal contract not only specifies obligations and expected duties of partners (Lui 2009), but also reduces the scope for communication problems and misunderstanding. It is the formal contract that provides clauses which protect interests of partners and facilitate conditions of leading to resource-effectiveness (Brown et al. 2000).

With the help of specified contracts, boundary spanners decide to exchange and transfer what kind of information and knowledge without worrying about negative consequences of exchanges. In addition, partners require purposefully structured and planned interactions between boundary spanners to be included in the formal contract, such as joint project teams, task forces, training programs, meeting and organized personal contacts (Janowicz-Panjaitan and Noorderhaven 2008). Inkpen and Dinur (1998) have illustrated that formal social interactions between individuals exert a positive impact on knowledge sharing between organizations. Subsequently, boundary spanners can share information easily, solve problems collectively and enhance relationship-specific memory significantly. Likewise, formal contract constructs a secured atmosphere for exchanging knowledge, especially tacit knowledge, contributing critically to alliance innovation.

H_{1a}: In marketing channels, formal contract has a positive effect on the BSL.

H_{1b}: In marketing channels, formal contract has a positive effect on alliance innovation.

The Effects of Guanxi on BSL and Innovation

As firm-level guanxi is based on the individual guanxi (Tsang 1998), boundary spanners, performing on the surface of organization, act a vital role in the firm-level guanxi (Kusari et al. 2005). High level of guanxi can bring about a range of benefits, including securing rare resources, obtaining formation and privileges, providing insurance against uncertainties and assistance when problems arise (Fan 2002). Besides, guanxi involves cultivating personal relationship by the exchange of favors and gifts. Tsang (1998) mentions that one most important aspect of instrumental value of guanxi in Chinese society is the reciprocal obligations of parties involved concerning the acquisition of resource. Moreover, high level of guanxi can simulate the informal learning behaviors, which capture the intrinsically motivated behaviors of the boundary spanners that lead to interorganizational learning (Salk and Simonin 2003). Meanwhile, boundary spanners can share and transfer knowledge about their common practice by conducting informal learning behaviors. Prior research has found that intrinsically motivated knowledge sharing and informal social interactions are a good determinant of interorganizational knowledge flows (Janowicz-Panjaitan and Noorderhaven 2008). Therefore, high level of guanxi can facilitate the exchanges of information, especially tacit knowledge which is essential to alliance innovation in the knowledge-based economy. Furthermore, when facing difficulties, parties with high level of guanxi can resolve problems bilaterally and accordingly form joint sense-making. This process then generates the relationship-specific memory.

The empirical research from Lee and Humphreys (2007) indicates that guanxi has a significantly positive influence on supplier development by investigating 175 companies in the electronic sector of Hong Kong. Existing studies have shown that guanxi can help firms achieve and enhance cooperative performance by allaying uncertainties and protecting from external threats in China (Park and Luo 2001; Zhuang et al. 2010).

H_{2a}: In marketing channels, guanxi has a positive effect on BSL.

H_{2b}: In marketing channels, guanxi has a positive effect on alliance innovation.

The Effects of BSL on Alliance Innovation

Although knowledge is one source of competitive advantages, it cannot spontaneously flow and transfer between companies (Janowicz-Panjaitan and Noorderhaven 2009). On the other hand, BSL involves exchanging information, seeking a solution to the problem mutually, forming joint sense-making, conveying professional knowledge, as well as forming relationship-specific memory. Therefore, BSL conducts the role of carrying the knowledge on the interface of organizations. Moreover, boundary spanning theory notes that boundary spanners
facilitate inter-organizational transactions and manage inter-organizational conflicts (Richter et al. 2006). In this vein, BSL promotes transferring tacit knowledge from parties and generating new knowledge which enhances alliance innovation by activities above. 

Formal contract and guanxi as two main control mechanisms create a relatively safe atmosphere for BSL which favors knowledge transfer alliance innovation needs. Recently, some scholars have demonstrated the positive relationship between learning and innovation in alliance (Chen et al. 2009; Nielson and Nielson 2009).

H3a: In marketing channels, BSL has a positive effect on the alliance innovation.

H3b: In marketing channels, BSL functions as mediation between formal contract and alliance innovation.

H3c: In marketing channels, BSL functions as mediation between guanxi and alliance innovation.

The Interaction of Formal Contract and Guanxi

High level of guanxi guarantees that parties can’t breach relational norms, even when benefits from opportunistic behavior exceed profits from the alliance. If one party exhibits the sign of opportunistic behavior, this will spoil the reputation of the organization and its managers. What is more, the infamous reputation usually spread fast in the social network. As a consequence, given advantages of guanxi and fears of ill reputation, it is hardly possible for parties in the alliance to conduct opportunistic behaviors. As we propose in H1a that formal contract has a positive effect on BSL, thus high level of guanxi promotes the effect of formal contract on BSL and then on alliance innovation. For another thing, a well-specified contract not only contains roles and responsibilities to be performed and outputs to be delivered, but also covers procedures for monitoring and penalties for noncompliance, so that the relational hazard in the cooperation can be reduced to the minimum. Poppo and Zenger (2002) indicate that due to lack necessary contracts in curtailing the opportunism, the function of relationship is indefinite. From the analysis above, we can see that formal contract and guanxi are mutually enhancing each other’s influence on BSL and alliance innovation.

H4a: Improvement of BSL is stronger when formal contract and guanxi are used jointly than when used separately.

H4b: Improvement of alliance innovation is stronger when formal contract and guanxi are used jointly than when used separately.

Nevertheless, the issue that which one of them is more effective in achieving the goal of alliance is also worthy of focus. Luo (2007) asserts that a detailed contract can hardly regulate behaviors of both parties in a drastic and uncertain marketplace as a result of the following obstructions: intervention from government officials, lack of independent law enforcement, and frequent unjustified law changes. Considering both incomplete legal system enforced in the Chinese transitional economy and prevalent guanxi embedded in its culture, people are more likely to resort to guanxi rather than to rely on formal contract to solve problems and acquire the resources they need (Yau et al. 2000).

H4c: In China, compared to formal contract, guanxi is more effective in enhancing BSL.

H4d: In China, compared to formal contract, guanxi is more effective in enhancing alliance innovation.

METHODOLOGY

Sampling and Data Collection

We collected data from small high-tech manufacturers in mainland China by mailing questionnaires. The research lasted from January to May in 2010. We sent 919 questionnaires to companies in Jiangsu, Zhejiang, Shandong, and Anhui provinces and received 319. Three hundred eight were deemed effective; the response rate is 33.5 percent. With regard to the possibility of non-response bias, we conducted all questions to examine the differences in the answers between the two waves of response (the first 50 and the last 50 questionnaires) by carrying out independent sample t-tests. Results demonstrated that results of the survey are unlikely to be significantly affected by the non-response bias.

Measurement

We obtained the items largely from the past research. Questionnaire items were measured using a 7-point scale in which “1” represented “strongly disagree” and “7” represented “strongly agree.” The scale of formal contract was adapted from Liu et al. (2009) and Lui et al. (2009), who have used it in the context of China. We focus on four parts of guanxi suggested by Abramson and Ai (1997): trust building, shared goals, resolving disagreements and network building. The scale of guanxi was adapted from Liu et al. (2009) and Lee et al. (2007). The scale of BSL concentrated on the relationship learning and tacit knowledge learning, based on Selnes and Sallis (2003) and Nielsen and Nielsen (2009). We formed four items to measure alliance innovation in light of Chen et al. (2009) and Nielsen et al. (2009). Besides, we selected the length
of cooperation, the uncertainty, asset specificity, absorptive capacity and the degree of dependence as the control variables.

The Test of Reliability and Validity

First of all we conducted a confirmatory factor analysis by using Amos 18.0, with the result showing a good fit for the model $\chi^2 = 203.49$ df = 122 $\chi^2$/df = 1.67 $p < 0.001$ RMSEA = 0.05 CFI = 0.98 GFI = 0.93 AGFI = 0.91 NFI = 0.96). Second, Cronbach $\alpha$ of each scale is over 0.9, manifesting highly internal consistency for each. We also computed composite reliability (CR) scores to assess construct reliability. All factors have CRs greater than 0.70. The AVE values for all constructs satisfactorily exceed 0.50. Lastly, the discriminant validity was checked and Harman’s single-factor test indicated that common method variance may not be a serious problem in this study. The scores of all items of one construct were summed to reflect its whole situation. Table 1 reports the descriptive statistics and Person Correlation Coefficients for all constructs involved in this study.

RESULTS

Direct Effect

The direct effects in our models are checked in this passage. Based on Model 1, Model 2 and Model 3, it is obvious that formal contract ($\beta = 0.590$, $p < 0.01$) and guanxi ($\beta = 0.385$, $p < 0.01$), as well as BSL ($\beta = 0.478$, $p < 0.01$) have significantly positive impact on alliance innovation, in support of $H_{1b}$ $H_{2b}$ and $H_{3a}$. From the Model 8 and Model 9 in Table 2, BSL is significantly influenced by formal contract ($\beta = 0.314$, $p < 0.01$) and guanxi ($\beta = 0.204$, $p < 0.01$), supporting $H_{1a}$ and $H_{2a}$.

Interaction Effect

As we show in Model 7 and Model 11 in the Table 3, the interaction effect of formal contract and guanxi is significant for innovation ($\beta = -0.094$, $p < 0.1$) and BSL ($\beta = 0.141$, $p < 0.05$). Besides, from the patterns of interactions as shown in Figure 1 and Figure 2, we can learn that $H_{4a}$ and $H_{4b}$ are supported. Further, we can get $\Delta R^2$ as follows from the regression results of Model 1, Model 2, Model 6, and Model 8, Model 9, Model 10.

$\Delta R^2_{Model 6-Model 1} = R^2_{Model 6} - R^2_{Model 1} = 0.539 - 0.507 = 0.032$

$\Delta R^2_{Model 6-Model 2} = R^2_{Model 6} - R^2_{Model 2} = 0.539 - 0.341 = 0.198$

$\Delta R^2_{Model 10-Model 8} = R^2_{Model 10} - R^2_{Model 8} = 0.365 - 0.358 = 0.007$

$\Delta R^2_{Model 10-Model 9} = R^2_{Model 10} - R^2_{Model 9} = 0.365 - 0.331 = 0.034$

Here $\Delta R^2_{Model 7-Model 1}$ represents the proportion of the variance of alliance innovation that guanxi can explain. $\Delta R^2_{Model 6-Model 2}$ represents the proportion of the variance of alliance innovation that formal contract can interpret. Since $\Delta R^2_{Model 6-Model 2} > \Delta R^2_{Model 6-Model 1}$, we can conclude that formal contract are more forceful in shaping alliance innovation than guanxi, not supporting $H_{4d}$. Similarly, $\Delta R^2_{Model 10-Model 9} > \Delta R^2_{Model 10-Model 8}$, it suggests that formal contract statistically stronger than guanxi in shaping BSL, not supporting $H_{4c}$.

To illustrate the nature of interactions, we depicted the pattern of the interactions in Figure 1 and Figure 2. From them, we can conclude that for alliance innovation the high (low) level of formal contract and the low (high) level of guanxi appear to be complementary, besides, that the high level of formal contract substitutes for the high level of guanxi. On the other hand, the higher degree of formal contract and higher degree of guanxi combine, the better BSL can achieve.

Mediating Effect

The study follows Baron and Kenny’s (1986) procedure to analyze the mediating effect of BSL between control mechanisms and alliance innovation. First, the

<table>
<thead>
<tr>
<th>Construct</th>
<th>M</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal contract</td>
<td>22.231</td>
<td>5.483</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guanxi</td>
<td>18.360</td>
<td>6.703</td>
<td>0.393&quot;</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSL</td>
<td>33.886</td>
<td>6.287</td>
<td>0.419&quot;</td>
<td>0.286&quot;</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Alliance innovation</td>
<td>22.373</td>
<td>4.313</td>
<td>0.581&quot;</td>
<td>0.385&quot;</td>
<td>0.610&quot;</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Note " $p < 0.01$(two-tailed)
### TABLE 2
Hypotheses Testing: Hierarchical Multivariate Regression (N = 308)

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alliance Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset specificity</td>
<td>-0.025</td>
<td>-0.012</td>
<td>-0.062</td>
<td>-0.052</td>
<td>-0.052</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>0.084*</td>
<td>0.076</td>
<td>0.106*</td>
<td>0.080*</td>
<td>0.072</td>
</tr>
<tr>
<td>Absorptive capacity</td>
<td>0.136***</td>
<td>0.163***</td>
<td>0.027</td>
<td>0.048</td>
<td>-0.242</td>
</tr>
<tr>
<td>The length of cooperation</td>
<td>-0.162***</td>
<td>-0.288***</td>
<td>0.264***</td>
<td>-0.147***</td>
<td>-0.242</td>
</tr>
<tr>
<td>The degree of dependence</td>
<td>0.048</td>
<td>0.067</td>
<td>-0.006</td>
<td>-0.008</td>
<td>-0.014</td>
</tr>
<tr>
<td>Formal contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guanxi</td>
<td>0.385***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSL</td>
<td></td>
<td>0.478***</td>
<td>0.286***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>38.883***</td>
<td>20.068***</td>
<td>21.992***</td>
<td>40.754***</td>
<td>26.415***</td>
</tr>
<tr>
<td>ΔF</td>
<td>135.553***</td>
<td>47.275***</td>
<td>56.302***</td>
<td>88.206***</td>
<td>48.964***</td>
</tr>
<tr>
<td>R²</td>
<td>0.52</td>
<td>0.395</td>
<td>0.38</td>
<td>0.571</td>
<td>0.464</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.507</td>
<td>0.341</td>
<td>0.363</td>
<td>0.557</td>
<td>0.446</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.302</td>
<td>0.141</td>
<td>0.162</td>
<td>0.353</td>
<td>0.245</td>
</tr>
</tbody>
</table>

Notes: *p < 0.1; **p < 0.05; ***p < 0.01

### TABLE 3
Hypotheses Testing: Hierarchical Multivariate Regression (N = 308)

<table>
<thead>
<tr>
<th></th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
<th>Model 10</th>
<th>Model 11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alliance Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>8.689***</td>
<td>21.097***</td>
<td>12.905***</td>
<td>20.301***</td>
<td>12.605***</td>
<td>10.509***</td>
</tr>
<tr>
<td>Asset specificity</td>
<td>-0.022</td>
<td>-0.042</td>
<td>0.094</td>
<td>0.101</td>
<td>0.096</td>
<td>0.099*</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>0.065</td>
<td>-0.053</td>
<td>0.015</td>
<td>0.011</td>
<td>0.005</td>
<td>0.007</td>
</tr>
<tr>
<td>Absorptive capacity</td>
<td>0.130**</td>
<td>0.121**</td>
<td>0.309***</td>
<td>0.324***</td>
<td>0.306***</td>
<td>0.319***</td>
</tr>
<tr>
<td>The length of cooperation</td>
<td>-0.162***</td>
<td>-0.162***</td>
<td>-0.049</td>
<td>-0.117</td>
<td>-0.05</td>
<td>-0.046</td>
</tr>
<tr>
<td>The degree of dependence</td>
<td>0.037</td>
<td>0.039</td>
<td>0.196***</td>
<td>0.206***</td>
<td>0.190***</td>
<td>0.194***</td>
</tr>
<tr>
<td>Formal contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guanxi</td>
<td>0.202***</td>
<td>0.219***</td>
<td>0.204***</td>
<td>0.106*</td>
<td>0.106*</td>
<td></td>
</tr>
<tr>
<td>BSL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal contract×guanxi</td>
<td>-0.094*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.141*</td>
</tr>
<tr>
<td>F</td>
<td>37.961***</td>
<td>35.128***</td>
<td>21.574***</td>
<td>17.617***</td>
<td>19.146***</td>
<td>17.877***</td>
</tr>
<tr>
<td>ΔF</td>
<td>16.073***</td>
<td>57.769***</td>
<td>39.551***</td>
<td>12.694***</td>
<td>3.233*</td>
<td>5.915*</td>
</tr>
<tr>
<td>R²</td>
<td>0.554</td>
<td>0.569</td>
<td>0.376</td>
<td>0.33</td>
<td>0.385</td>
<td>0.402</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.539</td>
<td>0.553</td>
<td>0.358</td>
<td>0.331</td>
<td>0.365</td>
<td>0.379</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.336</td>
<td>0.351</td>
<td>0.086</td>
<td>0.04</td>
<td>0.009</td>
<td>0.017</td>
</tr>
</tbody>
</table>

Notes: *p < 0.1; **p < 0.05; ***p < 0.01
results of Sobel test show that the significant mediating effects exist in the two paths. The indications of them are 4.326 ($P < 0.001$) and 3.934 ($P < 0.001$) respectively. Second, according to Model 1 and Model 4, as well as Model 2 and Model 5, no matter whether the BSL exists, both formal contract and guanxi are significantly related to alliance innovation. However, the regression coefficients are reduced from 0.590 to 0.501 (formal contract) and from 0.385 to 0.304 (guanxi) separately. Therefore, BSL conducts partial mediating effects in the models.

**DISCUSSION AND IMPLICATIONS**

First, our findings indicate that whether formal contract and guanxi act as substitutes or complementary should be contingent on the degree of each other and the outcome, suggesting that it is insufficient to require managers to both draw up the formal contract and develop guanxi with partners in the course of alliance innovation. The connection of high (low) level of formal contract and low (high) level of guanxi can enhance the alliance innovation. Nevertheless, the combination of high level of formal contract and high level of guanxi can deteriorate the alliance innovation. Why the relationship between formal contract and guanxi is so complex. The answers may lie in the incompatibility between high level of formal contract and high level of guanxi. Complete contracts are detrimental to guanxi since detailed contracts can be interpreted as a sign of distrust. Besides, active use of formal contract may give rise to conflicts, opportunism and defensive behavior. On the other hand, guanxi can prevent opportunism so that it can reduce the need for contracting and monitoring. Moreover, in light of the cost of drafting and implementing formal contracts, parties are likely to invest in guanxi without associated cost. Therefore, in the process of alliance, organizations either utilize complete formal contract with low level of guanxi which characterizes the necessary relationship for parties to conduct the behavior required by the formal contract, or choose to develop guanxi sufficiently with partners in combination with the incomplete formal contract including only a few general clauses.

Second, formal contract exerts more powerful impact on BSL and alliance innovation. One of the reasons may be attributed to the improvement of legal systems recently in China, such as legal enforceability. The other is that high level of guanxi tends to raise the risk of unwanted knowledge leakage (Janowicz-Panjaitan and Noorderhaven 2008). What is more, overly intensive interaction...
sometimes results in an inward communicative focus, isolating them from the commercial realities of their industry sector and the wider organization with which they need to work (Thompson 2005). In this regard, the combination of high level of formal contract and low level of guanxi is more effective than the connection of high level of guanxi and low level of formal contracts in shaping alliance innovation. Besides, this conclusion has several implications for companies at home and abroad.

For foreign companies, when they start business in China, they should inherit their usual practice of focusing on formal contract. However, this doesn’t mean that guanxi can be overlooked. On that account, foreign companies should avoid aggravating relationship with Chinese partners. For native companies, when there is low level of guanxi between native companies in the alliance, companies should lay more emphasis on the formal contract. As more and more Chinese start business away from home, they should turn to complete formal contract as an alternative to guanxi.

Third, organizations should attach more importance to boundary spanners and promote BSL. Our findings demonstrate that BSL exerts partial mediation effects between control mechanisms and alliance innovation. To promote interorganizational learning, all parties in the alliance should provide sufficient opportunities for boundary spanners to conduct interorganizational learning. For example, organization can orchestrate interactions between them, such as joint projects, reciprocal visits and joint training activities (Janowicz-Panjaitan and Noorderhaven 2008). Also, a firm can encourage its boundary spanners to be more active in the social activities with the counterparts from partners, such as exchanging small gifts during festivals, having dinners together and taking care of each other in daily life (Zhuang et al. 2010).

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

There are three limitations to be remedied by future research. First, data mainly come from manufacturers unilaterally in marketing channels; future studies can make contributions by using a dyadic methodology. With data from both manufacturers and distributors, more insights regarding the role of control mechanisms in the cooperation performance are expected. Second, the moderating variables are not discussed in our paper. The
different interaction of control mechanisms on BSL and alliance innovation reflects that some moderating variables may exist in the relationship between BSL and alliance innovation. Therefore, related moderating variables should be considered into the future study. Third, this paper only covers several provinces to test proposed hypotheses, which cannot embody the overall situation of China. Given the diversity and complexity among different regions in China, future efforts should extend similar investigations to other regions.

ENDNOTES

1 This paper is supported by the National Natural Science Foundation of China (No. 70902009).
2 Joint making sense of information refers to an ongoing joint activity between partners directed at making sense of information which has the potential to influence behavior (Li 2006).
3 Developing relationship-specific memories refers to an ongoing joint activity between partners aimed at integrating acquired information and knowledge into a shared relationship-domain specific memory that has the potential to influence behavior (Li 2006).

REFERENCES


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AN EXAMINATION OF FACTORS SHAPING DISSOLUTION INTENTION IN CHANNEL RELATIONSHIPS

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Bohyeon Kang, Kyungpook National University, Korea
Sejo Oh, Yonsei University, Korea
Eugene Sivadas, University of Washington, Tacoma

SUMMARY

Much emphasis has been placed on building closer relationships between buyers and sellers and the virtues of relationship marketing (Morgan and Hunt 1994; Palmatier, Dant, Grewal, and Evans 2006). However, relatively little attention has been paid to issues surrounding relationship dissolution (Dwyer and Tanner 2009; Ping and Dwyer 1992). Relationships among companies do not necessarily last forever and various factors can result in the termination of collaborative relationships (Oh, Kang, and Kim 2004). Relationship dissolution can be the result of a failure of the relationship process.

We use social exchange theory (Blau 1964) to develop our conceptual framework. We examine four key unexplored drivers of relationship dissolution intent, namely, conflict, unfairness, goal incongruity, and trust. Our framework and model examines the effect of and interaction between conflict, unfairness, goal incongruity and trust as it shapes the intent of a party to exit a relationship.

Our conceptual model is tested using a sample survey from the Korean dairy industry. Three hundred sixty completed responses were obtained using an online survey. Multi-item measures from the existing literature were modified where appropriate to measure the constructs. All constructs exhibited strong composite reliability (0.77 to 0.90) and coefficient alpha reliability (0.76 to 0.90). The factor loadings provide strong evidence of convergent validity. All constructs had average variance extracted greater than 0.50 and Fornell and Larcker’s (1981) test was used to provide evidence of discriminant validity. Common method variance testing using Harmon’s one factor approach indicated no problems as well (Podsakoff et al. 2003).

Results indicate support for the posited hypotheses. The research empirically verifies the role of goal incongruence, conflict, unfairness, and trust in shaping dissolution intention.

REFERENCES

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THE FIT OF BUSINESS RELATIONSHIPS WITH
BUSINESS STRATEGIES

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Stephan C. Henneberg, University of Manchester, United Kingdom
Peter Naudé, University of Manchester, United Kingdom
Zhaleh Najafi Tavani, Strathclyde Business School, United Kingdom
Carla Sofia Ramos, University of Manchester, United Kingdom

SUMMARY

Over the past few decades we have witnessed substantial research efforts placed on understanding relationship marketing as a distinct body of knowledge. One of the pivotal findings from such studies is the acknowledgment of the existence of different types of business relationships, stemming from different relationship strategies being employed (Cannon and Perreault 1999). However, while many researchers have investigated the nature of business relationships (Anderson et al. 1994) and their impact on achieving superior performance (Cannon and Homburg 2001), there is a dearth of research on the interplay between business relationships and business level strategies of a focal firm and on understanding how the business relationship-business strategy fit impacts on performance dependents (Johnson 1999; Zaefarian et al. 2010).

In finding answers to these important research questions, we applied the concept of strategic fit to the characteristics of inter-organizational relationships, a crucial topic of business marketing practice. This unique approach invokes a configurational view on strategy vis-a-vis relationship structures (Miller 1986; Miller 1996). The main focus of configurational research is on firms that share key underlying organizational characteristics, such as strategies and structures (Meyer et al. 1993). In the strategy and management literature, this theory is used to understand how a firm’s organizational structure is related to its strategic intent (Hult et al. 2006). The theory posits that for every given strategic setting, there exist a small number of ‘organizational configurations’ that fit better than others and thus yield superior performance (Miller 1987; Van de Ven and Drazin 1985).

We thus hypothesize that business relationships make their greatest contributions to both relationship performance and overall firm performance when the structure of a business relationship is accurately aligned with the business strategy of the focal firm. Next, we draw on the fit methodology literature and identified fit as profile deviation as the most appropriate approach in delineating the fit between business relationships manifested through inter-personal trust, inter-organizational trust, affective commitment, behavioral commitment, information sharing, cooperation, and relationship specific investment on the one hand and business strategy represented by prospectors, analyzers, and defenders on the other.

We tested our hypotheses with the empirical data collected from a total of 195 international managers. Our analyses confirm the existence of a unique ideal configuration of business relationship structure for each business strategy type. The profile deviation analysis indicates that the more similar configurations of relationship characteristics are to those of the top performing companies for their given business strategy type, the higher is both their relationship performance and their overall firm performance. The implication of these findings is that the top management of firms need to build and manage their business relationships in ways that are consistent and concurrent with their business strategy. Such a strategic coalignment among relationship characteristics and business strategy is described as a desirable property through which performance increases (Venkatraman 1990). This finding is consistent with the literature in which effective business relationships require consistent and concurrent attention to all dimensions of relationship characteristics (as opposed to sporadic attention to some) (Fynes et al. 2008). Different managerial and scholarly implications are also drawn from these findings. References are available upon request.
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THE DIFFERENTIAL PROFIT IMPLICATIONS OF DISTRIBUTIVE, PROCEDURAL, AND INTERACTIONAL PRICE FAIRNESS IN BUYER–SELLER RELATIONSHIPS

Christian Homburg, University of Mannheim, Germany
Jan K. Allmann, University of Mannheim, Germany
Dirk Totzek, University of Mannheim, Germany

SUMMARY

The growing professionalization and strategic relevance of purchasing has led customers in business-to-business markets to impose heavy price reduction pressure on their suppliers. In this context, acting fairly with respect to prices can have unintended negative consequences for suppliers, as customers exploit such behavior by demanding short-term price concessions. At the same time, fairness is central to the continuity of successful buyer–seller relationships. When industrial buyers describe the factors that make a successful partnership, they often mention fairness. Consequently, organizations seek partners who are committed to fair transactions.

While marketing research has intensively studied the antecedents and consequences of price fairness in business-to-consumer settings, research is lacking on price fairness in buyer–seller relationships in a business-to-business setting. And although investigators have anecdotally asserted that industrial customers value a supplier’s offer of a fair price, empirical evidence of specific outcomes of price fairness in buyer–seller relationships is missing. This study addresses this shortcoming by looking at the profit impact of different price fairness dimensions in the business-to-business context.

Drawing on organizational justice and business-to-business fairness research, we introduce the concept of business-to-business price fairness along three dimensions – distributive, procedural, and interactional – and analyze to what extent these dimensions influence a customer firm’s willingness to pay. We define distributive price fairness as the customer firm’s perception that the supplier’s prices are fair and just, procedural price fairness as the perceived fairness and justness of the procedures the supplier uses to set prices in the business relationship, and interactional price fairness as the customer firm’s perception of fair treatment by the supplier in price-related personal interactions. Beyond that, we investigate the influence of a customer firm’s willingness to pay on the price premium obtained by the supplier and, ultimately, the relative profitability of the customer account from the supplier’s perspective. Thus, we link price fairness to key outcomes capturing the profitability of buyer–seller relationships for supplier firms.

To answer the question under which circumstances each dimension of price fairness affects the customer firm’s willingness to pay, we consider two important moderators. First, we examine the delegation of pricing authority to the sales force. Additionally, to account for the influence of competitive characteristics from a customer’s perspective, we look at the competitive intensity in the customer firm’s selling market as a moderator.

Our research hypotheses were tested using structural equation modeling. To test our moderating hypotheses, we included latent interactions between the moderators and the independent variables as determinants of willingness to pay in our model. Analysis relies on dyadic data across 150 buyer–seller relationships from a variety of business-to-business industries.

Results show that perceptions of distributive and procedural price fairness raise the customer firm’s willingness to pay. Interactional price fairness, on the other hand, reduces the customer firm’s willingness to pay. Beyond that, delegation of pricing authority negatively moderates the relationship between both distributive and interactional price fairness and willingness to pay, and positively moderates the relationship between procedural price fairness and willingness to pay. The competitive intensity in the customer firm’s selling market positively moderates the relationship between both distributive and interactional price fairness and willingness to pay, and negatively moderates the relationship between procedural price fairness and willingness to pay.

The findings advance academic knowledge on the effects of price fairness in buyer–seller relationships in several ways. First, this study is the first to explicitly conceptualize price fairness and to empirically study its outcomes in a business-to-business setting. Second, our study shows that distributive, procedural, and interactional price fairness each substantially affect the price level the customer firm is willing to pay, and consequently the relative profitability of the respective business relationship for the supplier. Lastly, we identify conditions under which the different price fairness conditions gain or lose influence on the customer firm’s willingness to pay. Hence, we show that price fairness outcomes in buyer–seller relationships are context-specific.
From a practical standpoint, suppliers have to ensure distributive and procedural price fairness in order to increase the customer firm’s willingness to pay. At the same time, they must be careful to not be excessively fair in direct price-related interactions. Moreover, suppliers need to focus on fair price-related procedures in instances in which the sales force has great pricing authority. Pricing authority delegation decisions should also be based on the level of distributive, procedural, and interactional price fairness achieved by the supplier. Lastly, suppliers have to be aware of the competitive intensity in the selling markets of their customer firms. If a customer operates in a highly competitive environment, for example, the supplier should focus more on distributive price fairness.

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SOCIAL CAPITAL AND RELATIONSHIP EFFECTIVENESS IN UNIVERSITY-FIRM COOPERATION

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SUMMARY

Particularly in turbulent times commercial enterprises increasingly seek to acquire knowledge from external sources such as universities and academic research centers (Sherwood and Covin 2008). Universities act as knowledge suppliers by transferring research results into knowledge applicable by firms to conduct product and process development efforts. Firms benefit from the acquisition of knowledge and technologies as key to value creation (George et al. 2002). Value creation, though, depends on relational outcomes universities and firms are able to realize within their relationship. More precisely, value creation is enabled if the knowledge transferred in a university-firm relationship supports the accomplishment of the firm’s corporate objectives (Tatikonda and Stock 2003).

A rich body of literature on relationship marketing draws attention to factors responsible for positive relational outcomes (Palmatier 2008). Surprisingly, despite the emphasis academic literature gives to issues of interorganizational relationships, only little has been done to advance our understanding of university-firm relationships. While focusing on patenting, licensing, or spin-offs, previous studies neglect the importance of initiating and developing valuable relationships as facilitators of knowledge transfer between universities and commercial enterprises (Plewe et al. 2005).

According to Zander and Kogut (1995), acquisition and exploitation of knowledge is a predominantly social process. Indeed, existing studies find trust and richness of personal interactions to be decisive in enhancing knowledge transfer relationships (Dodgson 1993; Madhavan and Grover 1998). Several authors conclude that the acquisition and exploitation of knowledge is facilitated by the presence of social capital (Bozeman et al 2001; Yli-Renko et al. 2001). Social capital is understood as the sum of resources embedded within, available through, and derived from relationships an organization possesses with others. Notably, social capital refers to both the relationships and the assets available through these relationships (Nahapiet and Ghoshal 1998).

To the author’s best knowledge, previous research has largely overlooked mechanisms of social capital in university-firm transfer relationships. The aim of this paper is to address this serious gap and to contribute to a better understanding of the role of social capital in university-firm relationships. More precisely, the paper adds to the literature by developing a conceptual framework that captures drivers and outcomes of social capital in university-firm knowledge transfer relationships.

To accomplish this aim, the study adopts a qualitative approach employing in-depth interviews with industry managers and academic researchers was executed. In-depth interviews were conducted face to face by the author, following a semi-structured interview guide. Doing so, a systematic approach to a series of interviews was ensured without limiting the opportunity to uncover and explore new issues. The interview guide contained questions revolving around three main themes, namely (1) relevance of knowledge transfer with universities or the industry respectively, (2) characterization of favorable and unfavorable personal and organizational attributes of the transfer partner, and (3) mechanisms to govern interactions to provide and absorb knowledge and to enhance relationship effectiveness. For structuring the interview guide, the study chose a bottom-up dramaturgy. Starting with questions regarding successful or unsuccessful knowledge transfers, interviews then focused on interaction patterns effective for a knowledge transfer. Finally, respondents were asked to describe relevant personal and organizational attributes which they perceived to influence interactions between researchers and the industry.

For data gathering, constant comparative method was used (Creswell 2007). The researcher conducts and analyzes a series of interviews. Based on themes and categories emerged from the data, additional interviews are conducted to get a deeper understanding of the concepts found and to discover new one. In order to determine a sufficient sample size, the saturation criterion was applied. Interviews are terminated when no new information or themes are observed in the data (Corbin and Strauss 2008).

Taking a broader perspective of social capital theory, the paper illustrates that not only relational, but also structural and cognitive social capital affect interaction quality between universities and the industry acting as knowledge transfer partners. Interestingly, in the context of university-firm knowledge transfer relationships individual social capital may have a greater effect on interaction quality than organizational social capital.

Second, the study elaborates a set of personal and organizational attributes of academic and industry entities that may enhance the creation of social capital. To date,
only few studies focus on mechanisms to build social capital. To the author’s best knowledge, none of them focuses on social capital building in university-firm relationships. Therefore, based on the exploratory results of this study, the paper proposes a conceptual framework as a point of departure for future investigations. It links personal and organizational attributes, social capital, interaction quality, and knowledge transfer effectiveness.

Finally, this study provides several implications for researcher and managers alike. For researchers, promising avenues occur considering the investigation of relationships between personal and organizational determinants and the creation of social capital. More precisely, more research is needed concerning the impact of personal and organizational attributes on the dimensions of social capital. Given the differences in terms of organizational culture, norms and values between universities and commercial enterprises, deeper insights into these phenomena would not only increase our knowledge on university firm alliances. It would also enrich the framework of relationship marketing and network theory. References are available upon request.

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WHO SHOULD INFLUENCE DECISIONS? INVESTIGATION OF DEPARTMENTS’ DECISION INFLUENCE ON RESPONSIVE AND PROACTIVE MARKET ORIENTATION

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SUMMARY

While the benefits of responsive and proactive market orientation are well established (Atuahene-Gima, Slater, and Olson 2005; Tsai, Chou, and Kuo 2008 and Blocker, Flint, Myers, and Slater 2010), little is known about ways to foster a proactive market orientation. The literature states that a (responsive) market orientation can only be achieved if a strong marketing department manages to draw other departments’ attention to the importance of such an orientation; however, the consequences of other departments’ decision influence on both responsive and proactive market orientation are not yet empirically investigated. Verhoef and Lee (2009) suggest that each department that represents a certain sub-culture (e.g., strong innovativeness) can dominate the broader organizational direction. Therefore, questions about the right degree of decision influence of specific departments and the constellations of dynamics between departments to foster responsive and proactive market orientation arises. The present study addresses these questions by building upon the coalitional view of the firm (Pfeffer and Salancik 1978) and the “thought world” concept (Lawrence and Lorsch 1967; Homburg and Jensen 2007) to examine how constellations of decision influence of five departments (sales, marketing, research and development (R&D), manufacturing and finance and controlling), dispersion and interdepartmental dynamics relate to both responsive and proactive market orientation.

Based on a literature review the five examines departments’ thought worlds are characterized along two dimensions: orientations (departmental objectives and time horizon) and competencies (social and technical capabilities). In line with the argumentation of Verhoef and Lee (2009) it is hypothesized, that the stronger a departments’ thought world matches the underlying values and requirements of responsive or proactive market orientation, the stronger it relates to the respective facet of market orientation. Considering the theoretical reasons for either concentration of decision influence to one department or similarly strong shared decision influence of all departments (Krohmer, Homburg, and Workman 2002), the relationship between the dispersion of decision influence and market orientation is expected to be inversely U-shaped. Interdepartmental conflict is considered to inhibit, while interdepartmental connectedness is hypothesized to foster both responsive and proactive market orientation (Kohli and Jaworski 1990).

In order to validate the research model empirically, survey data of directors and leading managers of small to medium sized companies was generated between January and March 2010 with an online questionnaire. Multiple regression analysis with interaction terms is applied (Aiken and West 1991). By including the quadratic term of decision influence dispersion in the regression models a potentially inverted U-shaped relationship of decision influence dispersion with both MO facets is examined (e.g., Menguc and Auh 2008).

Findings indicate that first, in line with common wisdom decision influence of the sales and marketing department positively relates to responsive market orientation. Non-significant relationships of both the R&D and the manufacturing department indicate that neither of these departments foster or inhibit a responsive market orientation. However, as decision influence of the finance and controlling department is significantly negatively related with responsive market orientation, this study contributes to extant research by showing that a thought world that is very different from a specific organizational orientation might inhibit its utilization. Second, the findings explain departments’ decision influence as antecedents of proactive market orientation. While three of the departments (sales, marketing and finance and controlling) influence proactive market orientation in the same way as responsive market orientation, proactive market orientation is additionally positively related to the decision influence of the R&D department. The R&D department’s goal orientation of innovation and its long-term horizon seem to be necessary to enable an organization to satisfy customers’ latent needs. Third, by integrating interdepartmental dynamics the present study draws a more holistic picture of the department-level antecedents of responsive and proactive market orientation. In contrast to extant research the findings indicate no relationship of interdepartmental connectedness with responsive market orientation, but a negative relationship of interdepartmental conflict. Complementing existing conceptual research, the findings also indicate that proactive market orientation is positively influenced by interdepartmental connectedness, but not significantly inhibited by interdepartmental conflict.
These finding highlights the difference between responsive and proactive market orientation and contributes to shedding light on how to install a proactive market orientation in an organization. Thereby, the present study provides guidance for managers on how to foster either a responsive or proactive market orientation and indicates that the means to foster each are different, but not incompatible. This research contributes to a better understanding of the consequences of departmental constellations for responsive and – for the first time – proactive market orientation. References are available upon request.

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NETWORK-BASED MARKET KNOWLEDGE AND PRODUCT INNOVATIVENESS

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SUMMARY

One important factor that determines new product success is the level of product innovativeness or newness (e.g., Calantone, Chan, and Cui 2006). An innovative product attribute or technological ingredient serves to differentiate a new product from competitive offerings, thus generating competitive advantages in a marketplace (Im and Workman 2004). Moreover, product innovativeness has been shown to exert positive effects through different mechanisms on new product profitability and market performance (Calantone et al. 2006; Lee and O’Connor 2003).

The extant marketing literature has evidenced the pivotal role of knowledge in shaping product innovativeness (e.g., Moorman 1995; Moorman and Miner 1997; Rindfleisch and Moorman 2001; Brockman and Morgan 2003). However, views diverge on the effects of market knowledge, and research findings in this domain are mixed and conflicting. On the one hand, some scholars believe that market knowledge can enhance a firm’s capability to understand its customer and identify new market opportunities, and thus introduce innovative new products (e.g., Li and Calantone 1998; Kim and Atuahene-Gima 2010). For instance, Moorman (1995) illustrates how a firm’s commitment to market information and deep information processing foster new product creativity. On the other hand, a negative impact of market knowledge on product innovativeness is also reported in the literature. Atuahene-Gima (1996) identifies a negative association between market orientation (and implicitly, market knowledge derived from collection of market information) and product newness to customers, suggesting that market knowledge could be detrimental to product innovativeness. Some studies yield mixed results. Im and Workman (2004) indicate that customer orientation (knowledge about customers) has a negative impact on new product novelty while competitor orientation (knowledge about competitors) has a positive effect. The more recent literature suggests that the effect of market information is contingent on network structure. Fang (2008) finds that provision of market information through customer participation inhibits (benefits) product innovativeness when the downstream customers form a network with high (low) connectivity. These mixed and contradictory findings suggest that the relationship between market knowledge and new product innovativeness may not be straightforward.

This study intends to offer some insights to resolve this controversy and, in doing so, addresses two major research gaps in the literature on new product innovativeness. First, although existing studies underscore the pivotal functions of market knowledge in new product development, they neglect the differential roles played by different dimensions of market knowledge (De Luca and Atuahene-Gima 2007). Some studies suggest that market information processing or market orientation can lead to a deep understanding of customers and competitors (Moorman 1995; Atuahene-Gima 2005), whereas the network perspective on information flow emphasizes the importance of a broad range of market knowledge (Fang 2008). We believe that the conflicting views about the role of market knowledge in product innovativeness stem from the failure to distinguish between the breadth and depth of market knowledge. By disentangling the effects of these two dimensions of knowledge, this study uncovers the driving forces that account for the controversy.

Second, prior studies unanimously assume that market knowledge has a linear effect on product innovativeness (Atuahene-Gima 1996; Fang 2008; Moorman 1995; Im and Workman 2004). Our study suggests that this assumption over-simplifies the effects of market knowledge. It may not even hold when we consider market knowledge along the breadth and depth dimensions. Creative solutions are thought to originate from recombination of discrete knowledge pieces (e.g., Rodan and Galunic 2004). A diverse knowledge base provides for rich opportunities to identify novel linkages between the knowledge nodes. As more heterogeneous information adds to a knowledge stock, the creative knowledge integration would increase at an accelerating pace, instead of in a linear fashion. On the other hand, although domain-specific expertise or knowledge fosters creativity in task solving (Amabile 1983), as knowledge is accumulated, the very competence that confers competitive advantages may turn into rigidity that hinders creative leaps, as opposed to enhancing creativity continuously (Leonard-Barton 1992). Therefore, the arguments for a linear relationship between market knowledge and product innovativeness may misrepresent the true phenomenon. This study shows that the
effects of market knowledge in fact follow a curvilinear path.

We examine the effects of market knowledge that is generated in a network or from external ties. Research has shown firms’ increasing reliance of networks as strategic sources of market information. For instance, Sammarra and Biggiero (2008) document the intensity of market knowledge exchange among collaborating partners in networks. Song and Thieme (2009) demonstrate how suppliers facilitate the innovation process by providing market intelligence. The real-life practices also lend support to the importance of external ties. For example, many Japanese companies, such as Matsushita and Canon, established connections with retailers to collect hands-on market data and used it as a basis for developing innovative products (Johansson and Nonaka 1987).

Firms situated in a network scan the external environment for knowledge they need. In a study on external search for technologies, Laursen and Salter (2006) categorize the openness of external search into breadth and depth: the breadth of search refers to the number of external information channels through which technological knowledge can be accessed, while the depth of search refers to the extent to which firms draw deeply from the external search channels. Consistently, we differentiate market knowledge obtained from external ties into the dimensions of breadth and depth, which are also deemed two critical aspects of knowledge management in new product development (Iansiti 1993; Turner and Bettis 2002).

To test the effects of market knowledge breadth and depth, we conducted surveys among 244 firms in China. China provides a rich empirical context because of its long tradition of network-based business operations and firms’ reliance on network ties to acquire external knowledge (Li, Poppo, and Zhou 2010). The results show that market knowledge breadth has an increasingly positive effect on product innovativeness, whereas market knowledge depth has an inverted U-shaped relationship with product innovativeness. These findings reveal the conditions for the positive and negative effect of market knowledge, and consequently offer some solutions to the controversy regarding the relationships between market knowledge and product innovativeness. The study carries important theoretical and managerial implications. References are available upon request.

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STRATEGIC ORIENTATION SET AND PRODUCT COMMERCIALIZATION

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SUMMARY

Why are some firms more successful at commercializing new products than others in emerging economies? It is possible that the strategic orientations, which firms adopt as a type of business strategy, lead at least partially to the superior performance of the new products they introduce to the market. Strategic orientations facilitate a match between firm strategy and resource endowment on the one hand, and the adaptation to market conditions on the other. In this paper, we empirically test whether four major types of strategic orientations: market orientation, technology orientation, entrepreneurial orientation, and networking orientation, are simultaneously related to new product commercialization performance using data collected from China.

Our findings sketch a portrait of how strategic orientations can help firms overcome innovation barriers and promote new product commercialization. Despite the increased attention to strategic orientations in the innovation literature, there have been few efforts to test the relationships between specific forms of strategic orientations and new product commercialization performance. Our results suggest that the four forms of strategic orientations complement each other and produce non-redundant cues and resources for enhancing new product commercialization. Market orientation, technology orientation, entrepreneurial orientation, and networking orientation constitute the basic strategic assets of an organization, which prescribe organizational interactions with the market, customers, competitors and partners, and allow the organization to provide products that are tailored to market needs and achieve desirable commercialization performances. They also reflect a firm’s perspective on how to conduct business through a deeply rooted set of values and beliefs, which transcend individual perspectives, unify the resources and capabilities available into a cohesive whole, and guide the firm’s endeavors to achieve superior performance.

Our study presents a more nuanced understanding of when strategic orientations facilitate new product commercialization by articulating and demonstrating the contingent impact of environmental dynamism. Prior research suggests that environmental dynamism can reduce the value of firm assets such as knowledge within organizations. Thus, firms need to have tools to overcome this external threat. Our finding suggests that strategic orientations are most apt to influence their firm’s new product commercialization when the environment is in a state of flux, whereas when the environment is relatively stable their influence is decreased. Accordingly, dynamic environments build up a particularly amenable context in which firms should engage more in strategic orientations so as to more completely tap their potentials in new product commercialization.

We demonstrate that organizational learning transmits strategic orientations to new product commercialization performance. There has been a debate over organizational learning as the mediating mechanism between strategic orientations and organizational innovation performance. It has also been suggested that the benefit of technology orientation to organizational innovation performance should be realized through an organization’s effective engagement in learning. The research on social networks indicates that to learn is one of the primary reasons why firms enter social networks, learning is a major outcome of networking behaviors of firms, and learning effectiveness determines how much firms can benefit from network relationships. However, our study serves as one of the first empirical pursuits to unearth the mediating effects of organizational learning on the relationships of market orientation, entrepreneurial orientation, technology orientation, and networking orientation with new product commercialization. This research thus contributes to a more complete understanding of the new product commercialization process. Firms with strong market orientation, technology orientation, entrepreneurial orientation, and networking orientation are more likely to engage in effective organizational learning, which in turn leads to enhanced new product commercialization.

This study adds to existing literatures on strategic orientations and new product commercialization by demonstrating positive influence of strategic orientations on new product commercialization in China’s emerging economy. Our findings evidences that though strategic orientation research originated in developed economies. Strategic orientations are not country and culture specific but rather can be generalized to different cultural contexts. This echoes the call to test the generalizability of previous findings regarding strategic orientations to other economies.
Our research sheds light on the role of open innovation in innovation by developing a new strategic orientation construct, networking orientation. Open innovation has been increasingly acknowledged as an emerging model of innovation. There have been quite a number of qualitative case studies tapping into this topic. However, relevant quantitative empirical attempts are still limited. Chesbrough noted that innovations are increasingly a function of collaborative efforts. Our findings confirm that firms can use networking as an open innovation strategy to successfully commercialize new products. The importance of networking orientation lies in that firms can employ networking as a means to exploit knowledge, take advantage of established and new technologies and products, and pool resources through their relationships with various partners. Thus, networking behavior has been regarded as the most influential catalyst for enhancing competitive innovation capabilities of firms operated in China.

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DO ORGANIZATIONAL MEMORY AND MARKETING-R&D/ENGINEERING INTEGRATION MEDIATE THE MARKET ORIENTATION-NEW PRODUCT PERFORMANCE RELATIONSHIP? THE CASE OF U.S. MANUFACTURERS

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SUMMARY

In today’s business world, one of the most important problems that companies encounter is new product failure. The increasing level of technological advancement, consumer expectations, and domestic as well as international competitive pressures continue to reduce the product life cycle for new products. In this environment, it has become extremely important for companies to understand the critical determinants of new product success and failure and to be able to develop successful products for markets. The main objective of this research study is to explore the link between market orientation and new product performance through a structural model by taking into account the mediating effects of project-level intelligence sharing capabilities including memory level, memory dispersion and the marketing-R&D/engineering integration. The suggested model assumes that a market-oriented organization has certain skills, capabilities, and behaviors that enable it to process and utilize market knowledge more effectively. A total of nine hypotheses were suggested. The proposed model was tested over a sample of 111 NPD projects from the U.S. manufacturing sector.

The results of the independent-samples t-test indicated that there were no statistically significant differences between the early respondents and the late respondents since none of t-values for the key demographic variables were statistically significant. Therefore, it was concluded that non-response bias was not a factor in this study. The fit of the hypothesized full structural equation model was evaluated using AMOS (Arbuckle 1999). The estimation of the final model resulted in a discrepancy value of 44.212 (P = 0.035) with degrees of freedom of 29. The fit between the model and the sample data was found to be very good (GFI = 0.93 > 0.90; IFI = 0.959 > 0.90; TLI = 0.934 > 0.90; CFI = 0.957 > 0.90; ROSEA = 0.069 < 0.08; P-close fit = 0.212 > 0.05). The value of ECVI (0.875) improved and is less than the ECVI values (respectively, 1 and 3.831) of the alternative models (saturated and independence models). This model was accepted as a final best-fitting model.

The study results revealed that the marketing-R&D/engineering integration, organizational memory level and organizational memory dispersion are consequences of a market orientation. Organizational memory level serves as a mediator between market orientation and new product performance. The study also found a positive link between market orientation and new product performance. This study shows that the effective knowledge processing, sharing and utilization in an organization translate into positive new product outcomes. From the practitioner’s perspective, such a model might serve as a guide to understand how to improve new product performance by moderating the degree of market orientation in the organization. In addition, this model might shed some light on how market intelligence should be processed and utilized within the organization to generate favorable new product outcomes. Managerial implications of the research findings were discussed. References are available upon request.

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EXPLORING THE RELATIONSHIP BETWEEN PLATFORM PRODUCT DESIGN AND ENVIRONMENTAL UNCERTAINTY

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ABSTRACT

The relationship between platform product design, environmental turbulence and market performance is empirically tested in the U.S. manufacturing industry. Results show the higher the level of uncertainty, the higher the level of platform product design; and the higher the level of platform design, the higher the level of market performance.

INTRODUCTION

It has been widely observed that the marketplace is changing. The rate of technology change is increasing (Phaal et al. 2004), the market is globalizing (Luo et al. 2005) and product life cycles are becoming shorter (Cooper 1996). In this turbulent environment, new product development (NPD) is increasingly important to a firm’s profitability and competitiveness; and, in some cases is the key driver of a firm’s overall success (Loch et al. 1996). To that end, NPD has become big business; thousands of new products are marketed every year and hundreds of billions of dollars are spent on R&D alone (Crawford and DiBenedetto 2008). As vital as NPD is however, it is also one of the “riskiest endeavors of the modern corporation” (Cooper et al. 2004, p. 31). New products fail at an alarming rate.

In order to increase the success rate of its new products, firms often rely on formal processes. These processes are the focus of much research and can be classified into two streams of literature: marketing and technical. The marketing stream of research investigates such issues as proficiency in executing NPD activities (Calantone et al. 1997), variables that contribute to new product success (Cooper 1994) and best management practices (Barczak et al. 2009). Separately, the technical stream of research focuses on such issues as the best way to arrange functional elements (de Weck et al. 2003) and map functional elements to physical elements (Henderson and Clark 1999). Best practices are defined in terms of product architecture, elements, modules, platforms, systems and interfaces (Ulrich 1995).

An important step in technical decision-making is product architecture selection. Every product has architecture and different architectures result in different product functionality, cost, quality, and performance (Meyer and Zack 1996). Product architecture is defined in terms of integration versus modularity (Muffatto and Roveda 2000; Worren et al. 2002). A fully integrated architecture results in a “one-off” product. It is a product designed for one purpose only, not to be repeated (Sanchez 1999). Alternatively, an architecture that is modular in nature is decomposable into relatively independent subsystems (Worren et al. 2002) and is often referred to in mass customization literature. A platform product design is based on a modular architecture where a module or “platform” is designed with the intention to be a common basis for individual products within a product family (Halman et al. 2003). In other words, a product’s architectural approach will determine if the product is a one-off product, a product designed with separate modules, or a product based on a platform that can be expanded into a family of products. The family of products would be comprised of the initial platform product and any derivative products.

Given today’s turbulent environment, the importance of good decision-making in NPD has never been greater. A gap in literature exists because although current research in the marketing stream of literature explores NPD best practices, it does not take into consideration architecture selection. And while the technical stream of literature explores best R&D design decisions, it does not look at when a platform product design should be strategically pursued. The research objective of this study is to address this gap and investigate if platform product design is an effective strategy during times of environmental uncertainty and how that design will perform in the marketplace. It does so in the context of the U.S. manufacturing industry.

LITERATURE REVIEW

A turbulent environment is defined as one in which frequent and unpredictable market and/or technical changes within the industry increase risk and uncertainty in the NPD strategic planning process. It is the “inability to forecast accurately, even within contingencies” . . . that “helps to define turbulence from a top management team perspective” (Calantone et al. 2003, p. 91). Environmental turbulence can derive from a number of sources but the two most recognized are technology and market uncertainty. Technological turbulence is the degree of change in the technologies or technical innovation relative to
products being developed and manufactured by the company. Market turbulence is the degree of consumer uncertainty or the changing nature of consumer preferences and demands as well as the changing nature of competitors as defined by market share and actions (Calantone et al. 2003; Droge et al. 2008).

Technical literature addresses product architecture in general and platform product design in particular. It defines platform product design as a design that is based on common subsystems or subsystem-interfaces that are leveraged across a series of individual products by some means of shared product architecture (Meyer and Dalal 2002). The most often cited example of a platform product design is Honda’s development of a “world” car. Described in Business Week (Naughton 1997), the world car uses a standardized platform incorporating adjustable brackets. The design allows Honda to offer a family of products based on the same core. Honda Accords are offered in the US, Europe and Japan each with different widths, heights, and lengths. Using the same platform, minivans, SUV’s and the Acura luxury cars have also been developed.

The major focus of platform product design literature has been on methodologies. Very few empirical studies addressing when to use platform product design exist. There are, however, both numerous commentary pieces and case studies offering anecdotal evidence. From the anecdotal evidence it is clear that platform design offers many benefits as well as risks. Some of the most often mentioned benefits of a platform-based design are that it drives revenue by introducing product line variety, and introduces both cost and time efficiencies. For example, in their discussion on effective planning for product platforms, Roberson and Ulrich (1998) noted that platform-based design reduces the incremental cost of addressing the specific need of a market segment enabling market need to become more closely met. Development costs are reduced because parts and assembly processes developed for one model do not have to be developed and tested for the others. Manufacturing costs are reduced because producing larger volumes of common parts achieves economies of scale. And finally, production investment is reduced because machinery, equipment, tooling and engineering time can be shared across higher production volumes. Time efficiencies are also introduced due to the fact that organizing product planning around product platforms can speed-up the time to market for derivative products (Moore et al. 1999).

Despite the advantages to platform-based design, there are times when it is not beneficial. In most cases, developing the initial platform product requires more of a financial commitment and more development time than developing a single product. This can result in delaying the time to market for the first product affecting the return on investment time (Halman et al. 2003).

Platform product design may also result in a less than optimal design. A platform-based design optimizes flexibility but it also gives engineers fewer degrees of freedom. An integrated or single-product architecture will often maximize performance by minimizing conflicting design priorities and not putting interface constraints on engineers (Christensen and Raynor 2003; de Weck et al. 2003). In addition, implementing a platform design may introduce undesirable functions to the system causing technical difficulties. Audi was forced to retrofit a tail spoiler on its TT sports roadster to fix a rear wheel pressure problem caused by unexpected side effects of a common platform (de Weck et al. 2003).

Finally, the complexity of managing what different market segments to enter and what these segments want, combined with what product architecture should be used and what platforms should be shared, is inherently complex. It requires coordination among the firm’s marketing, design and manufacturing functions. Conflicts may arise or the process could just get bogged down in the details resulting in the organization giving up or turning out products that lack character and integrity (Kristjansson and Hildre 2004).

**RESEARCH HYPOTHESES**

The following hypotheses offer predictions as to the relationship between platform product design and environmental uncertainty. Given that previous work on managing platform product design is limited, and those select studies do not empirically test under what conditions it is used, these hypotheses are exploratory in nature.

**HYPOTHESES 1a–1b**

Marketing literature addresses new product development when environmental turbulence is high and suggests the best strategy is to increase speed-to-market. For example, when markets are stable, the NPD process implicitly assumes that a firm will develop the best product configuration through several iterations of concept testing and market testing. This is not feasible in a turbulent environment. A case study presented by Mullins and Sutherland (1998) investigated U.S. West, Inc., a large, multinational firm in the telecommunications industry. The environment in which US West operates is one in which innovation rapidly (bi-annually) introduces new-to-the-world products that shift market structure and change technologies. In this environment, it is impossible for U.S. West to get the product “right” before it is launched. Furthermore, managers at U.S. West said that a
product that is right today will likely be replaced by a better one tomorrow. In this environment, their stated goal was to get the product to market as fast as possible.

In a study of 692 NPD projects, Chen, Reilly, and Lynn (2005) found that in general speed-to-market is positively associated with overall new product success but market uncertainty moderates this effect. When a market is familiar, existing and stable, speed-to-market is not an important determinant of new product success. It is far more important to focus on speed-to-market in an unfamiliar, emerging, or fast changing market. Supporting this, Calantone, Schmidt, and DiBenedetto (1997) found five specific NPD strategies that firms use when operating in a turbulent environment. These strategies are all based on speeding time-to-market and include: simplifying operations, eliminating delays, eliminating steps, speeding up operations, and introducing parallel processing of steps.

Although marketing literature indicates that speed-to-market is an important aspect of strategy and success in a turbulent environment, in most cases developing a new platform product will slow the process down. The initial platform product often requires more time and resources then developing a single product thereby delaying time to market for the first product (Halman et al. 2003). It has also been noted that developing a platform product is risky during times of uncertainty when the platform itself is either designed for a long life or develops one through firm inertia (Kristjansson and Hildre 2004).

When turbulence is high, existing knowledge sources become obsolete (Droge et al. 2008). Consumers have difficulty articulating what they want, competitors may revolutionize the value proposition, and there are no returns for market information. In other words, market intelligence has little value in turbulent environments. Successful platform design is based on market intelligence because successfully balancing commonality and distinction along with anticipating derivative products requires knowing what long term market segments to enter and what consumers in those segments want.

In addition, Christensen and Raynor (2003) write that firms pursuing new products, as opposed to derivatives, are offering “not good enough” solutions and must address a performance gap. In this situation, a competitive advantage is gained by those who offer the best product possible. An integrated or single-product architecture will often maximize performance by not putting interface constrains on engineers (Christensen and Raynor 2003; de Weck et al. 2003) meaning a platform design may not be the optimal design. Furthermore PLC theory suggests that newly introduced products should focus on performance, offering one basic product (Anderson and Zeithaml 1984) because there is considerable uncertainty about user preferences and the technological means of satisfying them (Klepper 1996).

Finally, there is empirical evidence that in contexts with high levels of uncertainty, NPD projects make design changes at later stages of a project (MacCormack and Verganti 2003). In dynamic environments managing product definition requires frequent, repeated interactions with customers and using a flexible development process (Bhattacharya et al. 1998). Delaying product definition is only feasible when either crashing (pouring resources into the project to expedite completion), or concurrent development (beginning the product realization phase before the product is defined) are viable options (Kalyanaram and Krishnan 1997). Platform product design requires that architecture decisions are made early in the design process (Ulrich 1995) thus reducing product definition flexibility.

The following hypotheses summarize the above discussion. It should be noted that platform product design refers to a continuum with one-off products at one extreme and platform-based products as defined along every dimension in literature at the other end.

H1a: Environmental turbulence caused by market uncertainty is inversely related to platform product design.

H1b: Environmental turbulence caused by technology uncertainty is inversely related to platform product design.

HYPOTHESES 2a–2b

The key to competitive success in the marketplace is based on successful NPD and a considerable amount of research has been devoted to identifying factors that contribute to product success and/or failure. The next question then is how the relationship between environmental uncertainty and platform product design affects performance. New product performance is often measured in the marketing literature as a multidimensional construct that can include financial performance, time-to-market, time-to-profit, survival, and more. In R&D, a common performance measure is “slip” or the difference between the expected project time and budget and the actual project time and budget. Overall, firms and academics use more than 75 distinct new product measures of success (Griffin and Page 1996). With all the measurements available though, it is often still difficult to assess whether a product is successful or not.

Sales, profits and market share are appropriate measures for this study because they best depict performance.
of new product designs. For projects that offer new-to-market products, performance is best measured by capturing the degree to which products are accepted by the market (Griffin and Page 1996). If customers do not accept a product they have never seen before, sales will not result. For projects that offer new-to-firm products, performance is best measured by profit and market share (Griffin and Page 1996). New-to-firm products take companies into new product lines and markets. Because other firms already compete in this market, profit and share capture customer-based success.

The rationale behind platform product design is that it will result in greater variety and longer life cycles, or in aggregate a stronger market performance over the long term. Product variety has value in the marketplace. Companies who offer a large variety of products can compete more effectively by meeting customer’s needs better than their competitors (Halman et al. 2003). More variety increases the probability that each consumer will find what they are looking for. A successful platform product design gives companies a greater ability to tailor products to the needs of different market segments or customers (Robertson and Ulrich 1998). This can lead to revenue benefits in that the firm can attract more customers and support a price premium. This was confirmed in Kekre and Srinivasan’s (1990) empirical study which found that broader product lines were more profitable despite the increase in production costs.

Delivering product variety however can be costly because it is associated with increased costs and complexity leading to a loss of scale economies. Organizing product planning around product platforms can reduce development costs (Muffatto and Roveda 2000; Moore et al. 1999). Platform-based design promotes standardization of the core within a family of products and across time lowering the variable costs of adapting and extending the product periphery in the future. In summary, platform-based design captures both the revenue benefits of variety and the cost benefits of standardization leading to revenue and profitability success over time.

Despite the long term benefits of developing a platform-based product family, it is theorized that developing the first platform product will often require a larger investment in time and money than a single product. It is therefore hypothesized that:

H2a: Platform product design is inversely related to short term market performance (as defined by profit, sales, and market share).

H2b: Platform product design is directly related to long term market performance (as defined by profit, sales, and market share).

METHODOLOGY

The context of this study is the United States manufacturing industry. The manufacturing industry was chosen because the risks and benefits of platform design are amplified there (Muffatto 1999). The unit of analysis was a recently completed (within the past 5 years) new platform product development project for an assembled product. The projects were either new-to-market or new-to-firm so as to reduce any confounding effects introduced by derivative projects and were from diverse companies and industries.

Project, program or engineering leaders for new platform product development efforts were surveyed. These individuals were involved in the project from start to finish and had interaction with top management as well as project personnel. Survey data collected were analyzed using SPSS and AMOS Structural Equation Modeling (SEM).

Sample

A panel of engineering design managers was used. Access to respondents was provided through E-Rewards Market Research, a market research company specializing in web-based surveys. E-Rewards has rigorously compiled and managed numerous panels since 1999. Many of their panels are specialized for business professionals and one panel they offer is comprised of manufacturing engineers and project managers.

Surveys were received from 249 engineering managers. Of the respondents, 63 percent categorized their firms as B2B while 37 percent categorized their firms as B2C. Regarding firm size, 19 percent of respondents were from firms earning less than $5M, 52 percent were from firms earning between $5M and $1B, and 29 percent were from firms earning over $1B in annual revenue in 2009. With regard to personal characteristics, the average years of engineering design experience reported was 13 years, the average number of years each respondent has held their current position was eight years, and titles included, for example: senior project engineer, principle engineer, general manager, project manager, team leader, vice president of engineering, owner, and CEO.

Measures

Platform product design was operationalized as a composite construct using continuous measures encompassing the following dimensions defined in literature: intentional platform planning and development, level of modularity, common subsystems and interfaces, and planned derivative products. The scale was based on two existing scales - namely the Worren, Moore, and Cardona
(2002) scale of modular product architecture and the Koufteros, Vonderembse, and Doll (2002) scale measuring the extent to which a general platform product strategy is used - with new wording addressing strategic intention introduced. In-depth interviews with engineering product design managers assessed the completeness of the scale and ensured appropriate wording was used and all key variables were identified. The final measure consisted of 5 items and had a Cronbach’s alpha of .842.

It should be noted that the platform product design scale measured increasing levels of platform design. A low score is interpreted as a one-off product while a high score is interpreted as a platform-based product design along every dimension defined in literature.

Environmental turbulence was measured using Calantone, Garcia, and Droge’s (2003) continuous scales of market and technological turbulence. Technological turbulence had a Cronbach’s alpha of .823 and market turbulence had a Cronbach’s alpha of .538. Market performance was measured using six continuous subjective measures addressing long-term and short-term profitability, sales and market share objectives having been met. Measures were based on Kim, Wong, and Eng’s (2005) measures of product family performance and Song and Parry’s (1997) measures of relative success. Short-term market performance had a Cronbach’s alpha of .817 and long-term market performance had a Cronbach’s alpha of .858.

Model

Figure 1 presents a screen capture of the theoretical model that was tested in AMOS. For ease of interpretation, error terms and measurement labels have been removed.

RESULTS AND DISCUSSION

The first step in analyzing the theoretical model was to calculate its estimates in AMOS and examine goodness-of-fit measures. Goodness-of-fit tests determine if the model should be accepted or rejected. It is only after the model is accepted that path coefficients can be interpreted for significance. The following measures indicated an acceptable fit: CMIN = 1.310, NFI = .917, CFI = .979, and RMSEA = .035.

After the fit measures were accepted and the measurement model confirmed, statistical results of the hypotheses were analyzed. All path coefficients were statistically significant and are presented in Table 1.

Market turbulence as defined by changing customers, competitors, and demand was expected to be inversely related to platform product design. Our findings indicate however that market turbulence has a significant and positive effect on platform product design. Technological turbulence as defined by changing technology, technological breakthroughs, and changing modes of production and service was also expected to be inversely related to platform product design. Again, our findings indicate a significant positive relationship between technological turbulence and platform design. These findings suggest that higher levels of environmental turbulence lead to higher levels of platform product design. This relationship is stronger for market turbulence than for technological turbulence.

Short-term market performance defined by profit, sales and market share objectives being met in the short-term was hypothesized to be inversely related to platform product design. A significant positive relationship was found. In general, as the level of platform product design increases so does the level of short-term market performance. Long-term market performance defined by profit, sales and market share objectives being met in the long-term was hypothesized to be directly related to platform product design. This hypothesis was fully supported.

Literature suggests short-term market performance would be significantly different from long-term market performance resulting in inverse hypotheses. Although the short-term market performance was not supported as tested, regression weights show that the impact of platform design on long-term performance is greater than its impact on short-term performance. In order to test if the difference between individual short-term and long-term market performance measures is significantly different, a paired-samples t-test was performed on each of the three measures (profit, sales, and market share) of performance. This test found all average long-term performance measures to be significantly larger than all average short-term measures (at alpha = .01). Finally, in order to test if the mean of any short-term measure is significantly different from another or if the mean of any long-term measure is significantly different from another, a second set of paired-samples t-test was performed. In the short-term, average sales and market share measures are significantly higher than the average profit measure (at alpha = .05). In the long-term, average profit and sales measures are significantly higher than the average market share measure (at alpha = .05).

Findings were reproduced when the same analysis was performed separately for B2B firms, B2C firms, firms
earning less than $100M in revenue and firms earning more than $100M in revenue demonstrating the robustness of results.

**SUMMARY**

This study investigated whether pursuing a platform-based product design was an effective strategy in the manufacturing industry during times of environmental uncertainty. Literature would seem to indicate the answer to that question is – no, however, our results showed that both market turbulence and to a lesser extent, technological turbulence, have significant positive effects on the level of platform design. While these results are counterintuitive, they may be explained by the fact that during times of uncertainty, the benefits of flexibility offered by product line variety and rapid derivative product development far outweigh the risks of slowing down speed-to-market for the first product and the possibility of a sub-optimal product design.

Results also show that the level of platform product design is positively related to both short-term and long-term market performance measures although this relationship was significantly greater for long term performance. In the short term, sales and market share objectives
are met more than profit objectives. This makes sense due to the resources necessary to develop the initial product and the corresponding increase in payback period. In the long term, profit and sales objectives are met more than market share. Again, this makes sense due to increased competition entering the market.

Given today’s turbulent environment, the importance of good NPD decision-making has never been greater. To better understand how best to cope with uncertainty, marketing literature needs to consider architectural selection when defining strategies. These initial findings are just a first step in improving our understanding of NPD best practices during times of uncertainty. This study also offers some significant directions for future research such as further addressing the rationale behind our counterintuitive findings as well as investigating contexts other than the manufacturing industry.

### Table 1: AMOS Output

<table>
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<tr>
<th>IV</th>
<th>DV</th>
<th>Unstandardized Coefficient</th>
<th>Standard Error</th>
<th>Critical Ratio</th>
<th>p-value</th>
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<td>.074</td>
<td>4.908</td>
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<td>3.104</td>
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<td>.056</td>
<td>2.845</td>
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<td>.057</td>
<td>5.010</td>
<td>.000</td>
<td>.384</td>
</tr>
</tbody>
</table>

### References


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THINKING INSIDE THE BOX: INCUMBENT FIRMS’ INNOVATIVENESS AND DEMAND-SIDE INERTIA

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SUMMARY

Inertia, “the strong persistence of existing form and function” (Rumelt 1995, p. 103) is thought to have many sources, both within the firm (i.e., supply-side factors), such as its investments in specialized assets and various organizational routines, and within a firm’s customers. These customer based inertial factors are the focus of this study. Consider a new product development organization’s inertia stemming from an established base of loyal customers repurchasing products developed with long-established technology. Serving its loyal customers gives the incumbent little incentive to innovate, leaving it vulnerable to a disruptive technological shift. Product development feedback from within an insular network of customers may incrementalize innovative attempts, leading to the “tyranny of the served market” as described by Hamel and Prahalad (1991).

While there has been some investigation into the role of supply-side inertial forces (cf., Vlaar et al. 2005), there has been considerably less attention paid to the demand-side. Demand-side inertial factors are characteristics of a firm’s customers that are thought to foster inertia in the firm. Namely, the two demand-side factors under consideration here are switching costs and network externalities, which have been identified, but not fully examined with respect to inertia by scholars such as Mueller (1997) and Lieberman and Montgomery (1998). The goal of this research project is to investigate the role that these demand-side inertia factors play in determining a firm’s innovative activities and ultimately new product development performance.

Researchers have suspected that supply-side inertial forces are more damaging to performance compared to demand-side factors, but this has not yet been established. Demand-side inertia may actually help an incumbent’s performance in certain situations. If an incumbent firm has a large base of existing customers, the added value customers derive from being connected to a large network of other customers may insulate the incumbent firm against competitors. A successful early incumbent may also be able to establish switching costs to its benefit (Wang and Wen 1998) in the form of a status quo bias or transaction costs related to switching, among other reasons. The other side of the coin to this argument is that these factors may make these types of markets more attractive as new-comers attempt to entrench themselves for long term gains. For example, in high growth markets the incumbent has an increasing incentive to focus on its current customer base, leaving new entrants to capitalize on the influx of new customers (e.g., Shankar and Bayus 2003). Thus, it is conceivable that the presence of these demand-based factors may actually foster incumbent inertia, but also innovation and risk taking as new entrants sense the possibility of long term payoffs. Empirical research to date has not fully demonstrated the conditions under which incumbent or later-entrant innovation efforts generate success under demand-side inertia.

To begin to address this knowledge void surrounding demand-side inertia and its consequences, this study examines 255 product developing firms to determine the role that these inertial factors have in determining market and technological innovativeness, compatibility with customer expectations, and ultimately several aspects of new product development performance. There are stark differences in the effects that switching costs and network externalities play on early incumbents vs. later entrants. While switching costs and network externalities exert significant influences on early incumbents’ innovativeness and compatibility; later entrants’ innovativeness is only influenced by compatibility. Early incumbents are able to innovate while remaining compatible with customer expectations; later entrants are not. Incumbent’s experience and their position within a network of customers allow their new products to be innovative while remaining compatible, whilst later entrants’ desire to conform to customer expectations reduces their market and technological innovativeness. Further, early incumbents’ compatible products demonstrate significant performance benefits in terms of speed to market and financial performance when compared to new products developed by later entrants. Overall, early incumbents are shown to be superior innovators when remaining compatible which translates into better new product performance. The demand-based inertia factors overall have surprisingly positive implications for early incumbents. References are available upon request.
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INNOVATIONS: DOOMED TO FAIL? INVESTIGATING PASSIVE INNOVATION RESISTANCE AND ITS RELEVANCE FOR CONSUMER INNOVATIVENESS AND NEW PRODUCT ADOPTION

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SUMMARY

Introduction

Innovation is a strategic imperative in today’s economies, representing a key factor for companies to survive and grow in the long run (Balachandra and Friar 1997). However, inhibition or delay in the adoption of innovations may translate possible success into market failure and even endanger the competitiveness of companies in the long run (Gatignon and Robertson 1991). Since decades the innovation literature reports high failure rates for innovations between 50 percent and 90 percent (e.g., Andrew and Sirkin 2003; Cierpicki, Wright, and Sharp 2000; Sivadas and Dwyer 2000). Hence, most new products seem to fail as they are rejected by consumers due to their resistance to innovation (e.g., Ellen, Bearden, and Sharma 1991; Moldovan and Goldenberg 2004; Ram and Sheth 1989). Yet, the vast body of literature on innovations is subject to pro-change bias, assuming that consumers are principally open to change and thus interested in evaluating and eventually adopting new products (Ellen, Bearden, and Sharma 1991; Ram and Sheth 1989; Rogers 2003). In order to overcome “pro-change” bias we thus propose to incorporate the concept of passive innovation resistance. Passive innovation resistance already evolves from an individual’s resistance to change disposition and a status quo satisfaction in the moment of awareness (Bagozzi and Lee 1999; Ellen, Bearden, and Sharma 1991; Nabih, Bloem, and Poiesz 1997). Despite scientific acknowledgment of the relevance of resistance to change and status quo satisfaction for innovative consumer behavior and new product evaluation (e.g., Ram 1987; Sheth 1981; Nabih, Bloem, and Poiesz 1997; Oreg 2003), empirical research into this topic is surprisingly scarce (Oreg 2003; Oreg, Goldenberg, and Frankel 2005; Nov and Ye 2008). The aim of this research is to systematically explore the relevance of passive innovation resistance, representing both consumers inclination to resist change and status quo satisfaction, for consumer innovativeness and new product evaluation.

Research Method

We conducted three studies, which encompass the following research activities:

1. In a first empirical study we used a 3 (Degree of passive resistance: low, medium, high) x 3 (Product innovativeness: incremental, dynamically continuous, radical) between-subjects design to analyze possible effects of different levels of passive innovation resistance on new product evaluation. From a larger set of innovative mobile phones, experts in the field of innovation management identified 3 products as adequate stimuli. Subsequently, those products were evaluated by 681 members of an online panel.

2. Within our second study we used a scenario-based experiment to empirically examine the effects of different types of passive innovation resistance and their interaction with degree of newness on attitude formation. Three hundred seven members of an online panel were randomly assigned to one of the eight experimental conditions within a four (form of passive resistance: low, situational, cognitive, dual) x 2 (product innovativeness: low (INP), high (RNP)) between-subjects design.

5. Finally the effectiveness of several marketing instruments to overcome passive innovation resistance was quantified within a 3 (Degree of passive resistance: low, medium, high) x 4 (Marketing instrument: control group, categorization cue, mental stimulation, benefit comparison) between-subjects design. Furthermore we evaluated the effectiveness of those marketing instruments in reducing product-specific barriers. The experiment was conducted with members of an online panel. A total of 681 product evaluations were obtained.

Results

Following the results of Study 1, consumers at the same time over-rate products they already possess, while underestimating the new benefits offered by an innovation due to the changes entailed. In case of high levels of passive innovation resistance this most probably inhibits positive attitude formation, reducing the probability of adoption. Based on the theory base underlying our research model and the assumptions implicit in prior empirical work that examined the effects of resistance to change and status quo satisfaction, we had a priori reason to
believe that passive innovation resistance strongly influences the perceptions of innovation attributes. These expectations were confirmed by our data. Specifically, passive innovation resistance was shown to decrease perceived relative advantage and increase perceived complexity and risk of an innovation. Moreover, we found support for the proposed interaction of passive innovation resistance and degree of newness on attitude formation. According to our results, the proposed inverted u-shape effect of degree of newness on attitude formation only applied for consumers with medium levels of passive innovation resistance, while for consumers low on passive innovation resistance a positive linear effect and for consumers high on passive innovation resistance a negative linear effect was confirmed. Hence, there might be no a priori fixed relationship between degree of newness and affect as this effect is different for each consumer depending on his level of passive innovation resistance.

Study 2 replicates the findings of Study 1, confirming that passive innovation resistance represents a strong inhibitor for new product adoption. Additionally, Study 2 provides insights on how different types of passive innovation resistance affect new product adoption. Both cognitive-passive resistance and situational-passive resistance were shown to negatively influence adoption intention, exhibiting effects similar in their magnitude. Likewise, dual-passive resistance was shown to negatively influence adoption intention, while exhibiting by far the strongest effects on adoption intention. Hence, dual-passive resistance represents the most crucial type of consumers’ passive resistance to innovations. Consumers high on both resistance to change and status quo satisfaction therefore shows the strongest predisposition to resist innovations and thus represent the most crucial segment of consumers when it comes to new product launches.

The results of study 3 confirmed that each of the selected marketing instruments is able to enhance attitude formation. Not considering the passive innovation resistance condition, mental simulation was found to be the most effective one in general. When considering the passive innovation resistance condition, mental simulation was found to be the most effective instrument for low and high levels of passive innovation resistance whereas benefit comparison was found to be most effective for medium levels. Furthermore, our study replicated the findings of Feiereisen, Wong, and Broderick (2008) and Castano et al. (2008), which indicate that mental simulation effectively reduces perceived complexity and risk of an innovation. Likewise, our results are consistent to Gregan-Paxton and Moreau (2003) and Hess (2009), which found that providing a categorization cue reduces perceived complexity. According to our results, the use of mental simulation was shown to be superior to providing a categorization cue when reducing perceived complexity of an innovation. As already shown by Ziamou and Ratneshwar (2003) and Hess (2009), our results also confirmed that benefit comparison significantly enhances relative advantage.

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TIMING THE START OF NEW PRODUCT DEVELOPMENT: CREATING SWITCHING OPTIONS IN THE FACE OF VOLATILE MATERIAL PRICES

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SUMMARY

The strategic management literature emphasizes the role of uncertainty on investment decisions (Wernerfelt and Karnani 1987; Bettis and Hitt 1995; Folta 2007). The timing of investment in R&D is highly relevant to the performance of firms (Perillieux 1987; Datar et al. 1997; Katila and Chen 2008). Pindyck (1993) and Sanchez (1993) use real option theory to analyze the influence of uncertainty on the timing of such decisions. In order to provide empirical evidence, we study the influence of uncertainty on the delay of new product development.

Research on the point in time by which firms start new product development is scarce. Afuah (2004) suggests that start-up firms tend to adopt radical technological changes earlier than incumbent firms. However, context variables such as uncertainty remain unconsidered. Hoffmann, Trautmann, and Hamprecht (2009) account for regulatory uncertainty as they investigate the timing of investments in the development of electrical power plants. In case studies, they observe that firms do not postpone investment under regulatory uncertainty if the projects secure competitive resources, leverage complementary resources, or alleviate pressure from stakeholders. While other empirical evidence is missing, conceptual work accentuates the role of uncertainty in decisions to start new product development: uncertainty increases the value of deferring development (Sanchez 1993; Lint and Pennings 2001) and governs the transition to subsequent stages of the innovation process in order to create growth and switching options (Lee and Paxson 2001).

In this paper, we adopt real options reasoning (McGrath and Nerkar 2004) to study whether firms account for input cost uncertainties at the initiation of a multistage investment. We consider investment in the development of a new product as exercising a waiting option and creating a growth option to subsequently commercialize the new product (Miller and Folta 2002). In particular, we focus on new product developments that are initiated to substitute existing products. In such cases, firms create switching options rather than simple growth options (Oriani 2007; Anand, Oriani, and Vassolo 2007). We expect that the start of new product development depends on the input cost uncertainties of mutually exclusive assets, the correlation of the asset values, the time until the new product will be developed, and the opportunity of competitive preemption through early development. Our goal is to contribute to real option theory by applying real options reasoning to multistage investment decisions in the development of new products. To test our propositions, we use a dataset of 101 material substitution projects of 95 manufacturing firms in the German-speaking countries. We define material innovation as the replacement of a product by a product that is based on a new material. The analytical advantages of studying material substitution projects are that investment decisions are discrete, provide follow-on investment opportunities, and involve material price fluctuations as observable sources of input cost uncertainty that are exogenous to the firm. Furthermore, the stream of payments into the material substitution project can be stopped in the case of failure (Adner and Levinthal 2004).

The research design permits us to contribute to the discussion on multistage investments and switching options (Miller 2002; Miller and Folta 2002; Vassolo, Anand, and Folta 2004; Anand, Oriani, and Vassolo 2007; Oriani 2007). We identify factors that influence various option values in the decision to invest in new product development and integrate them in a model that shows the relations between these option values and the timing of investment. We predict and find that a long development time reduces the propensity to delay development under volatile new material prices. We also find that competitive preemption increases the incentive to trigger the investment under price fluctuations of the new material. Under material price fluctuations of the old material, firms hesitate about starting development. Controlling for competitive preemption, we find that price fluctuations of the new material price induce a delay of new product development. Different from our prediction, the correlation of new and old material prices is not related to the timing of new product development. We contribute to the rare empirical literature on the timing of R&D investments at the product level (Reuer and Tong 2007; Oriani and Sobrero 2008; Cuypers and Martin 2010; Levitas and Chi 2010). The results shed light on decisions to start the development of new products under uncertainty and are relevant for adopters and producers of new materials, as well as for policy makers who strive for the diffusion of new materials in important industries.
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TESTING THE DIFFERENTIAL LEARNING HYPOTHESIS:
DEVELOPING MARKETING PROGRAM CREATIVITY
IN CHINESE HIGH TECHNOLOGY VENTURES

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Robert E. Morgan, Cardiff University, United Kingdom
Matthew J. Robson, University of Leeds, United Kingdom

SUMMARY

This study contributes to the literature by developing and testing a differential learning model of new product ventures and their outcomes. We propose that learning behaviors facilitate the marketing program creativity of new product ventures which, in turn, leads to performance gains. We examine novel interrelations among types of learning and marketing program creativity. Finally, we test the moderating effects of venture types on the links between creativity and new venture performance.

The study empirically tests assertions using a sample of 187 high-technology new product ventures in China. The results show interesting patterns of significant relationships between the two creativity dimensions (i.e., novelty and meaningfulness) and performance. The findings support that market-based learning is linked positively to MP meaningfulness, while generative learning is linked positively to MP novelty. Market-based learning is positively associated with generative learning. Moreover, the venture type (i.e., independent or corporate) conditions the performance relevance of novelty, but not meaningfulness.

This study makes five contributions to the literature: (i) we present a learning-creativity framework based on learning theory and information processing theory; (ii) we focus on creativity while many other researchers have examined innovation in developing the learning-innovation thesis; (iii) we investigate the marketing program as the focal unit of analysis to examine the creative departures of firms adopting marketing routines and “theory-in-use”; (iv) we identify support for a differential learning hypothesis indicating that the learning-creativity relationship is more complex than has yet been appreciated; and (v) we adopt the new venture level within Chinese high technology organizations in order to empirically test the relationships.

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HOW CRITICAL IS STABILITY IN CROSS-FUNCTIONAL PRODUCT DEVELOPMENT TEAMS?

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SUMMARY

Although researchers have studied how a variety of team factors can lead to the development of superior and successful products, one team structural factor continues to present a challenge. That factor is team stability – which refers to the extent to which members of a cross-functional team remain the same from start to finish of a product development project. In the academic literature, a mixed picture emerges about the need for team stability and its influence on team outcomes.

Then, there is this emerging argument that until a decade ago, teams used to be fairly stable, but stability is now a thing of the past. Today teams are kept flexible and fluid in the business world. The new reality is that team members will come and go. In other words, even if team stability is considered to be good, the modern organizational reality doesn’t permit the luxury of stability.

Given this changing organizational reality, it becomes important to ask: Is cross-functional team stability really critical for the development of superior products (i.e., innovative and quality products)? Alternatively, if creating a high level of stability is less tenable, is there a way to structure teams that will still ensure the development of superior and successful new products? We address these questions.

Importantly, the studies on team stability haven’t really taken into account the cross-functional nature of product development teams. The functional identities that members of a cross-functional team hold give rise to interfunctional biases and stereotypes that make it difficult for members of cross-functional teams to constructively work together. As a result, the team’s effectiveness in developing superior and successful products is adversely affected. Unless the adverse effect of functional identities can be mitigated, it is likely to be difficult to develop superior and successful products. In this research, we invoke the social identity perspective, which suggests that creating a team-based superordinate identity is essential for overcoming the adverse effect of functional identities. Superordinate identity refers to the extent to which members identify with the team (rather than merely with their functional areas) and perceive a stake in the success of the team.

Thus, from the perspective of this study, the important questions are: (1) how critical is stability in creating superordinate identity and thereby leading to the development of superior and successful products, and (2) considering the new organizational reality of flexible teams, can some other factors help develop superordinate identity and thus, make stability less critical?

A key requirement for the development of superordinate identity in a cross-functional team is strong outcome interdependence in the team. Outcome interdependence is defined as the degree to which team members’ responsibility, accountability, evaluation, and rewards are linked to the project rather than to their respective functional tasks. However, if outcome interdependence is such a key factor, does it make stability a less important driver of superordinate identity? Thus, we also examine the effect of outcome interdependence and how it moderates the effect of team stability on superordinate identity.

Product development teams need to be in touch with customers and actively take their input into account during the development process. Yet, previous research has raised a concern that stable teams can isolate themselves from such input. However, will a sense of superordinate identity keep the teams in close touch with customers? Therefore, we also study how superordinate identity created in stable teams affects the teams’ reliance on customer input.

A concern of researchers in the team stability area has been if a stable product development team will integrate various forms of information, including functional information. Research in the area of cross-functional teams captures such processes by focusing on the integration of information, i.e., the degree to which members of the team share, pay attention to, and challenge each others’ information and perspectives to generate new insights about the product. We examine how superordinate identity that is generated in stable teams affects information integration in the team.

We want to understand how stability in a cross-functional team and the resulting superordinate identity and information integration and reliance on customer input affect product superiority and market performance.
Product superiority here refers to new product innovativeness and quality.

**Method and Results**

A mail survey of new product development projects was conducted and 143 usable responses were received (a response rate of 59.6%). Hypotheses were tested using moderated regression analysis.

Results show that stability plays a relatively limited role in creating superordinate identity. Outcome interdependence in the team is more powerful in influencing superordinate identity, and its presence reduces the effect of stability – making it even less important. Further, superordinate identity leads to more information integration and reliance on customer input and both in turn lead to the development of innovative products. However, information integration alone positively influences quality. Innovativeness and quality have a positive effect on a product’s market performance. Also, team stability influences product innovativeness, quality, and market performance only through superordinate identity.

**Implications**

Our study suggests that stability mainly works in cross-functional teams because it can create superordinate identity. Thus, the goal should be to create a strong superordinate identity instead of insisting on the formation of stable teams. Creating a sense of outcome interdependence in product development teams is more important than team stability for the emergence of superordinate identity.

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SHOULD I STAY OR SHOULD I GO? THE DYNAMICS OF ANTICIPATING REGRET WHEN DEVELOPING NEW PRODUCTS

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SUMMARY

Introduction

Organizations of all types invest in large-scale projects such as development of new products and large-scale R&D projects that take month, years, or even a decade or more to complete. To control the risk involved in these projects, managers invest in stages with periodic reviews to ensure their investment is administered appropriately and the project’s continuation goes smoothly. Though it is logical for managers to drop/kill projects showing signs of failure, researchers have found that managers are typically reluctant to stop/kill failing projects, thereby allowing them to continue too long (Schmidt and Calantone 2002). This phenomenon is called escalation of commitment (hereafter escalation), defined as continued investment in a course of action, despite negative consequences resulting from that chosen path. Though sunk costs and emotional investment in a project have been found to lead to project failure (Arkes and Blumer 1985), most extant research on managerial decision-making has focused solely on the cognitive aspects of decision-making and has given less attention to the role of emotions (Bazerman et al. 1998; Fineman 2000; Walsh 1995; Wong et al. 2006). Additionally, very few studies have tracked how these emotions change as a project moves toward completion in the face of consistently negative information. This study attempts to address this gap in research and shows how various factors, including emotions, change.

In this study we investigate factors associated with escalation (perception of likelihood of success, mental and attitudinal commitment) and link anticipated regret, which has received little research attention, with respect to escalation. Recently, the underused concept of anticipated regret has been found to cause individuals to commit to a losing course of action in consumer decision-making (Wong and Kwong 2007). Whereas we investigate managerial decision-making, we also conceptualize anticipated regret as composed of (a) keep anticipated regret (the decision to continue but anticipating this could be viewed as a mistake in the future) and (b) drop anticipated regret (i.e., the decision to stop the project but anticipating this could a mistake as viewed from the future). Finally, decisions are analyzed over multiple decisions to determine the dynamics of anticipating regret and other factors when developing new products. We use NPD as the main context for developing a model of escalation as is a very conducive setting for escalation (Schmidt and Calantone 1998, 2002). Most companies today use some form of a stage-gate NPD process (see Cooper 1990). In each stage, a variety of marketing, technical, and financial activities are undertaken concurrently. Following each stage is a gate where typically a manager or team of managers review the projected marketing, technical, and financial information gathered in the preceding stage and then determine whether to proceed with developing the project by continuing to the next stage of the process (i.e., “go” decision) or to terminate the project (i.e., “kill” decision) prior to commercialization.

Theory

Imagine a manager reviewing a NPD project at one of the gates. Before or during a continuation/termination decision regarding the project, the manager is presented with information about the progress of the project that may be negative or positive, depending how the project is performing against pre-specified performance parameters. While making a continuation or rejection decision, the manager experiences many emotions and feelings, such as perceptions of the project’s likelihood of success, and mental and attitudinal commitment to the project and anticipated regret (Biyalogorsky et al. 2006; Boulding et al. 1997; Schmidt and Calantone 1998, 2002). This study explores and examines the following hypotheses regarding how the magnitude of these changes as a project moves along the development process.

H1: A manager’s perception of the likelihood of project success decreases as the failing project advances.

H2: A manager’s anticipates regret for making a project continuation decision that she/he subsequently perceives as incorrect.

H2a: A manager’s anticipated keep regret increases as the failing project advances.

H2b: A manager’s anticipated drop regret decreases as the failing project advances.
H3: A manager’s mental or attitudinal commitment toward the project decreases as the failing project advances.

H4: A manager is less likely to recommend funding the failing project as it advances.

Method and Results

Initially, we conducted in-depth case study interviews focusing on eight NPD projects in three companies, following the procedures outlined by Yin (1994). Then we conducted multiple pilot studies to refine the measures used. Finally to empirically test the hypotheses, a decision-making exercise was conducted with a total of 280 individuals at two major state universities. The subjects were presented with detailed financial performance and other information, and they made project continuation recommendations and answered questions at the first two gates in the NPD process. Repeated-measures MANOVA were conducted to see how Success, K-Regret, D-Regret, Commitment, and Continue changed across multiple decisions of the failing project. The results showed support for H1 and H2 confirming the impact and movement of perceived likelihood of success and anticipated regret. Support was found for H2a but not for H2b; keep anticipated regret increased while drop regret stubbornly remained in spite of additional, and increasingly negative forecasted performance information. As expected, a manager’s mental or attitudinal commitment toward the project decreases as the failing project advances (H3) and he/she is less likely to recommend funding the project as the failing project advances (H4).

Conclusion

Interestingly, the effects of keep and drop anticipated regret are not equal; they differ in direction as well as magnitude. While keep anticipated regret increases as the failing project progresses, drop anticipated regret does not diminish but rather remains constant! Decision-makers seem to be resistant to losing the option of completing the project and thereby giving it a chance of success rather than terminate it and doom it to certain failure. This suggests that anticipated regret is a very important mechanism that might affect persistence in a losing cause. The results of perceived likelihood of success, mental/attitudinal commitment, and project continuation decisions show that repeatedly receiving negative information can reduce the emotions detrimental to decision-making. References are available upon request.

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ARE COMPANIES CAPABLE TO ASSESS THEIR INNOVATIVENESS?
ANTECEDENTS AND OUTCOMES OF PERCEPTION DIFFERENCES BETWEEN COMPANIES AND CUSTOMERS

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SUMMARY

Despite that new products are essential for companies’ survival and success (Lynn et al. 1999), managers are struggling to implement a successful innovation management, and over half of the new products introduced fail each year (Morris et al. 2003). A potential reason for these high failure rates lies in a misunderstanding of customers, who ultimately decide over the success of new product introductions (Hauser, Tellis, and Griffin 2006). Therefore, it is important to know how customers perceive the innovativeness of a company’s offering, particularly in view of the fact that systematic assessments of customer perceptions are generally missing. Instead, many companies adopt a purely internal view of their innovativeness (Selden and MacMillan 2006). Thus, an important question is whether companies are capable of adequately assessing their innovativeness in accordance with customers, i.e., to what extent do perception differences exist?

Although a company gains informational advantage when it has the same understanding about its innovativeness as its customers, there are some indications that companies might have a different perception of their innovativeness, which may harm company success. If companies overestimate their innovativeness, they might grow inattentive and overlook the need for managerial action. Incorrect assumptions about customers’ perceptions also could prompt companies to manage their customer relationships incorrectly, resulting in negative responses such as decreased customer loyalty. Furthermore, if companies underestimate their innovativeness, they might invest in increasing its levels, which represents an unnecessary expenditure in the eyes of customers, and perhaps even overwhelm them with the level of innovativeness (Calantone, Chan, and Cui 2006). Thus, understanding perception differences between companies and customers, as well as the outcomes of these differences, can substantially add to the understanding of customer responses to innovativeness (e.g., Hauser, Tellis, and Griffin 2006).

Because most extant literature focuses on the company perspective, several researchers have called for taking customer perspectives on innovativeness into account (e.g., Anderson, de Dreu, and Nijstad 2004). However, to our knowledge, no research investigates perception differences between companies and customers with regard to innovativeness and their potential outcomes. In addressing this research gap, this study investigates to what degree companies are capable of assessing their innovativeness in accordance with customers. Drawing on the rationale from balance theory, we also provide deeper insights into the mechanisms that link perception differences between companies and customers to customer loyalty. In addition, this study sheds light on the sources of perception differences and provide insights on how perception differences arise and how they can be managed to the advantage of companies.

The empirical analysis is based on a dyadic dataset with 181 responses from marketing managers and customers affiliated with the managers’ companies. Regarding companies’ capabilities to assess their innovativeness in accordance with customers, descriptive results show that they significantly overestimate their product program innovativeness on average. While about one-third of the companies in the sample underestimate their innovativeness, two-thirds overestimate it. Subsequent results of a spline regression analysis yield that underestimation of innovativeness from the companies’ point of view is unrelated with customer loyalty, while overestimation of innovativeness has a significant negative effect on customer loyalty.

The analysis of antecedents of perception differences revealed that innovation orientation of structures and innovation orientation of culture, i.e., the degree to which structural elements respectively cultural elements promote the generation of innovations (Miron, Erez, and Naveh 2004; Olson, Slater, and Hult 1995), significantly increase overestimation of innovativeness. As opposing effects, customer characteristics, such as customer trust, significantly reduce overestimation. Typical relationship characteristics, i.e., adaptation to customers and frequency of customer interaction, seem to be unrelated with the investigated phenomenon and have non-significant effects.

This study has several important implications for research and practice. Since companies seem not able to assess innovativeness in accordance with customers, our findings challenge much existing research that has relied solely on companies’ assessments of their own
innovativeness and has not used any other technique to validate companies’ assessments. Since innovativeness itself is generally believed to be beneficial (Henard and Szymanski 2001), customer responses depend on a combination of the absolute level of innovativeness as well as perception differences with regard to innovativeness. Thus, future research should incorporate both companies’ and customers’ perceptions of innovativeness in their research designs.

Our study also informs managerial practice that perception differences are undoubtedly a challenge, but they can be handled appropriately. To reduce the potential negative consequences, enhancing customer trust and the relative importance of innovative products to the customer seems promising. Both benefit customer loyalty from a relationship perspective (e.g., Morgan and Hunt 1994), and by reducing perception differences about product program innovativeness. Because relationship characteristics, e.g., frequency of interaction, have no effect on perception differences, we confirm that perception differences are subtle in nature and require differentiated customer relationship management. References are available upon request.
THE EFFECT OF INFORMATION DISTRIBUTION ON NEW PRODUCT DECISION MAKING

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SUMMARY

Firms often implement a team approach for marketing decision making. A primary reason for using teams is to expand the pool of available information, which seemingly enables higher quality decisional outcomes than could be reached by individuals. Yet, a key premise of this notion is that information should be fully shared and utilized among team members (Marinova 2004). In fact, however, such uniformity is rare in real-world situations. Information is likely unequally distributed in a team, where fellow teammates often possess somewhat overlapping but not identical information (Bazerman and Chugh 2006). In such cases, decision makers frequently discuss information that they are commonly aware of, but fail to recognize each other’s unique information (Brodbeck et al. 2007). Thus, the information used by teams is not necessarily that which enables them to make optimal decisions regardless of the information pool. Bazerman and Chugh (2006, p. 96) caution that this decision bias represents a dysfunctional pattern that “undermines the very reason that organizations form diverse teams.”

In this paper, we adopt a typical marketing decision context, new product development (NPD), to examine how information distribution in teams affects their decisional outcomes. In NPD, managers regularly assess the potential success of new product projects and then make decisions on whether those projects should be continued or stopped throughout the development process. However, they normally receive and process different or even conflicting information about new products (Biyalogorsky, Boulding, and Staelin 2006), which likely results in unequal information distribution and thus suboptimal decisional outcomes.

Marketing decision making involves processing two fundamental types of information: data-based information and prior beliefs (Hutchinson, Alba, and Eisenstein 2010). We adopt this typology and report on four experimental studies. In Study 1, we use data-based information to examine how two conditions, equal information distribution (EID) vs. unequal information distribution (UID), affect information use and new product decisions in teams. Results show that team members over-rely on common information and make suboptimal decisions on NPD project continuation.

In addition, prior beliefs in a given project heighten the decision maker’s commitment to it, and “such ‘belief-based’ information can be contrasted with the ‘data-based’ information that routinely flows through most organizations” (Hutchinson, Alba, and Eisenstein 2010, p. 627). In Study 2, we examine, in the UID condition, whether the information use and new product decision differ in terms of team commitment. We designed a longitudinal experiment to manipulate high commitment (HC) vs. low commitment (LC). Results indicate that while heightened team commitment affects decisional outcomes, the common information bias is still overwhelming.

In Study 3, we re-tested focal hypotheses using a different (MBA) sample and found consistent results. In Study 4, we conducted two follow-up studies to rule out an alternative explanation – perceptions of information.

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DOES EXPOSURE TO CONCEPT PRODUCTS AFFECT CONSUMER JUDGMENT OF MARKETED PRODUCTS?

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SUMMARY

Nowadays, many companies develop and showcase concept products, one-of-a-kind product exemplars that anticipate the design and the technical functionalities of future products. Standard practice in the automotive industry since 1930, when Buick introduced its first concept car (Dredge 2001), and today the average car manufacturer releases two to three concept vehicles per year (Bell 2003; Cato 2007), the development of concept products is widely adopted in many other industries where companies need proactive strategies for probing and influencing the future, ranging from home appliances to consumer electronics (Keinonen and Takala 2006). Concept products are developed to experiment with new ideas, and allow a preliminary test of how the market would react to such ideas. Typically, concept products receive extensive coverage in the media, and are a powerful means to tease the market about new products. However, they are often just visions about what future products may look like. Many concept products will never reach the market, or will do so in a very remote future. Some of them will become marketed products, but upon substantial scaling down or modifications in both design and technical functionalities (Harrar 1990). For others, only some technical functionalities will be implemented in marketed products. For all these reasons, it is not clear whether exposing consumers to concept products may be beneficial or detrimental for companies.

This research aims at shedding light on the effects of exposure to concept products on the evaluation of marketed products, by looking at both product design and product technical functionalities. We define the extent of conceptualization as the distance between the features of the concept product and those of marketed products. Concept products may vary based on how conceptual they are, i.e., on how distant their design and technical functionalities are from those of marketed products (Ciferri 2007). Since different degrees of conceptualization may characterize both the concept product design and its technical functionalities, we propose a theoretical framework to analyze the effect of both aspects of conceptualization on judgments of marketed products.

Theories on stimulus-based processing fluency suggest that exposing consumers to high conceptualization of design (CPD) may increase the processing ease of that design when it is implemented in marketed products (Reber et al. 2004). However, the degree of conceptualization of the concept product design also influences whether the concept product and the marketed product are perceived as belonging to the same category (Goldstone 1994) and whether they are explicitly compared. Such comparisons are particularly harmful in case the concept product features high conceptualization of technical functionalities (CPTF), since these may be perceived as new standards for the product category and would generate a contrast effect in the evaluation of the less conceptual marketed product, or may contribute to create product-related beliefs that are then disconfirmed when facing the more realistic performance of marketed products, resulting in a detrimental effect for judgments of marketed products.

Results of two experiments show that exposure to high CPTF can damage consumer judgment of marketed products, but that such effect is contingent on the degree of CPD featured by the concept product is, i.e., it occurs when the concept product feature moderate (vs. high) CPD. Specifically, moderate CPD favors the perceived similarity between the concept product and the marketed product, such that it is natural for the consumer to engage in explicit comparisons between the technical functionalities of the concept product and those of the marketed product. Since the former are typically superior to the latter because concept products are not subject to any economical, legal, or production constraint, the result is a contrast effect detrimental to the judgment of the marketed product.

These results contribute to shed light on the role of concept products in affecting judgment of marketed products, and emphasize a different way in which the use of design in the initial stages of new product development may affect categorization and influence new product performance.
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IS THE FUTURE STATIC OR DYNAMIC? THE EFFECT OF CULTURE ON EVALUATIONS OF NEW PRODUCTS

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SUMMARY

Escalation of commitment is a common reason for the failure of new products (Boulding, Morgan, and Staelin 1997; Schmidt and Calantone 1998, 2002). Although escalation of commitment has been studied extensively, few scholars have investigated the escalation of commitment across distinctive cultures. Yet people from distinctive cultures have different values, assumptions, and meanings upon which they base an act or decision (Moscovici 1984; Shweder 1995). Scholars argue that East Asians employ holistic, long-term, and nonlinear thinking whereas Westerners employ analytical, short-term, and linear thinking (Ji, Nisbett, and Su 2001; Ji, Peng, and Nisbett 2000; Kühnen, Hannover, and Schubert 2001). In light of this difference, the current paper investigates whether East Asians, who emphasize changes in the future, are more likely than their Western counterparts to continue new product projects as well as whether Westerners, who have a static, past and present orientation, are more likely than their Eastern counterparts to terminate projects given a poor forecast performance for new products. Moreover, the paper also investigates the factor moderating the impact of culture on evaluations of NPD.

Theoretical Background

East Asians pay more attention to context and believe that within a whole system, everything is related to everything else to some extent (Nisbett et al. 2001). Such factors are linked together, like “the ropes in a net” (Munro 1985). Therefore, East Asians tend to use a broader range of factors, especially contextual factors, to explain a given behavior (Ji, Nisbett, and Su 2001; Krishan, Zhou, and Zhang 2008; Nisbett et al. 2001). As a result, the development of events is not static, but rather is dynamic, changeable (Peng and Nisbett 1999), and nonlinear (Ji, Nisbett, and Su 2001). For East Asians, the world in which they live is never stagnant; it continually changes (Ji, Nisbett, and Su 2001) because numerous factors may drive the change of future. As such, East Asians have a long-term orientation and a general tenacity in the pursuit of a goal (Hofstede and Bond 1988) because they do not emphasize immediate gain and loss (Li 1999), but rather believe that the future will change as the situation changes or as a result of their hard work.

In contrast, Westerners are more likely to focus on dispositions and attributes, describing themselves by emphasizing internal dispositions, with few references to the surrounding contexts (Cousins 1989). Moreover, Westerners tend to see the world as a collect on of discrete objects (Nisbett et al. 2001). Westerners ascribe to the belief that every cause leads to an effect and that every effect is the result of a cause. Westerners therefore rely on a narrower range of factors to explain a given behavior and build simple and explicit causal models (Ji, Nisbett, and Su 2001). In addition, Westerners maintain that everything that currently exists has always existed. Following this logic, nothing can become anything other than what it always was. Yet change means that a thing will never be what it once was. As a result, change is not valued by Westerners, who generally assume a linear development of events. Therefore, Westerners have a static perspective and pay more attention to the past and present (Hofstede and Bond 1998).

Methodology and Results

In Study 1, a total of 101 surveys were collected from Americans (male: 47.5 percent; average working experience: 6.2 years) and 102 surveys were collected from Chinese (male: 60.7 percent; average working experience: 12.7 years). The study was based on a 2 culture (China vs. U.S.) x 2 product innovativeness (high vs. low) between-subject factorial design. Results indicate that Westerners are more likely to continue a new product when it is higher innovative than when it is lower innovative. However, East Asians’ decisions are consistent across these two kinds of new product. East Asians are more likely than their Western counterparts to continue a new product regardless of whether it is higher or lower innovative.

Study 1 showed that Westerners are more likely to stop a new product while East Asians tend to continue a new product; this is because Westerners are too pessimistic while East Asians are too optimistic about the future of new products. However, both are fatal mistakes in NPD. Since East Asians’ and Westerners’ stop-go decisions are based on their perceptions of future performance, correcting their perception may change their initial tendency. Therefore, study 2 will investigate whether East Asians’ and Westerners’ evaluation of new products can be moderated given the forecast of the future. A total of 179 surveys were collected from American participants (male: 60.3 percent; average working experience: 11.3 years) while 185 surveys were collected from Chinese participants (male: 62.2 percent; average working experience: 6.4 years). The study was based on a 3 future conditions (good, bad,
vs. no information) x 2 cultures (China vs. U.S.) x 2 product innovativeness (higher vs. lower) between-subject factorial design. Generally speaking, providing information on the future performance of a new product can partially moderate cultural biases in evaluations of new products (either killing a new product too early or escalating a failing new product).

Implications

For the past several decades, most firms have used stages and gates to evaluate new product ideas. However, such a model may be too static because it only provides the forecast of current situations and ignores the situations in the future. Current markets are highly competitive, and market environments are more complicated, volatile, and dynamic. Although the stage-gate model can effectively reduce the escalation of failing projects, it may also kill good projects too early. Terminating failing projects can stop the drain on resources, but killing good projects can also cause companies to lose opportunities to grow their business. Therefore, firms would do well to modify the strategy in order to satisfy the requirements of the increasingly complicated and volatile market environments. Forecasting the future performance would be a good method to alleviate errors in NPD even though the future involves a lot of uncertainties.

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IMPACT OF ONLINE COMMUNITY RELATIONSHIP ON NEW PRODUCT RECOMMENDING BEHAVIOR

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ABSTRACT

Brand managers are increasingly participating in online communities to communicate and influence involved consumers and leverage the power of their referral networks. This research examines the role of a member's community relationship (network size, membership duration, share-of-posts) on a member's decision to e-mail a brand ad message for a new product and generate a referral response (new product trial) by the email–recipient. The proposed analytical model (bivariate probit with sample selection) is estimated using clickstream data for nine new product advertising campaigns that were launched on online community boards of a commercial health and fitness website. Empirical analyses show that high share-of-posts and long-term consumers differ in their impact on email and referral propensities and have implications for email and referral management.

INTRODUCTION

The power of word of mouth (WOM) communication and its influence on consumer decision making is well established in academic literature (Steffes and Burgee 2009). Academic research has demonstrated the superiority of online word-of-mouth to marketer-induced advertising in customer acquisition (Villaneuva, Yoo, and Hanssens 2008), hence examining how firms can leverage online word-of-mouth to generate new (non-digital) product trial warrants attention.

Online communities are virtual social networks or consumer groups of varying sizes that connect and interact online for the purpose of meeting personal and shared goals (Dholakia, Bagozzi, and Pearo 2004). Online communities represent virtual communities of consumption; participants can obtain product information, learn about the consumption activity in general, share experiences, and develop social relationships with other members. Rather than brand advocacy, the shared enthusiasm is directed toward exploration of the specific consumption activity, e.g., religion, health, environmentalism. When making a purchase decision, participants may turn to the virtual community to gather information, to ask for advice, or to review the opinion of expert users (Misra, Mukherjee, and Peterson 2008). After the purchase has been made, they may communicate their own experiences with the consumption activity to the community. The result is an ongoing process of interpersonal influence and online word-of-mouth recommendation. Prior academic research has examined the role of advertising and consumer-created communications in brand communities (Muniz and Schau 2007) that rely on sizable number of brand loyalists typically for high market share brands (see a list at www.liveworld.com). Category-specific online communities represent opportunities for expansion of brand user base for multiple brand sponsors. Marketers can observe, track, and compete for their share of clicks, posts, and digital buzz among consumers involved in the product category, unlike in brand communities where oppositional loyalty leads members of the community to take an adversarial view of competing brands (Thompson and Sinha 2008).

Word-of-mouth transmission on online community websites can occur in three ways – members posting self-generated brand-related message (ads, reviews, experiences, or suggestions) on message boards or blogs, or members emailing the ad (or brand) message to their friends and acquaintances including those who are not members of the online community. In this research we concentrate on the latter, because it represents a conscious decision by the sender to disseminate the information to specific recipients and the most active endorsement of a brand sponsor’s product. Since it is addressable and measurable it helps the brand sponsor identify potential consumers in the general population who are not members of the online community. On receiving the emailed ad message, the recipient can read the ad message and click on the embedded hyperlink to generate a referral visit the brand sponsor’s page to view the ad, read an article, view a video, play a game or sign-up to receive communications from the brand sponsor.

Three facilitating causes drive the widespread usage of email networks by marketers. First, the role of WOM in trial probability of products and services is well-established (Steenkamp and Gielens 2003). The concept of homophily

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1 This paper was accepted and presented in the “Online Communities” session at the AMA 2011 Winter Educators’ Conference, Austin, TX, February 18–20; however, due to an error or omission, it did not appear in the respective proceedings.
in social networks (Rogers 2003) suggests that firms can leverage invisible networks of influence among current customers to identify, screen, and reach specialized consumer segments hard to reach otherwise thus creating brand awareness and attracting new customers at a minimal cost. Relative to those randomly selected, referred prospects are more likely to belong to the target segment. Second, an ad message emailed by a reader is likely to be viewed by the prospect as an implicit endorsement of the brand message. Hence, the referred prospect is predisposed to judge the forthcoming invitation to click on the ad message URL to visit and interact with the brand sponsor’s message more favorably. Third, it provides marketing managers with a channel that allows consumers to self-select the amount and type of information (firm-generated and/or peers) best-suited to their needs at the time.

As firms increase their usage of WOM-generation marketing campaigns, an important prerequisite for the success of such strategies is a better understanding of factors that are associated with a sender’s propensity to email (or transmit) a brand message and generating a referral. Hence, identifying measurable characteristics of effective email senders and brand message sources that can increase email transmission and referrals is critical to a brand manager’s social media advertising strategy. This research aims to answer the following question: Do differences in a consumer’s engagement with the online community in terms of membership duration, share-of-posts, network size impact brand message transmission and referral generation propensities? We use clickstream data of consumer activity on online community pages, membership information, and activity at brand sponsor landing pages to examine emailing and referral behavior associated with nine new product advertising campaigns over a 13-month period at a health and fitness website.

CONCEPTUAL BACKGROUND AND HYPOTHESES

Prior research has shown that information and word of mouth play a critical role in the adoption and diffusion of new products. Specifically, research on diffusion theory suggests that social systems and communication channels influence the adoption of products by shaping the information to which people are exposed (Rogers 2003). From the perspective of diffusion theory, online communities can be viewed as both social systems composed of members and communication channels through which information about new products is transmitted (Thompson and Sinha 2008). As a result, online communities have the potential to alter members’ adoption behavior by selectively exposing them to information about new products. Word-of-mouth processes thrive online because the “frictionless connectivity” of the Web has revolutionized how firms have sought to capture, manage and monetize decentralized social networks of their consumers (Huang 2005). Rather than broadcasting to an audience, the firm encourages customer-to-customer (or peer-to-peer) interaction leading to quick message transmission that can, in aggregate, affect the marketers’ outcomes in real time without requiring any intervention (Henning-Therau et al. 2004).

Ho and Dempsey (2010) investigate young adults’ email forwarding behavior using surveys to identify four potential motivations for email forwarding behavior: (1) the need to be part of a group, (2) the need to be individualistic, (3) the need to be altruistic, and (4) the need for personal growth. They find high trait curiosity increases email forwarding behavior through increase in online content consumption. Research on consumer motivations for forwarding commercial email has been investigated in the context of spam or unsolicited email communications. Key findings in this research suggest that senders of commercial message are concerned that recipients will form undesirable judgments about them, make them appear indiscriminate, exhibit negativity bias since negative evaluators are seen as more intelligent, competent, and expert than positive evaluators (Schlosser 2005). However, Martin et al. (2003) examine effectiveness of email advertising using surveys of Finnish consumers of a cosmetic brand and find email usefulness and volume has a positive relationship to visiting a physical store but not website.

Extent of Member’s Participation in Online Community: Relationship Duration

Members of an online community differ in how often they interact with fellow members but also in how long they have been members of the community. For example, highly social people may participate frequently with fellow members, even though they have only recently joined the community. Conversely, some long-term members may prefer to read discussions of other members without directly participating themselves. Wang and Fesenmaier (2004) found that enduring involvement was the major reason for online community membership. However, word-of-mouth generation associated with highly involved excitement at initiation online community membership dissipates over time. Prior research has found that longer duration membership in a group strengthens the social identification of members with the group (Bhattacharya, Rao, and Glynn 1995). Muniz and Schau (2007) find that long-term members tend to enjoy higher status within the brand community and that their claims to membership are regarded as more legitimate. Hence, long-term members are less likely to jeopardize their enhanced status within a community by endorsing a new product from a brand sponsor compared to a more recent member. However, given the perception that long-term members are likely to have more domain-specific expertise (Petty 2000), brand messages emailed by a long-term member are more likely
to generate a referral compared to a more recent member and this effect will be more pronounced for recipients that are members of the online community than non-members. Hence, we hypothesize,

H1: Duration of customer membership in an online community will be negatively associated with emailing ad message but positively associated with referral propensity.

**Extent of Member’s Participation in Online Community: Relative Share of Posts**

The relationship between share-of-posts and propensity to generate word-of-mouth is less clear. There is growing recognition among managers of the importance of measuring the share of content a customer generates at an online community (share-of-post) as opposed to simply reading other posts and participating in the online community. Members who mostly participate by adding friends and brand sponsors to their profile pages, confirm their own addition to friends’ and brand sponsor profile pages, may not be committed to the community, are likely to be passive with very little information aside from increased friend count is produced for other members to view. High share-of-post customers are like to spend more time at the website, more likely to be attitudinally loyal to the firm, less exposed to competitive offerings compared to low share-of-post customers and more difficult to convert to brand ambassadors. High share-of-post members are more likely to have deeper product knowledge and more likely to know and influence consumers with similar product requirements. Hence,

H2: Sender’s relative share of posts in an online community will be positively associated with (a) email sending and (b) referral propensity.

Research suggests that consumer motivations to create consumer-generated content are positively correlated to their intentions to use consumer-generated content (Daugherty, Eastin, and Bright 2008). Hence,

H2c: Sender’s relative share of posts in an online community will be positively associated with referral propensity of customer-generated ad messages rather than marketer-generated ad messages.

**Extent of Member’s Participation in Online Community: Network Size**

Research on the effect of online community network size on ad message transmission behavior can validate the current practice of using number of contacts or friends to infer the network value of a member. While inviting contacts on online community profile is relatively easy, dual-party approval requirement (the inviter and invitee have to agree to be connected) limits the number of weak-tie contacts. Further, when contacts are dropped by one member, the change is reflected on both profiles, but the passive party is not explicitly notified. The proportion of weak-tie contacts will vary across online communities based on the purpose, interests that bond community members together. Intuitively, network-size should grow over time, hence longer duration members are likely to have larger network sizes relative to recent members. However, research shows that participatory duration (duration based on activity at the site rather than time-based duration) has a weak relationship to network size (Thompson and Sinha 2008).

Since members with bigger network sizes have a higher chance of identifying recipients who might be interested in the brand message and generating referrals, hence we can hypothesize that network size will be positively associated with emailing and referral propensity. However, emailing advertising messages to others has an associated social risk since there could be potential negative repercussion given that it is unsolicited. Members with bigger network size are likely to be more cautious or selective in emailing ad messages. Recipients of the message may get irritated with the sender for compromising the recipient’s privacy especially in high-involvement online communities like health websites, the empirical context of this research. As email occupies a greater role in life, members with larger network sizes are likely to be more careful about what they forward. If the story is not received well by recipients, the sender may be categorized as a “spammer” reducing his/her social standing. Hence, we hypothesize

H3: Size of member’s network in an online community will be (a) negatively associated with email sending but (b) positively associated with referral propensity.

**ANALYTICAL MODEL AND METHODOLOGY**

We propose an analytical approach that considers ad message emailing behavior as comprising of two events: (a) probability that an ad message is emailed, and (b) probability that an emailed ad message generates a referral visit or trial by the recipient. Aggregate analyses of emailing and referral outcomes may help to identify characteristics of ad messages that are transmitted more and generate more referrals compared to others in the past, but it can yield misleading inferences since it reflects the average of many factors that drive email transmission and referral behavior. Some of these factors might have strong effects, while others may be weak or have no effect at all. Our model captures the impact of factors that operate
simultaneously, individually for each consumer and each ad message, at every pageview to help managerial decision-making if managers want to leverage the benefits of peer-to-peer networks. We perform full Bayesian inference using MCMC algorithms to estimate our model following Chib and Greenberg’s (1998) analysis of hierarchical SUR models with correlated errors.

This study uses clickstream data from the online community boards of a commercial health and fitness website during a 13-month period and membership data. The consumer activity file had information on consumer ID, the browser and system used, page code of the ad message viewed, action on the page (read, print or email), the time and day of request, and the referring page or site. We deleted activity on unqualified ad messages (i.e., those that did not have the “email this page” links) and non-human (e.g., crawlers) and employee activity from the clickstream. The web site used page expiration codes so all ad message requests were served from the site server and recorded. The ad message data file contained information on the brand message source and the URL. Brand sponsors undertake ad campaigns to meet a variety of goals like distributing coupons, demonstrating uses of product, publicizing social responsibility initiatives, and reminder advertising. Nine ad campaigns for new product trials, seven over-the-counter therapeutics and two supplements, were the biggest group and extensive data on campaign features was available for analysis. All of these campaigns ran for the same, fixed duration and were only offered at this website, making them good candidates for this quasi-experiment. The identity of brand sponsors and products cannot be disclosed at the request of the data sponsor.

### Selection of Consumers

Consumer activity was tracked using consumers’ numeric IDs. Hence, we are reasonably sure that each cookie corresponds to a subscribing unit, individual, or household making up 85 percent of the full data set. There were 106,003 unique subscribers at the web site in January 2007, they generated 146,516 sessions and 279,443 page view occasions. Online community relationship data was calculated from membership subscription and profile data. We use logarithms of online community relationship variables to control for large variances in duration, network size, and posting activity.

For this research, we randomly selected 1,219 subscribers. Senders selectively email ad messages, ad message URLs were emailed in only 15 percent (7131) of page views. Approximately 57 percent of the emails (4111) lead to a referral visit by the email recipient within the

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<td></td>
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<td>DURATION_i</td>
<td>0.01–</td>
<td>Logarithm of number of days signed in at online community, Ln(Days)</td>
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<td></td>
<td>2.014</td>
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<td>SOP_i</td>
<td>(-0.9) –</td>
<td>(SOP_i – SOP_{mean} / sd) Relative (Normalized) sender share of posting activity at online community website.</td>
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<td></td>
<td>0.89</td>
<td></td>
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<tr>
<td>NwkSize_i</td>
<td>0.01–</td>
<td>Logarithm of number of friends on member’s profile page at the time Brand Message Source</td>
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<td></td>
<td>1.2</td>
<td></td>
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<td><strong>Recipient’s Online Community Relationship</strong></td>
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<td>NMEMBER</td>
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<td>1: if ad message email recipient is not a member of the online community; 0 otherwise</td>
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<td>1: if video link was provided in emailed ad message; 0 otherwise</td>
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<td>WKEND</td>
<td>1/0</td>
<td>1: if the ad message was emailed during a weekend; 0 otherwise</td>
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observation period. Information on variables was constructed from the server clickstream logs and internal firm databases. Table 1 describes the model variables and their specifications.

Data Analyses

Descriptive Statistics. Long-term customers (15% of customer base) and high SOP customers (21% of member base) spend relatively less time in each session and have significantly fewer page views (account for 2.6% and 5.9% of total page views) compared to newer and low SOP customers. High SOP customers visit the online community site significantly more often compared to longer duration customers. Our proposed model was fit to the 36,813 page view observations for 1,219 customers (who viewed 2,837 unique ad messages) at the web site. Thirty-four point seven percent (984) unique ad messages of those viewed were ever emailed, and 18 percent (511) generated referral visits. Thus few ad messages (984 ad messages) are emailed and generate referral visits on multiple occasions (1,459 occasions).

Estimation Results. To assess the performance of our proposed model we considered seven alternative specifications by adding variables in a stepwise fashion and computing pseudo-Bayes factors to identify improvements in the explanatory power of the model. Detailed comparison of log marginal density, in-sample and out-of-sample hit rates is available from the author. Tolerance values and variance inflation factors did not indicate multicollinearity between variables or their linear combinations.

An overview of the results shows that decomposing the email transmission and referral process yields insights that would be unavailable from a single-stage approach which would simply predict overall referral visit propensity. We also see from the results that many model covariates have different effect signs for email transmission and referral generation, or they are predictive of one but not the other. This diagnostic capability is a key advantage, which would not be revealed if we merely estimated referral propensity. We discuss substantive results from our estimation next.

Extent of Member’s Participation in Online Community. As we hypothesized, long-term members of the online community are significantly less likely to email but significantly more likely to induce referral visits compared to casual subscribers, thus supporting $H1a, b$ at $p < 0.01$. Further analyses from our analytical model shows that the referral ability of long-term members is further enhanced, when these members take the time to personalized the email messages. Referral probability of long-term members (number of signup days higher than the median) who email marketer-generated ad messages is higher by 0.094 compared to short-term members.

In contrast, high SOP members are not significantly more likely to email ad messages ($H2a$ is not supported, $p > 0.05$) but are more likely to generate referral visits compared to low SOP senders ($H2b$ is supported, $p < 0.01$). Further analyses indicates that though high SOP members are less likely to email in general, and customer-generated content are not more likely to induce referral visits relative to marketer-generated content ($H2c$ is supported, $p < 0.01$). Members with bigger network size on the online community (more number of friends listed on profile page) are not significantly more likely to email ad messages than those with smaller network size thus providing no support for $H3a$ ($p > 0.05$) but are marginally more likely to generate referral visits compared to those with smaller network size ($H3b$ is supported, $p < 0.01$). Since we consider logarithm of network size this coefficient can be interpreted as elasticity.

Control Variables. We find that if an emailed ad message has a video link it is more likely to generate a referral visit. Though senders are not more likely to email URLs on weekends, recipients are more likely to generate referral visits if they receive emailed ad messages on weekends.

CONCLUSION

This research examines customer-to-customer ad message emailing and referral behavior at an online community. We establish that there are differences among customers in their email transmission and referral generation probabilities based on the sender’s duration of activity, share-of-posts, network size at an online community.

Since referral is possible only if ad message is emailed, we propose a parsimonious, yet flexible analytical model that models each of the outcomes separately (i.e., referral outcomes are conditional on emailing outcomes) to account for sample-selection bias, and allow managers to balance performance of each outcome to optimize overall ad campaign performance. Our model formulation can be extended to accommodate different types of brand message sources and recipient types and uses commonly available clickstream data at online community websites. Our methodology is unique in that relationship of covariates to email propensity, differs from their impact on referral visit propensity. These relationships can be useful diagnostic tools in the evaluation of referral email performance.

Our empirical analysis uses clickstream data from online community boards at a health and fitness website. In general, long-term members are more likely to generate
referrals, and customer-generated content is less likely to generate referrals, thus demonstrating that modeling referral behavior without accounting for email behavior will lead to biased estimates of variables under consideration. Though long-term members have significantly higher propensities of generating referral visits as a proportion of emails sent, they represent a small proportion (11%) of overall consumer base at the site. As web sites mature, there will be fewer long-term members, and fewer consumers motivated to email content on their own. Differences in share-of-posts or network size does not lead to differences in ad message emailing probability, but high SOP and big network size members are more likely to email content. This suggests that at high-involvement online communities dealing with health issues members are cautious in their selection of recipients to email ad messages.

Ad messages emailed by long-term and high SOP members are more likely to generate referrals to brand sponsor website, probably a result of greater effort and restraint invested in selecting the “right” recipients. This suggests that using network size to infer the email traffic value of a member is erroneous at least at high involve-ment online communities. Many content web sites have started experimenting with “fax this story to your friend” links (e.g., Wired magazine www.wired.com/wired) to alleviate potential downsides (malicious programs piggy-backing on legitimate content), bypass spam and privacy issues altogether and maintain recipient information. While faxed content can generate brand awareness and interest in the publisher website it is less likely to generate more online referrals than emailed hyperlinks. Measuring effectiveness of these faxed links deserve attention.

It remains to be investigated if recipients move beyond trial and make a purchase. A hierarchy of effects in terms of ad messages that encourage recipients to visit and also purchase will help managers monetize content at the site. De Bruyn and Lilien (2008) found that viral email messages are more effective in making recipients aware of an offer or web site, but they had no influence on higher-order outcomes like purchases. Availability of history of email transmission and referral data on senders themselves would make it possible to segment the consumer base in terms of their “network value” and develop CRM initiatives to retain and encourage word-of-mouse behavior among influential subscribers.

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KNOW THY CONSUMERS: A NEW MODEL TO EXPLORE THE IMPACT OF FRAUDULENT BEHAVIOR ON RETAILER’S RETURN POLICY

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Lynn C. Dailey, Capital University

SUMMARY

Return policies (RPs) have an increasingly important impact on retailers. A recent survey suggests product return rates are approximately 8.7 percent of sales, up from 7.3 percent in 2007 (National Retail Federation 2008). These returns were estimated at $219 billion in 2008. Product returns negatively impact retailers’ bottom line due not only to the reduction in net sales but also the increased costs involved with reverse logistics (Anderson et al. 2009; Guide et al. 2006).

There is wide continuum of retailer RPs. On one end of the continuum are retailers who offer not only an unlimited return horizon but also a full refund (e.g., L.L. Bean). On the other end of the continuum are retailers who offer no ability to return the product. For example, the Apple App Store has an “all sales are final” policy with no refund or exchange. Most retailers fall between these two extremes. Best Buy, for example, has a 30-day exchange or return policy on many of its products but only 14 days on some products and up to 45 days on other products. However, some of its products have an “all sales are final” policy with no returns allowed. Not only is there currently a wide continuum of retailer RPs, but individual retailers have also varied their policy over time, with many becoming more restrictive. Furthermore, many retailers vary their RP throughout the year.

The preceding examples suggest that individual retailers are attempting to optimize their return policies. With all of the variation between retailer RPs, the question becomes, “What is an optimal RP?” Despite the substantial impact of product returns on retailers, there has only been a limited amount of research focused on RPs. Our motivation for this paper aligns with the fact that, “the literature on product returns is sparse, especially in relation to analyzing individual customer product return behavior” (Peterson and Kumar, 2009).

From a consumer perspective, retailer RPs influence both the consumer’s decision to purchase as well as the product return decision, including the fraudulent return decision. From a retailer perspective, product returns, in turn, influence retailer costs and profit. Retailers must weigh the impact of various RPs on consumers’ purchase and product return decisions as well as their cost/profit in order to develop optimal product RPs that limit fraudulent returning.

Our paper begins with a longitudinal review of the consumer research literature that highlights the important characteristics of consumer behavior in responding to RPs. Next, we illustrate a three-stage decision process that includes the retailer’s determination of the RP, the consumer’s decision to purchase and the consumer’s decision to return a purchased product. Chronologically, in Stage 1, the retailer announces the price, refund ratio and the returns horizon. In Stage 2, the consumer reacts to this announcement and decides whether to buy the product or not. This decision depends on the expected net value she estimates for the purchase. In Stage 3, she tries the product and determines if the product is a good match or poor match. If a poor match occurs, the consumer may decide to keep or return the product. If a match occurs, she may keep the product or return it to the retailer, most likely close to the end of the returns horizon, after extracting some value. We note that the latter decision of the consumer is a fraudulent behavior.

Next, we use this three-stage process and incorporate previous empirical findings into a new mathematical model to aid retailers in understanding the impact of their RPs in a retailer-consumer setting. The impact of the retailer RP on the three stages and their corresponding decisions are cast as an optimization problem with one discrete and two continuous decision variables. The distinct features of our model include the explicit incorporation of the fundamental purchase-risk relievers (i.e., less price, higher refund, longer returns horizon) into the consumer’s (probabilistic) valuation function. To our knowledge, this study is the first not only in explicitly including the major determinants (price, refund, and returns horizon) into the consumer’s probabilistic evaluation function but also in finding the optimal returns horizon. Our model shows that the retailer’s RP decision has enormous implications for both the retailer and the consumer.

1 This paper appeared in a Poster Session at the AMA 2011 Winter Educators’ Conference, Austin, TX, February 18–20.
Next, we formally derive the cost of fraudulent return behavior by consumers, which, for example, counts for almost 50% of all returns in clothing industry (King et al., 2008). We then solve our model to optimality and employ sensitivity analysis on some key parameters of our model to better understand fraudulent returning. Finally, we offer managerial insights and possible extensions for this important and fruitful research venue of RPs.

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