

Developments in Marketing Science:
Proceedings of the Academy of Marketing Science

M. Joseph Sirgy
Kenneth D. Bahn
Tunc Erem *Editors*

Proceedings of the 1993 World Marketing Congress



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FOREWORD

The purpose of this international congress is to increase the knowledge base of marketing thought and practice as it exists in a variety of countries around the world. Marketing academicians, practitioners and public policy makers at all levels throughout the world submitted original papers for conference presentation and for publication in this proceedings. All competitive were refereed (subjected to a peer review). The result of this effort produced 312 empirical, conceptual, and methodological papers involving all functional areas of marketing with a special focus on international aspects. Out of the 162 which were accepted, 141 were published in this proceedings.

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INNOVATION, TECHNOLOGY, AND PRODUCT STRATEGY

PRODUCT MODIFICATION STRATEGIES USED BY FOOD COMPANIES FOR FAST ENTRY INTO NEW GEOGRAPHIC SEGMENTS

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ABSTRACT

This paper examines product modification strategies and techniques used by food companies to gain entry into new geographic market segments. Interviews were conducted with international and regional companies of all sizes marketing in Asia-Pacific and included companies from Europe, North America, Middle East, and Asia-Pacific (A-P). The findings suggest that product modification has been utilised in the Asia-Pacific region.

PRODUCT MODIFICATION

The issue of global standardization centers around the use of straight product extension versus product adaptation for different market segments (Levitt 1983, Terpestra 1991). The concept for this research was formulated while trying to identify products that were modified for the A-P market. Kawanaka and Sasaki (1991) at Kao, a large Japanese consumer product firm, suggested that vast cultural differences exist in how persons use consumer products, i.e. detergents and shampoos. This led us to hypothesize that food preferences and the way people use foods could also vary and that modification might be necessary for some food products to gain acceptance in the A-P market (Crippen & Oates 1992, 1993). This research suggested that food product modification is often used to help gain product acceptance in the A-P market.

Food marketing development efforts have accelerated in many Asia-Pacific countries due to the increased spending power of an enormous number of potential consumers. Increases in the number of working women has created a big demand for processed foods especially in Hong Kong, Japan, Korea, Malaysia, Taiwan, Thailand, and Singapore. The number of urban supermarkets is growing as is the use of television to advertise food products. Large populations with increasing incomes are found in the PROC, Indonesia, and India; the latter has the world's largest number of middle class consumers (Fortune 1992). Companies with flat competitive home markets i.e. from Europe or North America are entering new geographic areas with fast growing markets which offer long term potential. Asia-Pacific with a large population, increasing urbanisation and rising personal incomes, has become a target for many companies. Some have chosen to enter the Asia-Pacific through countries such as Singapore where English is the major business language. Early entrants realized that it was necessary to quickly get into A-P markets in order to establish local business relationships, to learn how to do business, to develop brand awareness and consumer loyalty. There is much growth in food markets in many regions, especially the Asia-Pacific, which has the highest growth rate in consumption of food in the world (Singapore Business 1993). However Selwyn (1991) advised that there is a narrow window of opportunity.

Asia-Pacific in particular puts great demands on food companies seeking to enter its markets, often requiring products to be modified in terms of taste and flavour. Foods marketed in certain areas of the A-P, i.e. Japan require higher aesthetic standards for packaging. High temperature and humidity place additional strains on the product. Many fast food chains have had to introduce new items or modify products for the A-P market (Kotler 1991). For example, the Rendang and Samurai burger and the Kaya McMuffin.

Many companies are doing more than just putting their current products on the shelves around the world. International food giants

such as Campbell's (Selwyn 1991 and Engardio 1993) and Nestle (Heer 1991) and other smaller companies such as Yeo's are modifying products to suit different consumer taste pallettes which characterise the different regions within the A-P where variations due to ethnic, religious, and other cultural variables influence taste preferences. Sensory evaluation literature suggests that there are differences in product acceptability based on taste, flavor, and texture (Graf 1991).

Campbell's Soup research and development office for the A-P region in Hong Kong uses a strategic approach to new product development. Some products are transferred directly i.e. tomato soup while other products require short, medium, or long term development efforts. Products requiring less development effort such as a spicier chicken broth, a staple in Chinese and other regional cuisines, has been introduced quickly into the market to establish a market presence and to create repeat purchases. Working women have less time to make homemade style chicken broth, which requires hours of preparation as do the double-boiled style Chinese soups i.e. water-cress and duck gizzard. Campbell's introduced the latter type under Swanson label; these soups probably required a medium amount of effort to bring to market. Longer range developments are in process in their regional laboratory where a panel of local taste testers can be utilised. They realised that in order to be successful in markets where taste preferences vary from the west, they needed to modify some items from their product line to be successful in these market.

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MARKETING OF ECONOMIC DEVELOPMENT PROGRAMS -- EXPECTATIONS AND HANDLING NEW OFFERINGS

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Abstract

Development centers in a position of marketing new programs to potential users may find themselves confronted with the issue of needing to know what constitutes a reasonable response to efforts as well as how initial introduction might be best handled. Concepts relating to expectations are covered from both the source (supplier) and the receiver (user) sides. A case study is reported that apparently illustrates aspects of general expectations. Previous association with the center and on-site meetings at the prospect clients' companies appeared to be positive elements in the successful marketing of the case study program.

Introduction

Periodically, development centers find themselves in a position of marketing new programs to potential users. A common reaction to such efforts by center personnel is that efforts are marginally successful. Some respondents may be obtained, but sign-ups take more time and more effort than would be expected. The purpose of this paper is to examine the start-up phase of programs and identify aspects of behavior that might be expected. At issue is what constitutes a reasonable response to efforts as well as how initial introduction might be best handled. A case study is reported that apparently illustrates general behavioral expectations. It is anticipated that this paper may interest development professionals who find themselves in positions of having to market new programs as well as marketing professionals who may assist them.

Conceptual Background

The marketing of economic development programs represents an exercise in industrial/institutional marketing. Essentially, it involves one organization marketing its services to another. It has been suggested that understanding of industrial markets can be gained by examining the smallest unit of analysis in marketing -- the dyad (Bonoma 1978). Five relationships were identified that were thought to impact transactions. These relationships included not only the relationships that existed between potential buyer and seller as individuals, but between their respective

organizations as well. Thus, it may be not only personal effort, i.e., individual to individual activity that counts, but also relationships that exist between centers (and their supporting organizations) and firms that may affect their outcomes. This model may be used to guide analyses of expectations when attempts are made to "sell" new economic development programs to potential users.

Supply/Seller Side Considerations

Personal selling is the most important demand-stimulating force in the industrial marketer's promotional mix (Hutt 1987). It is perhaps inescapable that any center initiated development program that is successful will require a substantial amount of personal selling. Along these lines, it is recognized that to some degree, there is a "law of averages" that affects salesperson's success. That is, each time out an order may not result. Instead, it is known that a certain number of calls among a certain number of potential clients will produce a certain number of sales. Indeed, it is common for salespeople to discuss this situation in terms of an inverted triangle in which a certain number of "suspects" are required to produce a certain number of "qualified prospects," which in turn will produce a certain number of interviews that will eventually produce a successful sale (see Marks 1981).

Salespeople likewise appreciate that it may be particularly difficult to make a new sale. A number of calls may be required in which information is presented to purchasing participants before a sale may be closed. Survey results indicate the average number of calls to close a sale may be close to four, although this number may be less if complementary communication such as telemarketing is used (Cahners 1989; Haas 1992). The model commonly used to depict this aspect of marketing industrial products suggests that it is markedly easier to sell to existing customers. That is, the first time that an item is purchased from a vendor a client may find that an intensive, detailed study might be necessary. As more familiarity is gained, however, subsequent purchases may be made rather routinely, with a minimum of investigation (Robinson 1967).

Demand/Purchasing Side Considerations

One way of looking at the user side of the dyad is to consider the use of the development center's service as similar to the development of a new product for the potential user. That is, the small business manager has a number of options that might be considered for incorporation into the business -- one might be the use of the center's service; others might include commercializing a new product, or opening up a new sales territory. From among these options, a limited number can be selected for pursuit because of constraints in resources -- both financial and

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personal. Thus, even though center programs may appear attractive, they may not be utilized because of competing alternatives within the firm. With regard to center operations, then, it might be noted that all potential respondents may not be equally likely to favorably accept an offer. Among those who do, a number of personal sales calls may be required to gain acceptance.

Background Summary

If a buyer-seller dyad is accepted as a reasonable model for describing center-client transactions on new programs, certain conclusions appear to be forthcoming. First, neither the buyer nor seller side of the dyad suggests that all transactions will be successful. In fact, conversions of much less than 100 percent may result. With regard to the "buyer" side, studies do not yet seem to have been made concerning the utilization of development options among small firms. Product development, however, represents an associated area. In this area, it has been suggested that firms commercialize one out of seven ideas -- although the ratio appears to be getting better (Booz 1982). On the "selling" side, professionals have learned to deal with a suspect -- prospect -- candidate truncation. At the prospect to sale level, perhaps a ten to one ratio is appropriate (Marks 1981; Belliveau 1990). These ideas are captured in Figure 1. Further considerations suggest that it will take a number of calls -- perhaps four to close a sale, and pre-existing relationships between center and firm may be important.

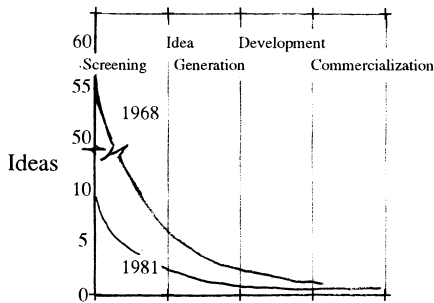
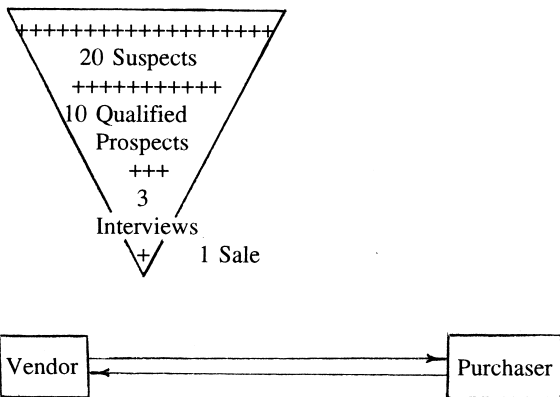


Figure 1 - Proposal Process

The case selected for discussion involves a center in a geographically remote area in the US. Manufacturing firms typically located within the development area that was studied due to quality of life considerations. Although opportunities existed in the lumber and mineral industries, diversified manufacturing businesses tended to be located there due to some experience of the owner-managers. Either these individuals were born there, went to college there, or had a pleasant vacation there. Certainly, location close to market proximity was seldom a factor. The three major industrial markets were about 400 miles away.

Firms "starting up" in this area tended to be successful initially due to skill in manufacturing and an intuitive approach to the marketplace. The area also was gifted with a generally positive work ethic, reasonable labor rates, and other economic considerations that offset high transportation costs. Marketing, however, always had tended to be a problem. General success among diversified firms tended to be dependent upon an entrepreneur having a "gut" feeling for the marketplace, getting repeat business from old, established accounts, "hitting the road" during slow periods, developing loose relationships with marketing reps and attempting product or geographical expansions as a way to make up for lack of performance with existing operations.

Not all firms, however, fit this mold. Exploratory research on existing manufacturing businesses indicated a two-tiered growth model (Musser 1987). On the one hand, there was a small group of rapidly growing businesses that contrasted to a larger grouping of slower growing, or declining, businesses. Rapid growth firms, having developed successful marketing programs, tended to minimize the problems associated with being located in a remote location. Further, it was known that marketing advice was the most common assistance provided by development centers in the US at that time (Tinsley 1978, 1989; Felham 1985). These observations suggested that a well conceived marketing assistance program could spur growth of the slow growth or declining firms, or at least strengthen their ability to remain viable companies. This, in turn, would aid job creation and retention, a primary community objective.

Consequently, the idea of a regional assistance program was derived. A Marketing Assistance Program (MAP) was proposed to remedy some of the marketing deficiencies local firms had. Marketing specialists were to be brought in to provide assistance to a maximum of ten basic economic businesses with potential for increased sales and job creation. Assistance could involve developing a new marketing plan or updating an existing plan, introducing a new product, developing a sales strategy, improving use of marketing reps, expanding geographical or product lines, penetrating deeper into existing markets, or other assistance. In all cases, the specific area(s) to be addressed and the level of effort were to be mutually agreed upon at the onset of the assistance period by the business, the marketing specialist, and the center. Center staff members were

to assist the company in implementing the marketing plan developed with a marketing specialist, particularly if this implementation involved financial packaging or other expansion or retention services.

The center had an effective structure in place for implementing the marketing assistance program. The center also had a history of success within the six counties within its designation as the principal economic development agency for the region. In addition to the home office staffed by three development professionals, the center had established two satellite offices, each staffed by a full-time development specialist. The center had also established formal working relationships with local economic development corporations, industrial councils, public officials, bankers, utilities, and the business community in what was at that time a regional economic development network.

The program under discussion was externally funded, was implemented at the start of the calendar year and was to run for two years. Funding sources included a manpower consortium (\$25,000), the state department of commerce (\$10,000) and the local university (\$15,000) for total funding of \$50,000. The program budget of \$50,000 assumed start-up costs of \$10,000 and that ten companies - the program's stated goal - were to be assisted at an estimated cost of about \$4,000 per company. This money was to be used to pay consultants for services rendered to clients. Client companies, in turn, were invoiced for the consultant's time and expenses and any other out-of-pocket costs incurred. These monies were to be used to replenish the fund so that a perpetual service, in principle, would be available to assist the region.

Different types of contracts were written, but an essential feature of each was that the client paid only if satisfied with the work. The "task" contract offered clients intensive assistance geared to achieving specific marketing goals, usually over a six month to one year period. Repayment under this contract type asked the client to begin repaying the loan upon completion of the contract scope of work. A second type of contract, the "mentor" contract, was designed for companies which are able to implement their own marketing program but who wanted periodic contact with the marketing specialist to review recent marketing performance and to receive suggested "course corrections." "Mentor" contracts provided four quarterly consultations. Repayment of this loan was left to the discretion of the client according to their perception of the value of the assistance received. Clients were also offered a repayment option in which they would pay royalties on some future performance measure such as, for example, sales increase. Thus, the risk for a business entering into a contract with no guarantee of eventual financial return was minimized. Program administrative expenses were an in-kind contribution by the university (Musser 1990).

Results

Industrial Population

There were 56 manufacturing businesses in the six county area that comprised the center's development area. These firms employed 3015 individuals. Largest employment was in the fabricated metal products sector (SIC 33-37) -- 18 firms with 1565 employed. Next came wood and paper products (SIC 24-26) -- 16 firms/1133 employed and then processed foods (SIC 20), 9 firms/117 employed. The area's "high tech" sector was comprised of two specialty chemical firms (SIC 28) who employed 53 individuals.

Communication Process

Each of these firms was contacted by mail with a MAP brochure and a cover letter that explained the program's intent. Additionally, press releases were issued to local radio stations and newspapers to support the direct mail effort and generally publicize the program. The initial mail contact was followed by a telephone conversation intended to arrange an initial meeting between company management and a center representative to collect standard Census of Manufacturing type information. All firms responded favorably to this overture. Of these firms, twenty-five expressed interest in the MAP. Subsequently, 75 minute face-to-face meetings were scheduled with these interested companies. These meetings commonly were held at a central facility, either at the development center or an outlying regional location, to reduce candidate travel while maintaining an expeditious schedule of sequential meetings. Attending these meetings were the project coordinator, the center's regional contact person, the consultant and the chief marketing person in the candidate company - frequently the president or an owner-partner.

These meetings typically developed a format in which further information was obtained on the marketing efforts of the company. This marketing information was developed from a structured interview that included questions on product lines, target markets, present marketing mix, sales history, company objectives, growth strategies, marketing opportunities and present plans. After the potential client finished with his or her communication, the consultant summarized the apparent situation to the agreement of both parties. Frequently, these situational summaries included some suggestions of assistance for the firm.

Meetings were concluded by an oral description of the program by the project coordinator and a description of the financial arrangements that might be made. Follow-up telephone calls were used to determine participant's further interest, and where interest was indicated, a letter of proposal was sent. These proposals were developed by the project coordinator after discussions with the consultant. The proposals included specific tasks to be accomplished, a time period in which the tasks would be accomplished, and financial terms. These agreements were structured in contract form so that the clients knew they were entering into an expectation on their part -- both financial and in

participation. A follow-up call explained the nature of these expectations.

If an agreement was reached, it tended to take further meetings and communication. In fact, successful agreement on an individual project tended to take three letters, five telephone calls, and four meetings. A communication model that started with awareness being raised initially and which proceeded through client interest, evaluation, commitment and agreement tended to be followed. Both the pattern of communications and the communication model is shown in Figure 2. Complete closing on initial projects tended to take four months, but successful closings on other projects took longer.

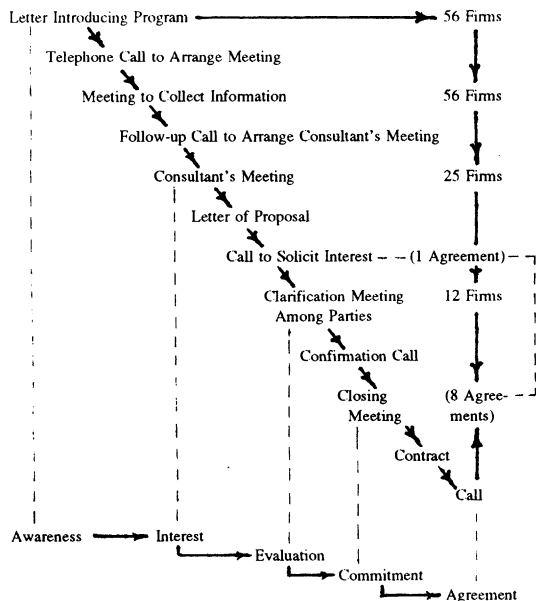


Figure 2 - Communications in Signing

Signing Successes

Naturally, not all manufacturers who had shown initial interest in the program ended up signing contracts. The greatest decline in interest came after the first face-to-face meeting with the consultant. Of twenty-five companies attending the first meeting, twelve indicated that they had no further interest in the program at that time. Because these firms continued to be candidates for future contact, they were not pressed for actual reasons for not entering the program. Of the remaining thirteen firms, one signed after the initial meeting, but other meetings were required with the other twelve. Of these, six more companies signed MAP contracts after the second consultant meeting and two companies signed contracts after a third consultant meeting, for a total of nine contracts. The attenuation in participation is also shown in Figure 2.

Projects were normally contracted in a manner that provided for initial payment of 15 to 20 percent of total agreed upon cost, with the remainder due upon project comple-

tion. Two clients chose "mentor" contracts, with the remaining seven choosing "task" contracts, i.e., projects tied to specific tasks. Average contract amount was about \$2,000, about 50 percent less than originally projected.

Best success was obtained among local specialty chemical firms where both producers agreed to projects. Local food producers supplied the largest single group -- three, out of nine firms. Wood furniture firms produced two contracts -- out of a possible sixteen firms, and machinery & equipment manufacturers produced two out of eighteen possibilities. In all, a 17 percent penetration was obtained in number of possible firms. About seven percent of possible employment in the manufacturing sector was covered, which indicated a tendency toward receptivity among smaller firms; the largest contracted firm employed 50 persons. Some SIC's were completely missing in the portfolio. No project, for instance, came from basic wood production operations. These results are shown in Table 1 along with the type of contract signed and the number of meetings required to obtain a project among successful firms.

Maj. Gr. SIC	Product	Population Cos./Empl.	Program Cos./Empl.	Visits*			Contract Type
				1	2	3 C	
20	Processed Foods	9/117	3/61	X X	X		TASK
				X X X			TASK
				X X X X			TASK
24-26	Wood & Paper Prds.	16/1133	2/52	X	X		MENTOR
				X X	X		TASK
28	Specialty Chemicals	2/53	2/53	X			MENTOR
				X X X X			TASK
25&30	Plastic Products	4/89	0/00				
31&39	Crafts	5/38	0/00				
32	Concrete Products	2/20	0/00				
				X X	X		TASK
33-37	Fab. Metal Prds.	18/1565	2/57	X X X X			TASK
		56/3015	9/223				

Table 1 - Population & Program Results

* Does not include first meeting.

Discussion

Initial internal evaluation at the center of this program's introduction tended to suggest that it had not been as successful as it had been expected to be. This reaction came from the relatively few number of recruits into the program and the amount of effort that it took to get these recruits. There were the nine contracts when ten had been established as what had been thought to be a conservative goal. This program was positioned as a "can't miss" program. It had adequate funding, was reasonably staffed, and appropriately administered. Nevertheless, projects were smaller in size than anticipated, and further, there had been many more meetings and much more ancillary communication than expected.

To a certain extent, the assistance supplied at the first client-consultant meeting may have hurt the chances of recruiting initial clients. Information exchanged at that meeting sometimes gave potential clients adequate direction for immediate marketing efforts. Consequently, there

was no need for them to enter into a contract. From the very beginning, however, the objective of this program was to help local companies, not particularly client recruitment. Thus, at no time was any attempt made to withhold marketing suggestions from potential clients. Eventually, clients who did not enroll initially may yet become clients.

"Expected" is a key word. The program offered a needed service under terms that were difficult to refuse, and it turned out to be a good program. Initial clients were provided the services for which they contracted. Some entered into second round projects, and other companies entered the program later. It took time and effort, however, to develop the program.

In particular, the following lessons were learned in marketing this program, which may be of assistance to other development professionals:

1. "10" was not a conservative estimate. In making an initial assessment of what might be possible, an arbitrary selection was made of an expected number of successes. This item may not seem so important in evaluating a program, but this selection did play a role in directing the effort during the early stages of the program. Some of the time spent getting converts might have been spent in getting initial results on the projects themselves.

In setting a goal, instead of selecting a number arbitrarily it might have been better to have selected a percentage of total population -- 10% or 15% would seem to be suggested from considerations of the conceptual background. "10", a 20% penetration, was well into what would be the early majority for this program in terms of product adoption (Rogers 1962).

2. Past relationships did appear to play a role in successful marketing of the program. Two key companies who entered the program had previous relationships with the center, or at least with the university in which the center was located. The earliest adopting company, the one who adopted after one meeting, had an owner who graduated from the university. The firm also had utilized center services previously in its foundation stage. Thus, to this "innovator" the service was undoubtedly a modified rebuy.

The largest contract also was written to a firm whose general manager and project manager had graduated from the university. This firm also had utilized some start-up funds the university had provided. Although there was never any indication that a "pay back" was involved in the relationship, it was fairly clear that a comfort zone had been established among participants.

3. Certain industries produced no contracts. It may seem inappropriate for center managers to think of discriminating among potential recipients for a service. The general thrust of a development center is to be equalitarian in its approach. In segmenting for successful introduction of a service, however, growth is perhaps important -- small firms and growing industries may be a key combination in

success. Situations where managers have some sense of what might be accomplished, but lack resources to accomplish results apparently is important. As much as centers may want to help older-line, basic industries, internal judgement concerning outside assistance may preclude success in a sector. In the case here, the lack of any project servicing the basic wood products industry was somewhat a disappointment. On the other hand, being able to serve both special chemical firms was a plus for the program.

4. On-site "sales" calls were essential to the program's success. It may seem trivial to consider where meetings are held, but in this case successful conversions of prospects to sales occurred primarily after meetings were held in the potential client's offices. Time was important to potential clients in the project. In fact, one way of looking at the projects that were contracted was that they represented time purchased -- time in which the manager could do something else while a specific task was being done for him. Thus, when the program began fitting into management's time, and not vice versa, favorable results appeared to occur.

5. The customer really does determine what the product will be. It is a truism in industrial marketing that in the long term, the customer determines what the final product will be (Corey 1975). It turned out in this program that they also determined what the product would be in the short term. Clients appeared to want small, specific projects when it came to assisting their businesses, i.e., a survey of potential users of their businesses, an assessment of consumers' perceptions of a product, a letter suitable for some direct mailing efforts. An essential task in developing the program was assisting managers understand what might be done and the results an activity might produce. The availability of larger amounts of support under favorable terms seemed not so important as specific results that might be expected.

It was probably the results orientation that eventually sold projects in the program as much as anything else. Even when projects broke down into well defined steps, clients appeared to want to contract for services on a step at a time condition.

Conclusions

A successful program introduction has been described. In retrospect, many of the observations might have been anticipated from industrial marketing considerations. Although successful new programs will depend upon both the geographical area into which the program is introduced as well as the program itself, modest initial conversions and multi-meeting approaches might be anticipated. Utilization of in-plant meetings and "segmentation for introduction" by focusing upon firms with previous favorable ties to the center that happen to be in growth sectors may enhance initial success rates. Further, smaller, results-oriented projects may be most likely to be favorably accepted by target firms.

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MANDATED SAFETY RECALLS IN THE U.S.
AUTOMOBILE INDUSTRY -- 20 YEARS EXPERIENCE

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In an earlier study, an attempt was made to assess the macro effect of mandated auto recall on the U.S. auto industry. With the amount of information available at that time, recalls were numerically significant and increasing, the industry appeared to be relatively unaffected by their mandated imposition. Out of 248 campaigns, only 15 were 100 percent successful, and overall, less than two-thirds of all cars recalled were actually returned for inspection. Newer automobiles tended to have greater success rates as did vehicles from larger market share manufacturers. Further, there appeared to be no impact on sales in subsequent years nor did there appear to be any company particularly adversely impacted by recall practice (Page and Wilson 1976, 1979).

Because of the coverage and archetypical nature of these recalls, it is important to track industry reaction to this business constraint. The intent of the original legislation, of course, was not to impact business deleteriously, but rather to produce a safer product for U.S. consumers. In effect, Senator Moss, one of the sponsors and supporters of mandated recall, suggested economic costs, trade name damage, and liability litigation would produce decreasing recall numbers in the long run (1974). The study has therefore been updated. Over a twenty year period, one-half (numerically) the automobiles sold in the United States have been recalled for inspection and/or repair of safety-related defects. From information available from NHTSA and trade associations, an analysis was made of industry trends.

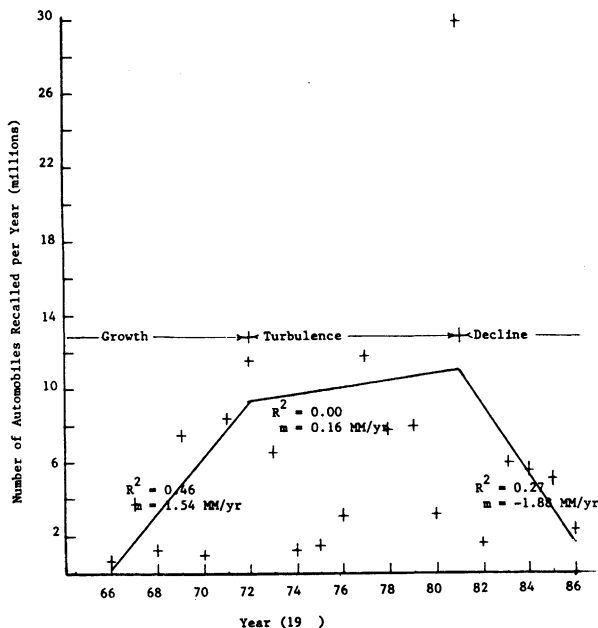


Figure 1 - Number of Autos Recalled Over Period

Four observations were made. (1) After a period of first growth and turbulence, the industry appears to have settled into a trend of declining annual recall as shown in Figure 1. (2) Recall share appears overall to be related directly to manufacturing market share, thus, manufacturing scale does not appear to be a factor in affecting recall. Japanese automobiles, however, appeared less likely to be recalled than domestic automobiles. (3) No obvious effect existed between automobiles recalled in a single year and subsequent sales at either the industry or individual firm level. (4) Cost of recalls appear reflected in price insofar as the incremental cost associated with safety devices is highly correlated with cumulative recalls over the period.

The overall conclusion of this study is that industry has positively reacted to mandated recall legislation. The need to control costs, please customers, and meet competition apparently has been instrumental in meeting this challenge. Moss, in his initial assessment of this probability appeared correct. The Japanese have been particularly successful in implementing control of recalls, and this observation has not been lost on the industry. Chrysler, for instance, has developed an advertising campaign associated with favorable recall statistics (Chrysler 1988).

The lack of a sales impact, as this information has been interpreted in the past, remains troublesome. This paper, as well as previous studies, indicates little impact of recall on subsequent sales. This approach inherently is an information usage model.

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SUCCESS FACTORS IN GLOBAL PRODUCT INNOVATION:
AN ILLUSTRATION FROM THE PHARMACEUTICAL INDUSTRY

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Abstract

Success in new product development is a critical management issue for many firms in high technology industries. No where is this statement more applicable than for firms in the pharmaceutical industry. This industry remains one of the most profitable among U.S. high technology industries. However, the decades of uninterrupted growth have been replaced by a period of dynamic change and instability brought about by spiralling health care expenditures, heightening generic competition, increasing R&D costs, and shortening patent lives.

Long-term survival and growth in this period of transition demands a fundamental reorientation in firms' new product development efforts -- maintaining a constant flow of new drugs that are highly differentiated and offer real cost advantages (e.g., requiring lower dosages than similar drugs). More importantly, new product efforts should be devoted to the development of new chemical entities (NCEs). Since the pharmaceutical industry is globally dominated by W. Europe, Japanese, and American multinationals, it is also equally important to consider the international competitiveness of NCEs developed from these triad economies.

The objective of this paper is to develop a model that explains the probability of new product success in the global pharmaceutical industry. As the choice variable is dichotomous (global NCE/not global NCE), logistic regression (Walker and Duncan 1967) was used for estimation purposes. Global NCEs are defined using the classification scheme proposed by Hass and Coppinger (1987). These authors defined global NCEs that demonstrate multinational acceptance by six major industrialized countries within four years. These countries include the U.S., Germany, Japan, the United Kingdom, France, and Switzerland.

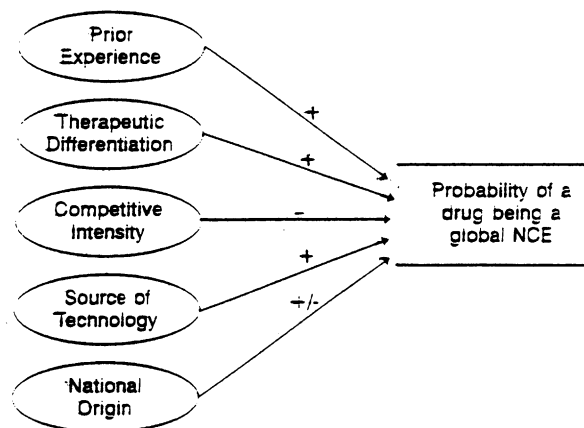
Conceptual Model and Hypotheses

Based on a critical analysis of the new product development and innovation literature as well as extensive interviews with industry experts, five variables were hypothesized to influence a pharmaceutical firm's ability to develop global NCEs: (1) prior experience; (2) product differentiation; (3) competitive intensity; (4) source of technology; and (5) national origin of firm. The relationship between the dependent variable and the five explanatory variables are illustrated in Figure 1.

Findings

All the independent variables of the logistic model are significant except for the national origin variable. This nonsignificant finding suggests that drugs developed from the U.S., W. Europe, and Japanese firms are equally likely to be global NCEs. The classification hit rate and the R² for the logistic model minus the national origin variable was 86% and 0.773, respectively. These indicators suggest that a significant proportion of the variance is explained by the model. Analysis confirms that:

FIGURE 1
FACTORS INFLUENCING THE PROBABILITY OF DRUGS
BEING GLOBAL NCEs



- (a) A firm's historical accumulation of specific technical capabilities increases the firm's chances of developing global NCEs.
- (b) Drugs that are highly differentiated are more likely to be global NCEs.
- (c) Global NCEs are more likely to be found in therapeutic markets characterized by low competitive intensity.
- (d) Compared to licensing, internally developed technological skills have a greater positive effect on firms' ability to develop global NCEs.

Conclusion

This study yields some interesting insights into factors that determine global success in the pharmaceutical industry. A better understanding of what makes a new product a global success is essential to improving R&D planning and management. The pharmaceutical industry is both a high risk/high reward business and firms with focused and sound R&D planning will enjoy a more sustainable advantage in the industry.

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PRICING AND COUNTERTRADE

GOVERNMENT MANDATED-COUNTERTRADE IN AUSTRALIA: SOME INTERNATIONAL MARKETING IMPLICATIONS

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Abstract

Government mandated-countertrade (G M-C) is practised in Australia as offsets policy. Its objectives and implementation have been refined over recent years to recognise the inefficiency of conventional arm's length exchange for the international transfer of technologies, skills and capabilities. Earlier formulations of offsets policy in Australia sought increased workload for local industry, whereas recent policy innovations focus on the use of bureaucratic governance, created and enforced by government, to effect these transfers. Recent innovations to Australian G M-C are outlined and some marketing implications for foreign firms seeking to do business with the Australian government are presented.

Introduction

Government mandated-countertrade (G M-C), practised as offsets policy, has been in effect in Australia since 1970, although since the late 1980s it has been refined. This refinement has been stimulated, in large part, through the search by the Australian government for mechanisms which might assist Australian industry to improve upon its international competitiveness and hence the national economy to improve its macroeconomic performance. The technology imperative, characterising industrial development policies, and access to international markets, figure prominently in the current implementation of Australian G M-C policy, with the inefficiency of conventional arm's length exchange in transferring technology and other information, such as international marketing skills, organisational capabilities and managerial acumen, now being recognised (Australian Civil Offsets Program 1989, 1992).

Definition

Countertrade is exchange which involves a conditional arrangement, in addition to the primary transaction, to complete the exchange. It is becoming more widely reported in the literature (eg Bates 1986; Cho 1987; de Miramon 1983; Hansson 1991; Hennart 1989, 1990; Huszagh and Barksdale 1986; Khoury 1984; Liesch 1986; Lecraw 1989; Mirus and Barnard 1986; Neale and Shipley 1988; Palia and Liesch 1991; Wills and Palia 1987; Yoffie 1984). While not always being mutually exclusive in practice, two fundamental forms of international countertrade may be identified, voluntary countertrade and mandated-countertrade, although other classifications are acknowledged (eg Hennart 1990).

Voluntary countertrade might be considered as a corporate, competitive, largely marketing, device undertaken by firms to broaden their competitive strategy options. Under these arrangements, there is no external requirement that the firm practise countertrade. Voluntary countertrade is not the

subject of this paper. Mandated-countertrade exists in the event of an externally imposed requirement for an exchange to include a reciprocal and conditional transaction. Further, when the requirement for reciprocity and conditionality in trade is established and enforced by government, the practice is G M-C. This paper specifically focuses on that form of G M-C where the requirement for reciprocity and conditionality derives from an obligation placed on a foreign firm supplying a capital equipment purchase funded by government (Hennart 1990). In the Australian context, this form of G M-C is effected as offsets policy, and is practised as the Australian Civil Offsets Program (ACOP) and the Australian Defence Offsets Program (ADOP).

This paper reports on mandated-countertrade as it is practised by the Australian government. Very little has appeared in the literature on this topic, either in Australia or elsewhere, with Hennart (1990, p.267) recommending "...that future empirical research should be conducted at a disaggregated level and should focus on the differential use of particular types of countertrade". The paper focuses on one specific type of countertrade arrangement, government mandated-countertrade, and it is in three parts. The first part describes offsets policy in Australia, while in the second part, the fundamental dimensions of G M-C as it is practised in Australia are identified. Implications and concluding comments for foreign firms seeking to supply government-funded procurements to Australia are discussed in the third part.

GOVERNMENT MANDATED-COUNTERTRADE IN AUSTRALIA

In its current form, the objective of the ACOP is "...to contribute to the enhancement of Australia's industrial and technological development by establishing internationally competitive activities within Australia" (Australian Civil Offsets Program 1988, para 1.2). The ADOP seeks "...to enhance self reliance in supply and support of the Defence Forces; to establish new or exercise existing industry capabilities of importance to defence; and to develop capabilities in industry that will enhance international competitiveness and enable increasing involvement in future defence procurement programs and for further gains in self-reliance" (Doing Australian Defence Business 1987, para 3.12).

With an emphasis on technology, skills and capabilities transfer, the current programs are aimed at establishing long-term commercial activities in Australia which are internationally competitive. Further, the most recent (1991) revisions to offsets policy in Australia are "...based on the idea that government buying power can be used to gain access for local industry to the international marketing capabilities and the internal markets of the transnational corporations" (Australian Civil Offsets Program 1992, p.1). Although these current objectives, in practice, do not differ substantially from the earlier ones, the means of effecting

them have changed with an increased refinement being practised under the current programs. There is a recognition now in Australia that the rationale for a G M-C policy lies with technology (skills and capability) transfer, and accessing the internal markets of international firms, but that the earlier machineries for offsets acquittal were somewhat incomplete. This refinement is evidenced by the increased range of eligible options available for foreign firms to disburse offsets obligations and by the prospect for increased participation of Australian firms in international business activities by accessing otherwise blockaded internalised markets.

Administration

Administration of the Australian offsets programs is split between the Department of Industry, Technology and Commerce (DITAC) for civil offsets and the Department of Defence (DOD) for defence offsets. Defence offsets commitments are specified in a defence procurement contract and form one component of a program for Australian Industry Involvement (AII). Civil offsets refer to all offsets other than those embodied in a defence procurement contract. Responsibility to provide offsets rests with the overseas supplier who incurs an offsets obligation when Australian state and federal governments finance a purchase, lease or hire arrangement which it sources, and where the duty-free price of the purchase exceeds AUD\$2.5m with an imported component in excess of 30 percent of this price; or alternatively, the DOD mandates offsets for designated defence strategic purposes.

Several criteria must be met before offsets proposals are accepted. These are: *the commercial viability criterion*, which requires that offsets result in Australian activities which are competitive in price, quality and delivery; *the price criterion*, specifying that offsets activity should not incur any price premium; *the technology criterion*, requiring that offsets be of a level of technological sophistication not inferior to that embodied in the goods or services being purchased; *the new work criterion*, which requires that offsets be additional to activity which would have occurred in the absence of an offsets program; and *the defence criterion* (peculiar to purchases subject to the ADOP), which necessitates that defence offsets contribute to self-reliance in supply and support for the Australian Defence Forces (Australian Civil Offsets Program 1988, Ch.3).

Offsets Variants

Four offsets acquittal variants have existed in Australia: individual offsets arrangements, offsets credit arrangements, pre-qualified offsets supplier arrangements and partnerships for development. The latter three variants were introduced in the 1988 revisions to the practice of G M-C in Australia. Individual offsets arrangements are disbursed on a case-by-case basis by obligated firms which are generally infrequent suppliers of government purchases. Activity additional to that which fulfils an immediate offsets obligation might be approved as offsets credits. Offsets credits accumulated by a foreign supplier can, with the concurrence of the offsets authority, be transferred to another foreign supplier. That is, a market in offsets credits has been established.

The awarding of Pre-Qualified Offsets Supplier Status (PQOSS) seeks to facilitate offsets obligated firms placing activities in Australia that are long-term, and as such has the intent of avoiding the possibility of a piecemeal, ad hoc approach to fulfilling obligations that could detract from the ultimate objective of enhancing the establishment of viable long-term internationally competitive activities. Firms achieving PQOSS are granted offsets clearances by Federal and State purchasing authorities (Australian Civil Offsets Program 1988, Ch.5.3). At the present, 35 foreign firms hold PQOSS.

A Partnerships for Development program is operational in the information industries where the intent is to engender the establishment of corporate alliances between the foreign supplier and local Australian enterprises. Most of the foreign multinationals tendering for the supply of computer hardware to Australian government instrumentalities have become accredited partners in development (Australian Civil Offsets Program 1989, Ch.6; 1992, Ch.6). At present, 21 firms from the USA, United Kingdom, Japan and Europe have partnerships in development status with an annual aggregate export commitment from Australia of \$1.169b and an annual aggregate commitment to R&D in Australia of \$233m (Australian Civil Offsets Program 1992, Ch.6). These firms are committed to achieving an annual Australian R&D budget of 5 percent of their Australian turnover and an export to import ratio of 50 percent, with an average Australian value-added content across all exports of 70 percent over a period of seven years.

Specific offsets obligations can be discharged in many forms and include: the transfer of technology, training programs, research and development, overseas marketing, exports of products and services, joint or collaborative ventures where the Australian involvement is to occur at the conceptual, design, development and production stages, venture capital investments and administrative expenses incurred in arranging offsets (Australian Civil Offsets Program 1992, Ch.4). Although multipliers apply to the R&D and training forms of offsets (ie the offsets obligated firm is accredited with achievements in excess of 100 percent of the supply cost of the offsets), until recently, the export of local products and services has been most preferred by offsets obligated firms. In 1991-92, R&D surpassed the export of products and services as the most preferred form of offsets disbursement (Australian Civil Offsets Program 1992).

Liesch (1986), in a study of the performance of offsets for the period 1970-84, showed that offsets orders placed by foreign offsets obligated firms with Australian recipients, as a percentage of the contract value for offsets purposes were 8.5 percent for the total defence sector, 15.2 percent for the total civil sector and 11.8 percent overall. These figures indicated that there may be a problem in meeting the targeted level of 30 percent offsets achieved, as a percentage of the duty-free purchase price on any single government purchase incurring an offsets obligation. Much of the policy refinement since the mid-1980s can be traced to improving upon this poor performance.

An indication of the extent of defence offsets activity in Australia is complicated by the nature of the Australian Industry Involvement Program (AII), and by the paucity of accurate published data. The AII program includes the ADOP activities classified as designated and assisted workload and local content activities, although there has

not been, in the past, consistency in this differentiation. Designated and assisted activities are those deemed to have a defence, strategic significance to Australia and, hence, might be permitted a price premium for them to be undertaken in Australian firms. Defence offsets, in principle, should not incur a price premium and these activities are incurred on the imported component of a defence procurement. Local content is a term used by the Department of Defence which includes designated and assisted workload and which refers to the non-offsets balance of AII undertaken in Australia.

For the period January 1986-June 1989, defence offsets of \$501.561m were committed, which represents 21 percent of the total value of AII. The balance of AII activity, \$2.005b, is local content including designated and assisted activities. AII, for this period, represented 66 percent of the value of all contracts placed for defence-related procurements. The emphasis on local content reflects the present Australian government's desire to use Australian prime contractors for the major defence projects. Most of the activity undertaken by these Australian primes is local content which is not subject to offsets requirements; offsets obligations relate only to imported content. For example, the new Australian submarine project is being undertaken by the Australian Submarine Corporation (ASC), a corporation specifically established to manufacture the Australian class of the Swedish Kockums Type 471 submarine. ASC's shareholders are: Kockums Marine AB (40 percent and Swedish), Wormald International (25 percent and Australian) and Australian Industry Development Corporation (35 percent and Australian).

The aerospace, and weapons and weapon systems sectors have dominated the industry categories within which defence offsets activity has taken place in Australia, with 47 percent of total offsets secured over the period January 1986 to June 1989 being aerospace and 31 percent being weapons-related. For this time period, as a proportion of contract value for offsets purposes, the aerospace industry has attracted some 36 percent of total offsets, while the weapons-related industry has attracted 18 percent. The automotive industry has secured the largest share, relative to the contract value for offsets purposes, of activity for local firms (42 percent of contract value) (Patterson 1989).

DIMENSIONS OF GOVERNMENT MANDATED-COUNTERTRADE

Generic countertrade

On the one hand, the conjecture might be put that mandated-countertrade is trade expanding, in the sense of promoting trade that otherwise would not have occurred and that it has facilitated an increased awareness of alternative commercial arrangements beyond conventional arm's length exchange. Alternatively, the conjecture might be put equally forcibly that mandated-countertrade departs from free-market principles which provide the discipline necessary to realign domestic industry structures towards those consistent with patterns of international comparative advantage. Consistent with this view is the opinion that although some short term expediency might be obtained from mandated-countertrade, its continued practice and possible (likely) institutionalisation is antagonistic to free-trade principles which return net gains to those

participating. It might be argued by these persons there are hidden, long term costs associated with countertrade that together with the more apparent costs overwhelm the visible and immediate benefits (Liesch 1991).

The genesis of the newer forms of countertrade, such as G M-C, as complements to conventional trade and international business, lies largely with domestic politics. Increasingly, governments have become involved in creating environments within which local firms might capture the greatest advantage through trade. Offsets policies are evidence of this involvement by governments, particularly from developed market economies to 'do for local firms that which they cannot do for themselves'. In particular, the leverage accorded government in the procurement of capital goods from abroad provides such an opportunity. Further, and particularly pertinent to the acquisition of 'big-ticket' military purchases, offsets policies provide the public facade that the purchasing economy is acquiring net benefits in the form of local production capability and capacity from its capital procurement budget in the defence portfolio. Governments have found it necessary to persuade constituencies that defence budgets provide local benefits additional to national defence preparedness (Cooper 1984).

Trade-related international economic integration

While the rationale for G M-C, as practised in Australia is ensconced firmly in the failure of conventional arm's length marketplace exchange to effect technology (including marketing, managerial and administrative skills and capabilities) transfer, these arrangements also display distinct aspects of trade-related international economic integration. Employing the Norman and Dunning (1984) taxonomy of the evolutionary process of a nation's international business involvement, most G M-C arrangements have fallen within the intra-industry industrial composition category as these transactions involve, in the primary instance, arrangements for local participation within the same industry category as the purchase subject to the offsets obligation. However, if suitable offsets activities cannot be contracted within the same industry category, unrelated offsets have been approved. It might be presumed that in the more sophisticated G M-C programs these latter arrangements are minor in relation to the wider variety of technology transfers, training programs, R&D, part-production, joint and collaborative ventures entered into, which fall within the same industry category identified by the original purchase. Unrelated offsets are illustrative of international inter-industry transfers.

Protectionism

The ACOF and the ADOP include both explicit and implicit aspects of protectionism for Australian industry. For example, implicit within these programs is the Krugman (1987) prospect that government support for certain key industries, with a view to developing an indigenous capability, might then be transposed to increased activity in export markets (eg the Partnerships for Development focus for the information industries). Explicit is content protection for targeted Australian industries, particularly key activities of defence strategic importance (Industries Assistance Commission 1984; Warr and Parmenter 1984; Josen 1985). However, the success of this form of import-

protection cum export-expansion strategy is very much contingent on a passive international trade and commercial environment. This protectionism has the intent and effect of profit-shifting, and could well prompt both commercial and foreign government reciprocity.

Increasingly, industrial policy has been taking the form of non-tariff protection (Ewing 1984), and while Australia's protectionism until the early 1980s had been described as "...visible, and its mainly tariff and tariff quota mechanisms are (were) open to quantification...(which)...was done to improve Australia's international negotiating stance" (Ewing 1984, p.72), there has been a marked shift toward non-tariff measures in the 1980s and to date (Forsyth 1985). In the main, both domestic and international politics determine the nature and extent of protection, and this is a function of both the economic and political power of the participants. A new era of technological nationalism exists in Australia, and this is evidenced by an increased government intervention in the high technology industries, an intervention that has been described as the substitution of competition between governments for the competition between firms (OECD 1984).

SOME CONCLUDING FOREIGN FIRM INTERNATIONAL MARKETING IMPLICATIONS

Of the four immediate groups of participants involved in G M-C activity, viz the offsets obligated foreign firm, the home country government of the obligated firm, the mandating government and the offsets recipient firm, the following comments are targeted at the former. The implications now to be raised inform foreign firms of some issues, pertaining to offsets, they need consider when entertaining the prospect of dealing with the Australian government. Foreign firms tendering to supply Australian government-funded civil and defence procurements must adhere to the requirements of the Australian offsets policy.

Selection of an offsets acquittal variant

Of the four offsets variants identified previously, two are available to foreign firms with defence offsets obligations (case-by-case individual arrangements and offsets credit arrangements), all four variants are available to foreign firms supplying information industries' products (the above, together with the awarding of pre-qualified offsets supplier status and the partnerships for development arrangement), while all other foreign firms supplying civil-related products have the option of all arrangements except that of partnerships for development.

The choice of offsets variant is largely dependent upon the nature of the procurement supplied, but also and possibly more important, the demand pattern of the procurement. First, defence suppliers, with the two options only, are unlikely to choose beyond the case-by-case form of acquittal if the procurement is a one-off arrangement, whereas offsets credits might be accumulated when the product is being procured more frequently. Second, suppliers of civil-related goods (excluding those in the information industries) have three options and will most likely choose the case-by-case acquittal if they are supplying on a one-off basis, with offsets credits possibly being sought when the purchases are more frequent, and

PQOSS sought by firms regularly supplying government procurements. Third, foreign firms supplying information technology goods have a similar choice, but with the further Partnerships for Development option which will most likely be negotiated by regularly supplying firms seeking to incorporate their local offsets activities into an international production and marketing network as part of a global configuration and coordination strategy.

These strategies, however, are complicated further by the size of procurement contract and the availability of the facility to trade in offsets credits. For example, a foreign supplier making a large one-off or infrequent sale might find it advantageous to accumulate offsets credits against these sales and, either hold or, trade these credits with other firms which are having difficulty in acquitting their obligation. While arrangements will differ across firms, an optimal outcome will ensue if the negotiated arrangement produces net benefits for all interested parties. This will occur if offsets activities can be arranged that are consistent with, or preferably enhance, the obligated firm's international configuration of its operations and if the local Australian offsets recipient obtains activity that it would not have acquired in the absence of the offsets mandate (ie the new work criterion is satisfied).

By accumulating offsets credits, the foreign supplier is excused from negotiating offsets arrangements on future sales, provided all relevant criteria are satisfied. With a similar effect, but more formalised, the awarding of PQOSS allows the foreign firm to plan its discharge of obligations on a long-term basis without the requirement of seeking clearances on individual sales. These firms are able to develop strategies for offsets acquittal that are more likely to foster local collaboration and alliance-building than the piece-meal, one-off arrangements which characterised pre-1986 implementation of the policy. The Partnerships for Development variant, although at present available only to foreign firms in the information industries, is the most sophisticated offsets variant in Australia. These partnerships are an attempt to cement collaboration between local enterprises and foreign firms with firm-specific attributes that are lacking in their Australian counterparts, and the acquisition of which is seen by the Australian government as being essential to improving local firm and industry international competitiveness.

Selection of offsets arrangement

The offsets obligated foreign firm must select an offsets arrangement from a specified list which satisfies the elemental offsets criteria earlier identified. Timeliness of acquittal is a consideration in this selection as horizons for completion, and milestones, must be detailed in the negotiated offsets deed. In this regard, the various multipliers applied to certain offsets arrangements can hasten offsets disbursement. The unwillingness of foreign suppliers to contribute investments to venture capital funds is clear, and offsets disbursement through skills transfer activities is not overly attractive, even with the multiplier applied. It could well be that obligated firms assess their human capital stock as being worthy of protection, as are certain key technologies, and these remain internalised. These firm-specific attributes characterise many of the firms supplying government procurements, and are central to their global competitive advantages; they are unlikely to be shared with other firms, irrespective of multipliers being applied. Underwriting the technological and commercial

development of potential rivals is evaded demonstrably by foreign offsets obligated firms.

In general, the most frequently used form of recent civil offsets acquittal has been the obligated firms' purchase of Australian products and services for export. The recent interest shown by offsets obligated firms in R&D offsets might be explained, at least partially, by the relative attractiveness of the Partnerships for Development program for information technology firms, and the PQOSS for others. The longer gestation periods required for gearing up for R&D offsets acquittal might be providing an indication that foreign firms are commencing to fulfil their obligations under the requirements of these offsets variants. However, the formation of joint or collaborative ventures is not being sought actively, as an offsets form, which is possibly explained by the requirement that the local involvement in the venture should be at the conceptual, design and development stages of a project. Once again, this form of acquittal might be seen by the foreign firm as distributing its competitive advantage to a possible future rival, and hence is avoided.

Finally, part-production arrangements have waned in attractiveness, which is not surprising in light of the diseconomies that have plagued this form of acquittal. While part-production has been a major focus of Australian pre-1986 offsets, the excess cost considerations implicit in duplication of suppliers in various countries, with their concomitant shortfalls in minimum efficient scales of operation, have militated against this offset arrangement. This inefficiency is compensated largely by the obligated firm imposing a price premium on the sale to 'offset' the increased cost of locally-supplied component parts. Nonetheless, the Australian Department of Defence is likely to continue to accept some such price premium for certain designated activities critical to the defence objective of maintenance of industry capability for defence preparedness motives.

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THE IMPACT OF EASTERN LIBERALISATION ON EAST-WEST COUNTERTRADE

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Abstract

This paper considers the implications for countertrade (CT) of recent liberalisation of politico/economic structures in the former Eastern Bloc. Because CT is a response to market imperfections, more relaxed institutional restrictions with greater availability of information may remove the need for CT. However, orthodox trade requires mutual currency convertibility or reliable access to trade finance. Until these are established, CT is likely to feature strongly in trade with former CMEA countries. Meanwhile, lower institutional barriers will drive Western and Eastern partners toward more formal strategic alliances. The experiences of a small group of UK exporters illustrates these tendencies.

Introduction

British firms are often reluctant participants in economic relationships with Eastern European countries. Complicated protracted negotiations with governmental Foreign Trade Organisations, distaste for the political structures of the government and concern and suspicion of the quality of goods offered have resulted in a relatively low proportion of British trade conducted with the nations of the former Council for Mutual Economic Assistance (CMEA).

Firms from other European nations, for example, Germany and Holland, have been less reticent in their economic links with these countries, partly owing to geographical factors but largely due to their readiness to engage in countertrade (CT), an undesirable practice in the eyes of many Western executives and their governments.

The various forms of CT all have a common feature: reciprocity. In each case, a seller provides a buyer with goods (or services) and undertakes in return to purchase goods (or services) from the buyer. To many, this linkage of sales to purchases represents a throwback to a darker, moneyless age, when a hungry carpenter had to find a farmer whose barn-door needed repairs. The invention of money and the evolution of markets were direct responses to this "double coincidence of wants" problem. Therefore, reversion to CT often appears to be an inefficient alternative to trading via cash or credit.

During the post-war period, a major proportion of trade between former CMEA countries and a significant proportion of East-West trade was conducted in this way. As the Eastern Bloc economies expanded, albeit at rates slower than those experienced in Western Europe, their need for advanced technology inputs outstripped their capacity to finance the required imports by conventional means. As a result, Western suppliers increasingly faced demands to deal via CT, with the implied threat that the sales would otherwise be lost to a competitor more receptive to CT.

Several official reports have recorded the growing incidence of CT (UN 1979, Ford 1986) often in less than enthusiastic terms. Some Western nations have been "flatly opposed" to CT, while others, although clearly regretting

the necessity to deal in this way, gave it qualified approval.

However, not all Eastern Bloc nations were CT enthusiasts. According to an official source, "The Hungarian government has never in the past, (and obviously not in the present), advocated the idea of trading with any country, and specifically with the West, on a countertrade basis. In Hungary, we never had any compulsory, legislative directive or incentive to countertrade with the West".

This paper continues by considering the likely future prospects for CT activity, examines the motives for CT from both an "Eastern" and a "Western" perspective and suggests that, in view of these, CT may be supplanted by more formal trading relationships. The penultimate section briefly describes findings based on a small sample of UK exporters, in the light of which, an assessment of likely future developments in the former Eastern Bloc is offered.

Prospects for Countertrade

Recent developments in Eastern Europe have led to suggestions that demands for CT will decline (eg Van Hoof 1991). There are several reasons for this.

At a general level, the sheer freedom from the bureaucratic interference required by a centrally-planned regime, will probably promote more enterprising attitudes and require speedier and more efficient business transactions, whereas CT is slow and cumbersome (Jasch 1989).

More specifically, recognition at official as well as business levels of the development gap between Western and Eastern Europe will lead to greater demands for technology-based imports from the West. Freedom from controls over the pattern of import and export trade may lead to greater ability by Eastern exporters to supply goods which Western firms really require, and for which they are prepared to offer hard currency. The arrival of Western banking, accountancy and consultancy resources in Eastern Europe will sharpen local expertise, and enhance the likelihood of additional loan facilities being granted to finance such imports. Finally, the very fact that tied trade was associated with the old regimes may lead local entrepreneurs to seek alternative trading media.

CT with the former GDR has already virtually ceased since the reunification with the FRG while recent events threaten the continuation of CT in several other states. As with Hungary, Rumanian CT is now insignificant since the country now "acts for free trade, (we offer) no encouragement for CT, and we press for hard currency". CT is no longer mandatory in any Eastern country and conventional modes of trade financing are increasingly available. In general, the historical motives for CT in the region are disappearing.

Although many of these former CMEA countries remain highly indebted and suffer chronic

domestic and foreign currency shortages, this financial stringency is likely to ease in the long term through internal development and injections of Western aid, possibly including substantial debt remissions.

It is easy to see from the following examples why Western firms would welcome the demise of CT. ICL provided components to Poland for building portable televisions to Western European standards and then acted as sales agent for the TVs in the West. The Poles then purchased ICL personal computers in kit form with the hard currency received for the TV sets. These machines were customised for the Polish market and sold locally for Zlotys, which were then used to subsidise production of yet more televisions which ICL sold in the West.

The US 3M Corporation set up a Swiss subsidiary to negotiate deals with Eastern Bloc countries. The proceeds from selling \$1m of Polish nails were deposited in a European bank and the Polish government drew on the account to buy 3M health-care products.

Perhaps the biggest CT transaction with E. Europe was the complex Soviet pipeline deal, involving German pipe producers, a separate firm of gas suppliers and the Soviet Union as supplier of natural gas and initiator of the deal. Essentially, the Western firms were to be paid for their respective construction and distribution services in the form of natural gas throughout (Schuster 1978).

Motives for Countertrade

Whether demands by E. European importers to deal via CT really will decline depends on what impact recent liberalisations may have on the motives for CT. It is useful to distinguish "Eastern motives" from "Western motives".

The Eastern Perspective

From the Eastern perspective, incentives to CT can be grouped into economic, political and developmental, although these categories inevitably overlap.

Economic Motives.

Eastern European countries often used CT to by-pass hard currency shortages and debt crises and to augment import volumes. (Roosa 1985) Moreover, CT may enable both Western firms and Eastern countries to predetermine the terms of trade by setting the implied values of goods thus reducing foreign currency risk. CT enables countries to concede, or even initiate, secret price cuts to stimulate exports during periods of flat demand without causing long-term damage to world prices. Similarly, Eastern European countries have imposed CT terms on Western exporters beset by excess capacity during recession (Nykryn 1985), in order to overcome Western import barriers, such as anti-dumping restrictions, and to redress trade balances. (Gonzalez 1985)

Political Motives.

Under the former tight state control of trade and industry, CT was used to promote political ideals. The Foreign Trade

Organisations (FTOs) which formerly administered CT in ex-CMEA countries, used their powers to deter low priority imports by imposing strict obligations on importers and to surmount Western import barriers.

The clandestine nature of CT enabled it to be used as a veil to regulate the types and volumes of imports and to administer internally unpopular austerity regimes. Moreover, the FTOs used CT to mask imports of strategically important products at the expense of possibly more socially desirable, and certainly more popular and urgently-needed, consumer goods.

Developmental Motives.

This group of CT motivators is linked with internal industrial development ambitions, although these are not exclusively associated with Eastern Europe (Jones 1990). Common incentives for demanding buy-back or offset terms are to enhance a country's technology stock, its infrastructure, labour skills and employment levels (Griffin and Rouse 1986). By allocating additional CT credits to exporters in favoured industries, it is possible to stimulate the diversification of a nation's industrial base. This is further facilitated when CT is used to penetrate new markets by accessing the marketing channels of Western firms to overcome adverse country-of-origin stereotypes and to save on distribution costs (Zurawicki 1988).

The Western Perspective

Western exporters generally prefer hard currency or Letters of Credits to payment in goods since currency is more liquid, more certain and less troublesome, despite greater exchange rate volatility in recent times. If, however, Western exporters face problems like general spare capacity and strongly competitive rivals, they may accept customer demands for CT to meet their own volume objectives and achieve contributions to fixed costs. CT is often regarded as a "second-best" alternative, reluctantly adopted only when orthodox approaches appear unworkable. However, experience breeds expertise, (Palia 1990) and many firms now operate specialist units to manage their CT operations. Why do they use CT rather than orthodox trading channels?

The needs of "inefficient" Eastern marketers can be exploited by the Western exporter to enter and develop a new market. CT may be more efficient than orthodox trade if access to a "ready-made" customer reduces search and transactions costs, such as agents' commission. It may avoid the bureaucratic delays in a currency rationing process operated by an importer's government. By advancing the receipt of traded goods and hence, income from selling them, CT resembles factoring (Mirus and Yeung 1986). CT may also be an 'internalising' device whereby large diversified multinationals can source new materials, components and supplies offered on terms superior to those of current vendors (Kogut 1986). This form of "company-oriented" CT satisfies the needs of the counterdelivery recipient and can reduce distribution costs, thus achieving better exchange terms than by paying market prices.

CT is a response to imperfections in those centrally-planned and other less developed economies, with only embryonic market systems, unreliable legal systems and poor information flows (Mirus and Yeung 1991). In some transactions, the quality of goods and services is only fully observable to suppliers, encouraging sellers to under-supply the unobservable characteristics. Conversely, property rights over information-based goods and services are difficult to protect. CT may be a useful device for dealing with these principal-agent and property rights problems. The exporter finds that the value of the contract depends on his efforts to identify and sell exportable local goods, while his own property rights are not easily appropriated. CT "packages", despite serious drafting and implementation costs, may thus be preferable, under certain conditions, to sets of independent contracts.

CT thus occurs in response to market imperfections and, in the case of trade with "command" economies, official restrictions on conventional trade and currency dealings.

From the Western perspective, involvement in CT may be interpreted in two ways. On the one hand, it may be merely "opportunistic", representing an ad hoc and essentially short-term means of boosting sales and achieving a contribution to fixed costs at a time of particularly harsh trading conditions. On the other hand, it can be seen as a way of obtaining an initial "toe-hold" involvement in a market, serving as a forerunner to a longer term presence when conditions permit.

Recent liberalisation programmes introduced in a number of Eastern European countries have a number of possible implications for East-West CT. The establishment of more conventional trading relationships could well obviate the need for some forms of CT or reduce reliance on them. This would apply particularly to "opportunistic" CT.

Greater access to hitherto restricted markets and more positive official attitudes towards conventional trade deals and inward investment can be expected to both encourage established traders to increase their involvement in these markets and to prompt new traders and investors to participate in various types of strategic alliance.

Strategic Alliances

Strategic alliances are cooperative arrangements between businesses (each of which continues to retain its own individual identity), enabling them to obtain access to technologies, know-how, capital and markets to augment their own resources and capabilities. Pairing resources and capabilities in this way allows strategic partners to achieve synergistic effects otherwise unobtainable on an individual basis, while allowing each partner to focus and concentrate on its core business strengths. Strategic alliances are seen as a particularly effective way of expanding internationally as an alternative to solo exporting and foreign direct investment. Partners can contribute established marketing and distribution systems, production and R & D facilities and local knowledge of the

markets they serve. They can ensure that products get to market more quickly and more effectively, particularly where products need to be modified to meet local regulations covering product standards and packaging, and the preferences of local customers.

Strategic alliances can take a variety of forms including:

- * **joint production agreements**, in which partners cooperate to make components or complete products. These agreements enable partners to optimise the use of their own resources, to share complementary resources and to take advantage of economies of scale by, for example, each specialising in the production of particular components or finished products.
- * **co-marketing agreements** in which partners cooperate to market or promote each other's products. Again, these agreements enable partners to maximise their marketing efforts by obtaining wider sales coverage through wholesale and retail outlets and the benefit of partners' local marketing expertise.
- * **cross-licensing agreements** may be used to enhance the effectiveness of production and marketing alliances by exchanging the rights to use their products or services.
- * **joint R & D agreements** in which partners cooperate in basic Research and Development of products. Such agreements facilitate the input of different mixes of technical expertise and know-how in solving problems and in progressing projects, allow partners to reduce the expense and risks involved in R & D work.
- * **joint ventures** involve the formation of independent businesses through the cooperation of two or more parent firms. The central characteristic of a joint venture is that it is an equity-based relationship, with ownership split in a variety of ways. Forming a joint venture is usually undertaken if the nature of the business or project requires partners to forge a deeper commitment to the business or project than can be allowed for within the confines of a contractual agreement. One implication of the equity arrangements is that it is usually more difficult to terminate than other types of strategic alliance. This factor does not appear to have prevented increasing numbers of Western firms from concluding joint venture deals in Eastern Europe.

Joint Ventures: A Flurry of Activity

Recent joint venture initiatives include Fiat's purchase of a 51% stake in its long-standing associate FSM in the first-stage of the privatisation of Poland's car industry. Fiat also plans to buy into Russia's VAZ motor manufacturing company which produces Ladas, with a mixture of cash, technology transfer, and licence deals. Fiat is likely to export existing designs for production at

VAZ's Togliatti plant, which it helped set up over 20 years ago. It plans to build up its presence in Russia as a "second leg" within E. Europe to complement the much larger car interest in Poland, eventually producing 300,000 cars p.a. To date, this is the largest expansion by a Western company anywhere in E. Europe.

Fiat will not be alone in Russia. British Aerospace, is planning to invest "tens of millions of pounds" in building 150,000 units of its Montego model in order to capitalise on low Russian labour costs and to get into position for building up market share in Eastern Europe. Finance will be provided via an equity stake in its partner, NAMI, the state-controlled organisation responsible for motor vehicle technology and design in Russia and the other states of the former USSR.

In air transport, Air France is leading a consortium to buy 40% of Czechoslovakian Airlines (CSA) in a deal which values the group at \$150m. The state government and local financial institutions will retain the remainder of the shares. Meanwhile, British Airways intends to set up a Moscow-based airline in partnership with Aeroflot by forming Air Russia as a legally-established company. BA will take a 30% holding with Aeroflot splitting the rest of the majority stake with Moscow's domestic airport. The new airline will use Russian airspace to shorten trans-Asian flights, slicing hours off long-haul services.

In tobacco, BAT has purchased a majority shareholding in Pecs Tobacco Factory, Hungary's largest cigarette manufacturer with 45% of the local market. Philip Morris has acquired the Egri Tobacco Factory also in Hungary, and RJR Reynolds Tobacco, (part of RJR Nabisco) is to build a cigarette factory in Poland. The Reynolds plant, expected to cost around £18m, should come on-stream in 1993, initially producing 'Camel', but eventually making other brands.

Involvement by UK Firms in Eastern Europe

To gain some insights into economic transactions with E. European nations, the authors recently contacted twenty leading exporters, all from the 'Financial Times Top 100 Exporters'. Executives were asked whether they had engaged in CT in E. Europe and if so, whether this form of trade had increased/ remained constant/ decreased in recent years as a proportion of their exports to this area. They were also asked about the extent of their involvement in strategic alliances in E. Europe. Companies occupied a wide range of consumer and capital goods industries.

Four companies reported increased CT, one company no change and five reported either a sharp decrease or total cessation in CT. Ten companies with no past or current involvement in CT with E. Europe were currently exporters to, or investors in E. Europe.

Of the firms reporting an increase in CT, all were involved in barter and three in counterpurchase, all had joint venture involvement, three to a "significant" degree. Of the five firms with reduced CT, four had

ceased CT totally, although the remaining one still conducted over 10% of its exports to E. Europe in this way. Only one of these firms was significantly involved in joint ventures, while two had no form of strategic alliance at all. Of the firms with no CT involvement, two had significant joint venture involvement and two were involved in a minor way. One further firm was planning a joint venture.

Clearly, firm conclusions cannot be drawn from such a small sample but the results indicate:-

- * Evidence of increased as well as falling CT suggests that many E. European customers continue to expect Western firms to deal in this way.
- * Firms with increased CT tend to have rather greater involvement in strategic alliances, especially in joint ventures. This suggests that for these firms, CT may have been a way of obtaining a strategic foothold in E. Europe and now that conditions are more liberal, there is scope for more formal and more extensive involvement.
- * Firms with reduced CT, tend to have fewer strategic alliances which points to only opportunistic and perhaps reluctant involvement in CT and in E. Europe in general.
- * Some firms with no CT involvement are involved in strategic alliances, having 'leapfrogged' the CT stage in their relationships with E. Europe.

Assessment

Like Mark Twain's death, reports of the imminent demise of CT appear exaggerated. There is little question that Western firms, eager to avoid the often substantial transactions costs of CT, would prefer to receive hard currency for their exports. But until presently "soft" currencies become fully convertible and Western Banks and aid agencies significantly expand their lending to Eastern European enterprises, as distinct from governments, it is difficult to see how East-West trade can expand without CT. Insistence on hard currency by Eastern agencies may often be counterproductive and contribute to local industrial dislocation.

In this respect, a significant development is the establishment of Western-backed banking agencies within Eastern European countries to provide small-scale venture capital to assist industrial reconstruction. At issue is not simply the rise and possible fall of East-West CT, but whether it will give way to more permanent forms of industrial cooperation and on what scale. While currency problems continue, CT will persist but it is likely to be augmented by an acceleration of more formal types of strategic alliance like joint ventures.

It is tempting to suggest that CT is merely a staging post en route to such alliances, which are "a natural progression from CT". For a firm with a market bridgehead established via CT involvement, the dismantling of many of the legal and

institutional impediments, thus alleviating property rights and agency problems, will encourage the consolidation of a more secure presence in markets deemed to be of strategic importance.

Among our small sample of exporters, there is evidence of this gradual progression, evidenced most strikingly by the case of the pharmaceutical company ceasing to CT, having set up a joint venture in Poland (ie) it does not CT, because "it now has no need to".

However, this gradualistic argument should not be overstressed. Some companies have set up joint ventures without having prior experience of CT, or indeed any other contact, with the host country. These companies have clearly "jumped" the CT phase of building up trading relationships.

The future for CT largely hinges on the future availability of Western funding to lubricate trade. Without this, CT is likely to persist, at least in the medium term, as existing countertraders continue or possibly increase their activities, and as other companies, newly aware of the strategic importance of the more open Eastern markets, "test the water," initially via CT involvement. Other companies will "leap frog" this stage and take full or partial equity stakes in local enterprises.

Many observers argue that the economic centre of gravity of Europe is swiftly moving eastwards. Firms which fail to consider the strategic potential of E. Europe risk being left behind in the wake of the likely concentration of European economic activity into the London - Berlin - Milan triangle. There are undoubtedly severe problems in the evaluation of investment and related activities in E. Europe but firms should ask whether they can afford not to become involved in such ventures.

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COUNTERTRADE EXPERIENCES OF TURKISH FIRMS IN USSR MARKETS

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Abstract

Countertrade has emerged as one of the most interesting and important topics of international trade during the last decade. Estimates of global countertrade transactions as a percentage of world trade, range from one percent to 30 percent (Cohen and Truell 1982). Although accurate statistics are hard to obtain, the consensus of expert opinion puts the percentage of world trade financed through countertrade transactions at between 20-25 percent (Okoroafo, 1988).

Although Soviet trade which has been mainly in the form of countertrade is extensively discussed in literature, publications in the past were mostly concerned with trade among CMEA countries, trade with the West (particularly U.S.), or trade with special agreement countries eg. Finland. There is a shortage of information about the USSR trade (which has been mainly countertrade) and business relations with the developing countries.

In 1984, Turkey signed a countertrade agreement with the USSR involving the purchase of natural gas, while the payment would be with exports of goods and construction services. The implementation of the deal became possible in 1989 and immediately USSR became the new target market for many Turkish firms.

This study is among the first investigating the countertrade practices with the former USSR. In this empirical study, a questionnaire was designed for administration to business people that were already involved with the USSR.

The sample was formed from the DEİK (Foreign Economic Relations Board) Soviet-Turkish Business Council members. 103 questionnaires were passed to DEİK members during the plane trip from İstanbul to Moscow. 63 business people representing different companies completed the questionnaire.

Findings will be reported in two sections; one related to the characteristics of the sample, and the other on the countertrading practices.

At the time of the study, December 15,1991, only 14% of the sampled Turkish firms had practiced countertrade before. For each company in the study, their satisfaction with the countertrading arrangements at the time of the central buying system and after the decentralization of the buying system from the central Moscow authority down to the Republic level is measured. Besides, opportunities and challenges faced in the former-USSR by the Turkish companies are identified.

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COUNTERTRADE AS A REACTION TO LACK OF LIQUIDITY

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Abstract

This research-in-progress is about one of the most prevalent forms of countertrade, a phenomenon which has received considerable attention in recent years. The review of the relevant literature is presented in terms of a theoretical framework similar to the one developed by Verzariu (1987). In so doing, the paper attempts to point out clearly the gaps in the literature. Since there are important differences among various forms of countertrade each countertrade deal should be examined individually (Hennart, 1990). This study singles out "international barter" as the form of countertrade to be investigated. Among the motivations for international barter, perhaps the most frequently mentioned is the lack of liquidity: "When the money game is impossible, countertrade remains the only game in town" (Samonis, 1990 p.121).

The objective of this study therefore is to provide, an example of how lack of liquidity may limit the volume of international trade. This objective is accomplished by using a standard single country neoclassical economic model (referred to in the literature as a "wedge" model) in a two-commodity two-factor setting. Model derivation requires some attention to the background assumptions for a wedge model of the trade balance, such as the role of uses of compensatory financing in international payments, equilibrium in the world as well as within specific countries.. etc.

An earlier attempt to by Bilici and Yavas (1992), which provided an example of the existence of liquidity constraints leading to countertrade, was based on the assumption of perfect competition in both factor and product markets. Even though the assumption of perfect competition is fairly standard in the literature, it seems unrealistic to have liquidity constraints and yet to claim that there is perfect competition in output markets. The present paper expects to remedy that problem. While the main contribution is the appropriate development of the basic analytical framework to incorporate international liquidity, the novelty of the paper is to permit imperfect competition in output markets.

Within the confines of the model being developed,

it is shown that countertrade (particularly barter trade) can supplement money-mediated trade and therefore contribute to the growth of international business. Therefore, countertrade, far from being inefficient and cumbersome way of doing business, may be a rational response to conditions which restrict standard trade (Girling, 1992).

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LOGISTICS

PERCEIVED CONSEQUENCES OF BUSINESS PRODUCT STOCKOUTS
IN CANADA AND THE U.S.A.

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Abstract

The perceived consequences for business buyers of being stocked out by their supplier and their repurchase loyalty on the next purchase occasion were researched using personal interviews and a mail survey of professional buyers. Lost sales and production disruptions resulting from the stockouts prompted one quarter of the buyers to abandon their supplier, but the majority returned on the next purchase occasion.

Introduction

Product availability is viewed by buyers as a critical aspect of physical distribution (Cooper et al. 1991, Germain and Cooper 1990, Gilmour 1977, Jackson et al. 1986 and Lalonde and Zinser 1975). Buyers' sensitivity to product availability is understandable given that poor service may result in serious production disruptions (Dion et al. 1991), particularly to those buying on a Just-In-Time (JIT) basis.

Stockouts, or lack of product availability, arise when the supplier has failed to anticipate correctly and to meet the true level of demand for the product. The classical approach to demand fluctuations is maintenance of buffer inventories. The amount of inventory required to assure higher service levels increases at an increasing rate (Robeson and House 1985). JIT substitutes enhanced supplier response time for these inventories.

Stockout costs are difficult to estimate because many are either subjective (Badinelli 1986, and Gardner and Dannenbring 1979), or a function of the buyer's reaction (such as switching brands) (Dion et al. 1991). Rigorous mathematical treatments of stockouts (Badinelli 1986, and Gardner and Dannenbring 1979) require simplistic assumptions about stockout costs, such as equating them to some proportion of demand or backorder levels. They neglect such important components as: decreased buyer loyalty, production disruptions, expediting costs and machine downtime. Only one study (Dion et al. 1991) in the business marketing literature has dealt with the issue of the consequences of stockouts for the buying firm and its reaction to them. For retail market treatments, see Schary and Becker (1979), Shycon and Sprague (1975), and Walter and Lalonde (1975). This paper assesses stockouts subjectively because buyers, lacking objective information, act according to their perceptions. As one researcher (Tucker 1983) states, "It doesn't matter what a supplier does in the area of customer service; it only matters what customers think the supplier does."

This paper reports survey research among 367 National Association of Purchasing Management (NAPM) buyers and in-depth interviews with twenty. The following questions are addressed:

- 1) What and how severe are the consequences of stockouts in terms of disruptions to buyers' operations?
- 2) What actions (brand or supplier desertion, purchase delay, product quality changes, etc.) do buyers take when faced with stockouts?

Background

There is ample evidence of the importance of physical distribution strategy in general, and the product availability dimension in particular. A study of service elements by Jackson et al. (1986) found in-stock performance to be of paramount importance to buyers across a variety of product types, industries and firm sizes.

Walter and Lalonde (1975) report that 14% of the retail buyers they studied switched stores after one stockout while 40% deserted after two stockouts. Another study (Progressive Grocer 1968) found that nearly one half of customers, when confronted with a stockout, switched brands rather than shopping elsewhere or forgoing purchase. Shycon and Sprague (1975) report that store buyers often retaliate against suppliers who stock them out. Retail studies are, however, difficult to generalize to business-to-business sectors, particularly manufacturing.

In theory, managers seek to balance inventory cost against the cost of lost customers in developing a service strategy. However, they lack knowledge both of the consequences of stockouts and of buyers' reactions to them. For example, stockouts may change the buy class status from a straight rebuy to a modified rebuy where the "in" supplier's position is challenged. This is the fundamental reason stockouts must be taken seriously.

Purchase Factors Not Included in the Study

Some complications in dealing with stockouts and inventory levels that are not included in this study are: product line extensions increase the number of stock keeping units (SKUs) and may lead to increased stockouts. Promotion or price incentives may generate discontinuous or "lumpy" demand patterns that upset inventory management efforts. Postponement of commitment can alter product availability by delaying the creation of finished inventories. The strong ties of buyer

loyalty and brand allegiance (Cooper et al. 1991) can influence reaction to stockouts.

Study Method

To enhance the reliability of our study, two independent methodologies were employed. Twenty purchasing managers from 18 different New England firms were interviewed in depth and a mail survey sampled 2,350 purchasing professionals, drawn in approximately equal numbers from the National Association of Purchasing Management (NAPM) roster of a large Upper Midwest U.S. city and from members of the Purchasing Management Association of Canada (PMAC). 367 useable responses were obtained from the mailing (a 16% response rate).

Using a critical incident approach, the buyer was asked to recall the last time that a supplier was out of stock. The buyer was to choose an incident involving purchase alternatives, such as another product, another grade of the same product or an alternate supplier, and where the purchase was not a special order. Questions were based on that sole incident. This insured that a broad range of products were involved and that the respondent's alternatives were not constrained.

No participation incentives were offered, nor was return postage provided. The questionnaire consisted of 26 items from a previously tested instrument (Dion 1991).

Statistical analysis revealed no significant differences between the survey sample and the membership of the NAPM. An analysis of the results revealed that there was no change in respondents' answers which could be linked to their time of response. The size of the average responding firm was 1,724 employees. The sample was drawn from a variety of industries, including electronics, transportation equipment, chemicals, instruments, mining, and paper, to name a few.

Evaluation of Study Method

The features of the study method should be kept in mind when interpreting the results:

1. The research presented here is largely an initial investigation in this topic area.
2. The respondents were asked questions which their professional buying function should enable them to answer on a factual basis, e.g. the occurrence of production disruptions. They also were asked questions which drew upon their perceptions of the financial consequences of stockouts (which cannot be supported with documented accounting data). The study does not purport to assess objectively the dollar consequences resulting from stockouts.
3. The results from the two samples may be compared for general convergence, but not for specific numerical findings; ie. percentages, because of the small size of the interview sample.

4. Data were gathered from three independent geographic areas (New England, the U.S. Midwest and Canada). The results may be generalizable beyond the specific research samples employed.

Results and Discussion

The research was designed to focus on buyers perceptions as the basis of their actions. For many questions, [Table 1](#) reveals convergence between the results obtained from the two different methodologies. This lends some support to the conclusions based upon them.

The Consequences of Stockouts for Buyers

Lost Sales Costs. Fourteen of the interview respondents and one quarter of the mail survey respondents reported lost sales due to stockouts. One third of the interview sample reported losses exceeding \$5,000.00, while approximately 20% of the mail survey respondents reported losses exceeding \$5,000.00. These estimates represent opportunity costs which could be traded-off against the cost of the higher inventories needed to eliminate them. The proportion of buyers involved suggests that stockouts are a significant problem that merits attention.

Production Disruptions. Approximately two thirds of each sample reported production disruptions as a result of stockouts. Approximately 15 and 18 percent for the interview and mail survey samples respectively, estimated disruption losses exceeding \$5,000.00. As in the case of lost sales, these estimates should be balanced against the cost of eliminating them. For suppliers, these findings are disturbing because production disruptions are costly to customers' operations personnel. Their impacts range from scheduling problems to missed product shipments, and focus unfavorable attention on the buyer's performance. Thus buyers affected by stockouts may subsequently retaliate against a supplier whose poor service sullies their professional buying performance.

Increased Administration Costs. Almost three quarters of the respondents across both samples reported increased administrative costs resulting from stockouts. The amounts of these losses were not estimated. Because they strike directly at the buyer, they are likely to be an important purchase decision influence, particularly when the buyer uses vendor analysis.

More than half of each sample reported at least two stockouts per year in their critical incidents. There are no data on the cumulative effect of multiple stockouts on buyer loyalty in the marketing-to-production literature. However, Walter and Lalonde (1975) report that the incremental desertion rate can be substantial in retailing. Continued poor product availability could be expected to vitiate the basis of the buyer-seller relationship.

We hypothesized "a priori" that buyers purchasing on a JIT basis would report more serious

TABLE 1
SUMMARY OF RESULTS

Interview Sample (n=20)	Survey Sample (n=367)
<u>Description of Stockout and Operational Results</u>	
14/20 report loss of sales resulting from stockout, 1/3 of these losses over \$5000	24% report loss of sales resulting from stockout, 20% of these losses over \$5000.
14/20 reported production slowdown or stoppage as a result of stockout	65% reported production slowdown or stoppage as a result of stockout
3/20 reported loss exceeding \$5000 resulting from production disruption	18% reported loss exceeding \$5000 resulting from disruption of production
3/4 reported increased administrative costs resulting from stockout	70% reported increased administrative costs resulting from stockout
n.a.	30% of stocked-out products purchased on a JIT basis
2/3 reported stockouts more than once a year	55% reported stockouts more than once a year
34 order cycles per year	26 order cycles per year
average cost of stocked-out product: \$863	average cost of stocked-out product: \$555
<u>Buyer Reactions Resulting From Stockout</u>	
9/20 purchased from new supplier	23.5% purchased from new supplier
2/20 stayed with new supplier	19% stayed with new supplier
2/20 split volume between new/old supplier, 16/20 returned to old supplier	23% split volume between new/old supplier, 58% returned to old supplier
4/20 bought alternate brand	27% bought alternate brand
16/20 of those who purchased alternate brand returned to old brand	75% who purchased alternative brand returned to old brand
Unacceptable stockout frequency level: would abandon supplier	Unacceptable stockout frequency level: would abandon supplier
once/yr. or less : 1/4	once/yr. : 8%
once every 3-6 months: 1/4	twice/yr. : 48%
once every 3 months : 1/2	three times/yr.: 30%
	four times/yr. : 14%
Price increase buyer willing to pay to achieve acceptable service level: n.a.	mean 3.6%, std. dev. 4.8% max. 30%

consequences from stockouts, because of their reliance on buyer-supplier coordination as a substitute for large production-input inventories. Although thirty percent of the mail survey sample reported that they bought on a JIT basis, this factor was not statistically linked to other results. Failure to confirm the hypothesis may be because our methodology focused on buyer perceptions as opposed to documented numbers. Second, although thirty percent of the buyers reported using JIT, the extent to which

they had abandoned their dependence on inventories was not ascertained.

Buyers Reactions to Stockouts

In the mail survey, almost one quarter of the stocked-out buyers abandoned that supplier for the purchase at hand. Of those deserting their supplier, about sixty percent returned on the subsequent purchase while approximately equal proportions of the remainder stayed with the new

supplier or split their purchase between the new and original suppliers. An out-of-stock supplier runs about a five percent chance of losing the customer (the one quarter deserting times the one fifth not returning) and a slightly higher chance of having to split its sales volume with a competitor (the one quarter deserting times the one quarter splitting their purchase volume).

Buyers desert an out-of-stock brand with approximately the same frequency as they desert their suppliers, but about three quarters return to their original brand. Thus buyers are more loyal to their brands than to their suppliers. The manufacturer whose product is not available to the buyer runs an approximately six percent chance of losing the customer (the one quarter deserting times the one quarter not returning).

Table 1 results suggest that buyers are much less tolerant of suppliers that stock them out twice a year versus once. They are about six times more likely to desert a supplier following a second stockout. These results are consistent with the retail findings of Walter and Lalonde (1975).

Although probably a last resort, buyers reported that they were willing to pay only a small increase in price, an average of three and one half percent, to secure acceptable service levels.

Discussion of Results

In evaluating the adverse effects of stockouts, manufacturers and suppliers need to consider the following issues:

1. The probability of losing a customer which was presented above was a statistical abstraction, based on aggregated data. Many factors would mediate an individual buyer's reaction to a stockout, including brand loyalty, competitors' strength, the history and strength of the buyer-seller relationship and remedial efforts by the salesforce.
2. Our research only dealt with buyers' reactions to the stockouts referenced in the critical incident method employed and their next purchase decision.
3. Another concern for manufacturers and suppliers arising from stockouts is the loss of incumbent advantage suffered when a buyer deserts, however transitory the desertion may be. Previous to the stockout, the manufacturer or supplier could be thought to enjoy a straight rebuy repurchase relationship. The stockout prompted many buyers to recycle into a modified rebuy buy class. This means that the sales effort and expense consumed in attaining the straight rebuy relationship with the buyer had been squandered.
4. Buyers reported a slightly higher loyalty to product brands than suppliers. Possibly, some of the product brands may have had performance characteristics which were preferred by the buyers for their own

operational needs. Therefore, changing brands could involve substantial switching costs for the buyer.

5. Multiple stockouts, particularly a second stockout, appear to have serious consequences for buyer loyalty. Stockouts subsequent to an initial one may be attributed by the buyer to a supplier's lack of commitment to taking remedial action. In such a case the buyer might gauge future chances of securing adequate product service as poor. Perceptions and expectations are important in this regard.
6. Since manufacturers may be the victims of poor service from their suppliers, they must establish and enforce inventory level policies which meet the needs of their ultimate customers. Similarly, suppliers (such as distributors) may suffer when manufacturers fail to provide the product. Problems of this sort in the distribution channel may be difficult to resolve, given the uncertain nature of the losses involved and the difficulties inherent in assigning responsibility for service failure.
7. The seriousness of a stockout may depend on which customer is inconvenienced. A dilemma for both manufacturers and suppliers is the choice of which customer to serve when available inventories are deficient.

Summary and Conclusions

The research described above investigated business buyer's perceptions of the negative consequences of being stocked-out by their supplier, and also their loyalty to both supplier and product brand in the face of these stockouts. Inherent methodological difficulties precluded attempts to assess the consequences of stockouts on an objective basis. The rationale for this was that the buyer's perceptions of these consequences would form the basis of his or her repurchase decision.

As a result of being stocked-out:

1. A substantial number of buyers perceived losses of sales.
2. Two thirds of the buyers studied reported production disruptions.
3. More than one half of the respondents reported being stocked-out more than once in a year.
4. Three quarters reported increased administrative costs.
5. Approximately one quarter abandoned their supplier; three fifths of these returned on the next purchase, while the rest either stayed with an alternate supplier or split their purchases.
6. One quarter abandoned their product brand

and three quarters of these returned to the original brand on the next purchase.

The results suggest a fundamental lesson for managers: that poor product service can negate the accomplishments of the firm's best tactical and strategic efforts. In that sense the product delivery variable dominates the marketing mix. Thus it deserves more attention from researchers than it has heretofore received.

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COMPARATIVE MARKETING SYSTEMS

COMPARATIVE ANALYSIS OF FOOD AND AGRIBUSINESS
MARKETING SYSTEMS

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Abstract

The primary objective of this paper is a comparative examination of export orientated food and agribusiness marketing systems with specific reference to fresh fruit and vegetables. The empirical investigations comprise case studies of BELGIUM, CHILE, CANADA, NEW ZEALAND, TURKEY, and SOUTH AFRICA. A general framework for the export orientated food marketing system is described and success criteria for firms operating in such a system are proposed. Two main groups of factors underlie the performance of export orientated food marketing systems. The first group incorporates external and internal factors such as geographic location, natural resource endowments, physical and non-physical distance to recipient markets, and government involvement (externals); organisational structure and ownership of firms and objectives and motivations to export (internals). The second group of factors comprise marketing management components. Relying on these findings, seven quantitative and qualitative criteria for success are proposed.

INTERNATIONAL MARKETING OF AIRLINE SERVICES: U.S. VERSUS FOREIGN CARRIERS

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Abstract

The purpose of this paper is to discuss major criteria used for survival as well as an analysis of the future of the airline industry. Specific marketing implications such as impact on service levels, price, and distribution are also highlighted. As well, results of a survey conducted in South Central Pennsylvania on airline selection for foreign travel were presented for orderly decision making purposes by airline executives.

Introduction

In recent years, there have been a number of changes in international airlines industry which have had profound effects on the development of this very volatile sector of the economy in most countries of the world. Demographic, socio-economic and technological changes have led the way to some philosophical transformation of the industry and the way they do business nationally as well as internationally. In this process of restructuring both national as well as private airlines had to modify their policies and strategies. In particular, the emergence of consumer-oriented marketing approach was evident. The essence of the marketing concept incorporates three basic elements of customer-orientation, integrated marketing efforts and the resultant company profitability.

Globalization is a watchword in international airline industry. Most of the successful airlines tried to make their global operations fully integrated into the corporate structure while allowing the global operations to grow and prosper (Dickson 1983). Within this overall framework, joint marketing agreements, co-marketing and mergers, cooperative marketing agreements, cross-border equity investments, equity-swaps are the primary forms of market entry.

The Study

The purpose of this empirical study was to find out airline passenger satisfaction and/or dissatisfaction while flying by a U.S. and/or foreign carrier to foreign destinations. The survey was conducted in the Tri-County Region of South Central Pennsylvania. Within this region of the state of Pennsylvania, three major cities, namely, Harrisburg, Lancaster and York were selected as the base for sampling of the population. A stratified sampling method was utilized. In terms of economic well-being of residents, two types of neighborhoods, namely, upper income and middle income were identified in each city. A total of 200 persons in each city was contacted. Drop-off and pick-up method of questionnaire administration method was used. Questionnaires were hand-delivered to pre-deter-

mined houses in each survey neighborhood by senior marketing research students of two local universities. In the cover letter, a request was made of the person who had made at least one foreign travel by plane within the last twelve months to fill in the questionnaire. After a week's waiting period, questionnaires were personally retrieved. Final analysis was based on 376 completed questionnaires which gave us a response rate of 62%. Demographic and socio-economic profiles of the respondents showed similar characteristics to the general population of the tri-county region. The sample population consisted of more males, 65% of the respondents had individual income of less than \$40,000, 67% possessed college and graduate education, 69% of the respondents had professional type of jobs, and the median age category (31-50 years group) consisted of 52% of the sample.

Findings

Airline industry world over is in a stage of rapid transformation. In this process, passenger satisfaction and repeat purchase is becoming of prime concern of airlines. To this end, both domestic as well as foreign airlines are instituting certain changes. Some of these changes are geared towards improvement of both airport and in-flight service. Airlines also offer more leg room and restful cabin decor. Passenger information system developed by certain foreign airlines shows the plane's course and flight data on the movie screen when movies are not playing.

Study results indicated that users of U.S. carriers showed different demographic, socio-economic and behavioral characteristics in selecting an airline for foreign travel. Statistically significant differences were found between the users of domestic and foreign carriers in the importance they attached to service attributes. In developing strategic marketing plans, airline executives should place more importance to those attributes which are deemed most important by passengers. In the development of new services and aircrafts, consumer driven type of input should be utilized. This will, of course, increase the likelihood of success in the turbulent environment of airline industry.

References Upon Request

MODELS OF RETAIL FIRMS IN EUROPE

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Abstract

In this paper we compare the organization of the food retail firms in four European countries: France, Germany, Italy and the United Kingdom. We verify that the differences in organization are much more important than the structural differences in Europe and we try to explain why there are different models of retail firms in different countries. We wonder whether a "best way" would possibly emerge in the future. We find that sometimes, despite the absolute differences in costs, federated systems could have better performances when retailing is growing fast.

Stylized facts: the market structure

The patterns of evolution of the retail structure in grocery present, at a first glance a great homogeneity in the major European countries. It is easy to note several dimensions in which the retail structures tend to be similar:

1. the reduction of the number of the outlets per capita;
2. the growth of the large grocery outlets, like supermarkets and hypermarkets;
3. the concentration of the major outlets in few firms, both as a consequence of the internal growth and of M&A operations.

Stylized facts: the property right structure

There are several levels at which it is possible to describe the ways the resources are coordinated in an organization. A basic element of the coordination is the property right structure. A set of assets or activities coordinated in an organization could refer to a single proprietor or to different investors, linked by contractual agreements, informal links and costs sunk in the relationship. It may be useful to define as "federated retail systems" the organizations where a central organism manages some functions, like marketing, buying, logistics, and a network of independent retailers manages the outlets, under more or less tight contracts with the central offices. A way to describe different property right structures in retailing is to distinguish between multiple chains, buying groups and voluntary chains. Federated systems have different market shares in the four European countries. In the UK the federated systems of retailing are a marginal phenomenon.

In Germany, voluntary chains and buying groups jointly manage 54.5% of supermarkets with a surface of 400-1499 sqmt, and 31% of the largest supermarkets and

hypermarkets (1989). They have generally adopted a mixed structure. The federative central has a direct proprietary control of an important share of the outlets, which amounts to more than 70% in the Rewe Group and to 52% in Edeka. More puzzling is the French case. The share of the federated systems amounted in 1989 to 45.5% of the total surface of supermarkets and hypermarkets. Federations like Intermarché and Leclerc, which are not classified as buying groups or voluntary chains, have a great importance. In Italy voluntary chains and buying groups have had a faster growth in supermarkets than multiple groups.

Why is there such a difference?

The transaction cost theory and the theory of property rights point to the existence of one best way to organize the firm, or to share the property rights within it. In this view the persistence of several forms of firm should be explained only as the effect of obstacles in the market, preventing the selection of the most efficient structures. The growth and the decline of buying groups and voluntary chains in Britain might support this explanation. After the rapid growth of the major retailers, small shops tried to gain economies of scale acting cooperatively to manage indivisible inputs, but they did not succeed and have been confined to market niches. In France, Germany and Italy, there is room for another explanation, i.e. the advantages of a federation when new large stores are rapidly established. Federating is not a reaction against multipliers, it is instead a competitive strategy. During the development of the super and hypermarkets it is important to obtain the better locations rapidly and to be the first mover in each single market. The firms having initially developed some organizational skills could then federate several independent shopkeepers to gain the control of the market. This could explain in some way the persistence of different systems. The differences in efficiency could in fact be overcome by the advantages of the rapid growth and the conquest of the best locations. Nevertheless, the advantages in growth do not establish a permanent advantage of federated systems: a possible evolution is to transform progressively a federation into a single property system. The cases of Germany and of the voluntary chains in Italy are well understood. The particular form some federated systems like Leclerc and Intermarché in France have taken, emphasizes the role of heavy costs sunk in the relationship in preserving federated systems against competitive forms of firm.

AN INTERCULTURAL ANALYSIS OF DANISH EXPERIENCE WITH INVESTMENTS IN TURKEY

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This paper investigates the experiences of Danish investors in Turkey with the objective of identifying: (a) the patterns in internationalization process, entry mode, and partner selection criteria; (b) the nature of collaborations and specializations in management functions; (c) the perceptions about Turkish business and cultural environment that may enhance or impede future relationships.

Drawing upon a case study of seven Danish firms (out of a total of 16) with investments in Turkey, data is collected through in-depth interviews held with the Danish managers who are responsible from operations in Turkey. The sample firms represent a diverse range of industries including, quality control and calibration instruments, maintenance machinery for cement manufacturing, shipping equipment and motors, paint manufacture, brewery, airline and catering services, and insurance.

A qualitative analysis of findings give some support: (a) for evaluating Danish investments in Turkey by means of Uppsala internationalization and network models (Johanson and Mattsson, 1990); (b) for the effects of national culture on the entry mode choice (Kogut and Singh, 1988); and (c) for the emphasis on partner-related rather than task-specific criteria in selecting partners when the task environment is somewhat uncertain (Geringer, 1988).

An intercultural analysis of business structures and management principles are carried out by utilizing Hofstede's (1983) cultural dimensions and Clark's (1990) "national character" construct. Observed differences are evaluated within the framework of interpersonal business communications (Francis, 1991) which involve marketing negotiations and decisions for collaborative strategy formulation. Implications of the study for international marketing managers in understanding each others likely responses are discussed by means of drawing upon relationship marketing paradigm.

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INDUSTRIAL MARKETING

CONTRIBUTION OF STRATEGIC MARKETING PLANNING TO THE PERFORMANCE OF SMALL AND MEDIUM SIZED FIRMS - AN EMPIRICAL RESEARCH

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Abstract

Although prescriptive literature attributes a number of benefits to strategic marketing planning, its usefulness, however, is not universally accepted and there is argument as to its benefit and its likely influence on the performance of firms. While some argue that formal strategic planning is a major factor in corporate success and enhances organisational performance others challenge this view. Unfortunately, the research on the effect and value of strategic planning has shown conflicting results. This study looks at the impact of strategic marketing planning on performance of the firms and how the performance variables relates to a number of other variables.

1. Introduction

All authors of prescriptive theories attach benefits to strategic planning and agree that a major source of problems in companies is their inability to plan ahead and be responsive to environmental change (Aaker 1984; Al-Bazzaz and Grinyer 1980; Cravens 1982; Jain 1985). The usefulness of strategic planning is not universally accepted and there is argument as to its benefit and its likely influence on the performance of firms. Some argue that formal strategic planning is a major factor in corporate success and enhances organisational performance (Ansoff 1965; Hofer & Schendel 1978; Lorange 1980). However, this is challenged by others (Lindblom 1979; Mintzberg 1978; Quinn 1980) who claim that, in practice, firms often do not apply the prescribed methodology when making important strategic decisions.

Unfortunately, the research on the effect and value of strategic planning has shown conflicting results (Watts and Bizzel 1988). The same controversy is present in relation to marketing planning. Lack of understanding in relation to issues related to marketing and marketing planning is specially notorious in the case of small and medium sized firms (Ford and Rowley 1983; Watkins and Blackburn 1986).

Although the literature on planning includes an abundance of prescriptive methods on the effective conduct of strategic planning (Lyosinski 1990), there is little to be found on what characterizes 'effectiveness'. On the several definitions of effectiveness in the literature, none can be regarded as wholly adequate. General approaches to defining effectiveness in planning have been based on either the required end-results or the nature of the planning process. Definitions based on the end-results of a plan include effectiveness in achieving the planned results; financial-based criteria for measuring effectiveness; effectiveness in correct assessment of opportunities and problems and effectiveness based on the planning process. Greenley (1984) reviewed effectiveness in planning and problems in defining it.

This study looks at the impact of strategic marketing planning on performance of the firms that benefited from a particular programme. The study looks at the impact of marketing planning on performance and how the performance variables relates to the implementation of recommendations, firm's characteristics and the evaluation of the program itself.

2 Contribution of Marketing Planning to Success

All the claimed benefits of marketing planning are aimed at achieving success in the firm in the long run. Success needs to be measured. The most common way of measuring success in companies, suggested in the literature (Bell 1979; Kotler 1980), has been by way of quantitative objectives such as sales volume, market share and return on investment. In reality, these measures have been used in basic and early models for marketing strategy such as the Boston Consultancy Group (BCG) or General Electric (GE) model for investment analysis. Day and Wensley (1988) question the appropriateness of such measurement criteria as market share and profitability as indicators of marketing effectiveness.

There have been a number of empirical studies which researched the effect of planning on the success of firms using finance-related measures. A number of them concluded that it is a major contributor, while other studies indicated that there is no relationship between formal planning and performance (For a review see Greenley, 1987)

Other criteria for measuring success have been suggested: the way an organisation manages its critical success factors (Ferguson and Dickenson 1982); degree of innovation in a firm, consideration of environmental issues, employee conditions, employment prospects, industrial relations, and consideration of ethical values (Goldsmith and Clutterbuck 1984; Saul 1983). Peters and Waterman (1982), used a set of non-financial criteria to characterize excellent, innovative companies. Awareness and consideration of long term objectives and their dominance over short term profitability and a need for long-term commitment has been suggested by others (Webster 1981; Baker and Abu-Zeid 1982; Hooley and Lynch 1985).

Beside these studies that relate planning to success, Greenley (1987) in a review of empirical research into marketing planning practised by the firms, reported seven major studies, four in the USA and 3 in the UK. Recent research on marketing planning includes works by Leppard (1987), Greenley (1988), Piercy and Morgan (1989), Carson and Cromie (1989), Lysonski (1990), and Beckman (1990).

3. Objective and Methodology

3.1 Objective

This paper looks at the impact of marketing planning on performance of the firms. Firms used in this study are a number of small and medium sized firms that benefited from a program designed to assist them. The program was aimed at helping firms to implement strategic marketing planning within their companies. Once firms applied for the program, they were contacted and briefed by a number of field workers, known as senior industrialists who are experienced managers with a high level of business qualification. Senior industrialists would explain to firms the nature of the program and how to manage the consultant. Firms were then provided with a marketing consultant who was responsible for the development of a strategic marketing plan. The scheme closely monitored the whole process of expert intervention, i.e. choosing and contracting the consultant, the evaluation of the consultant's report and finally an assessment of the firm's implementation of the consultant's recommendations. Regarding the cost of the program, the client firm contributed with one third of the consultancy fee and the remaining cost was covered by the program.

3.2 Methodology

A mailed questionnaire was directed to the person in contact with both the consultant and the scheme during the whole project, which in most cases was the managing director or

marketing director of the firm. The questionnaire was sent to all firms that benefited from the project (248 firms) and the response rate was above 38%.

To develop the questionnaire, existing data on the sample firms consisting of the senior industrialist initial and final reports, the terms of reference and the consultant's report were studied. Qualitative in-depth interviews with managing directors of the firms were performed and directors of the programme were also interviewed.

Firms in the sample had an average turnover of less than five million pounds, with most of the firms having less than one hundred employees. As to the industrial classification, due to the particular nature of industry in the area where the sample was obtained, firms mainly belonged to engineering and manufacturing companies. They generally were private companies, family owned or owned by the directors.

To analyse the data the statistical package SPSSX was used. The techniques used were factor analysis (Afifi and Clark 1984; Kim and Mueller 1986) log-linear and logit models (Everitt 1977; Fienberg 1977; Haberman 1978; Plackett 1981; Upton 1978).

Hierarchical log-linear models permit to verify the interaction among variables. As these models only verify the interaction and do not give clear indications of the direction of relationships, the linear-by-linear association model for ordinal data was used. This technique indicates the nature of the relationship between variables, that is, if the relationship is positive or negative.

Impact on Performance

This paper reports part of an overall research which looked at the impact of a specific program designed to influence the practice of marketing planning in small and medium sized firms. This paper reports the impact of the scheme on performance and the relationship of the performance with a number of variables.

4.1 Performance Variables

There were a number of questions in the survey aimed at evaluating the effect of the scheme on the performance of the firms, such as: how the scheme had contributed to increase in turnover, share of market, improved profitability, formulation of future plans, expansion/entry to foreign markets. The available scores were: 1 - A great deal; 2 - Certain extent; 3 - Not yet, but expected in the future; 4 - Not at all.

The impact on performance as regards to full financial benefits of the scheme could not be fully assessed due to the timing of this study. With over 51% of the firms having had the

completed project for less than 6 months, and almost 90% for less than one year, it is far too soon for the financial benefits to appear. Firms did not have enough time to implement all the recommendations and therefore the full results of the marketing consultant's intervention had not yet been shown. Nevertheless, in spite of the time limitations, a first step towards the evaluation of the scheme on performance was taken. The contribution of the program to performance is based on general manager or marketing directors' perception. However, the expense with the program was a major issue for small/medium sized firms, who were highly cost-conscious and as a result, very critical towards its benefits. This was very apparent in the interviews and later in the survey. Therefore, they would be unlikely to attribute value to the program where it did not genuinely contribute.

Generally speaking, firms believe that the marketing planning scheme has contributed to their performance. Between 32% and 37% believe that their turnover, profitability, market share, number of customers and employees have improved 'a great deal' or 'to a certain extent', as a result of the help received through the scheme. Between 27 and 40% expect to see these benefits appear in the future, in most cases within the next one or two years. There has also been a stronger and more immediate impact in the areas of providing marketing capability, a sense of direction, and devising future plans. Between 77% and 86% of the firms have found the process of intervention to have already been of 'a great deal of benefit' or 'of benefit to a certain extent' in these areas. There has also been an impact on international competitiveness, although to a lesser extent (between 23% and 33%). Other firms expect that this contribution will be shown in the future (20% to 29%). Firms find that their overall performance has been positively influenced as a result of the expert intervention. Only 18% find no overall benefit.

Because of interrelationships between individual performance measures, it is more meaningful to use the factors that represent them. As each factor represents a number of variables, far fewer variables are involved in the analysis of the relationships. This leads to a clearer picture of the relationships. As the objective at this stage was the reduction of performance measures to a few underlying dimensions (factors), the procedures used were: R-factoring, principal component analysis and varimax rotation. Adequacy of application of factor analysis was also assessed. The Kaiser-Meyer-Olkin measure of sampling adequacy for all variables (0.862) and the Barlett's test of Sphericity (Norusis 1985) indicate the appropriateness of factor analysis. Table 1 shows the factor loadings. The loadings are quite acceptable using the criteria suggested by Comrey (1973).

For the selection of the number of factors, the eigenvalue rule was applied. The application of the rule seemed justified, as the three factors identified in this way summarized 66.4% of the total variance and the grouping of variables was reasonable. The scree-test advocated by Cattell (1965) confirmed the factors. It is worth mentioning that a number of other procedures were used leading to the same aggregation of variables into factors which is an indication of the stability of the three factors. A closer look at the three components that summarize the 13 questions suggests the following factors: Performance measures (Factor 1); Marketing planning capabilities (Factor 2); International competitiveness (Factor 3). The effect of the scheme on the firms occurs firstly in helping them to improve their performance in areas such as increased turnover, improved profitability, and increase in the number of the customers. Secondly firms are helped to increase their marketing capability, and finally their international competitiveness is enhanced.

4.2 Performance Factors and Firms' Characteristics

The benefits firms receive from the intervention may be related to the firms' characteristics. At this stage the interest lies in finding if there is such a relationship. Performance factors are the variables that represent the benefits firms received through the intervention of the scheme. By looking at the relationship of performance factors with firm's characteristics it is possible to see how characteristics can influence the benefits received.

The relationship of the performance factors with all the characteristics available in this study was considered. The hierarchical log-linear models were used to examine the relationship between performance factors and the following variables: existence of marketing and business planning at the beginning of the intervention; allocation of marketing responsibility within the firm; number of employees; turnover and number of years the firms were trading.

The hierarchical log-linear analysis shows that performance factors do not relate to the state of planning in the firm at the beginning of the project, or to the allocation of marketing responsibility within the firm, or to the number of employees. The only identified relationship is of performance measure factor to turnover. The direction of the relationship is seen from the results of the linear-by-linear association model for the ordinal data was used to examine the nature of the relationship. The Ω value for this relationship is -0.25 and the Z value is -2.23. The significant negative Ω value shows that the impact on performance measures is shown to a greater degree for firms with a smaller turnover. In fact this result is quite

TABLE 1
FACTOR ANALYSIS OF PERFORMANCE MEASURES

FACT.1	FACT.2	FACT.3	VARIABLES
.865			Contributed to increase customers
.769			Contributed to increase market share
.740			Contributed to increase turnover
.729			Contributed to improve profitability
.655			Contributed increase no. employees
.501			Helped improve overall performance
	.786		Helped devise future business plan
	.785		Increased management self confidence
	.748		Provided greater sense of direction
	.614		Increase marketing expertise in firm
		.894	Expansion/entry to foreign markets
		.738	Improved direct export
		.703	Improved international competitiveness
6.17	1.34	1.13	Eigenvalues
47.50	10.30	8.70	% of Variance
Varimax rotation converging in 6 iterations.			

interesting and understandable: although it is too early to see the impact on performance of firms, but for those with a smaller turnover, the improvement is clear enough even at an early stage.

The lack of relationships between performance factors and firms' characteristics suggests that for this sample, impact on performance is not related to firms' characteristics. However these firms already shared a particular characteristic. They were willing to initiate the process of implementation of strategic marketing planning in their firms and spend management time and money for this purpose.

The next section will discuss whether or not the impact on performance is related to the operation of the scheme.

4.3 Value to the Firm, Evaluation of Intervention and Performance Factors

Firms were asked to evaluate the scheme and consultant. A number of questions defined how firms evaluated the program and the way it functioned and how the consultants performed their job. Most firms found the process of implementation of strategic marketing planning provided by the scheme to be of a very good or good value (over 71% of firms), and over 91% of them considered the program in terms of concept as a very good or good idea. 70% of the firms found that the consultants performed a very good or good job (For more details see Farhangmehr 1991).

It can be easily argued that small firms attach high value to the program because they lack previous experience of planning and their positive evaluation is related to the newness of the experience. However, a close look at the relationship of the 'value of the program' and 'performance factors' shows otherwise. The hierarchical log-linear models show that the value of the scheme to the firms interacts with two performance factors: performance measure and the marketing capability. The direction of the relationships are seen from the results of the linear-by-linear association model for ordinal data. The Ω coefficients are positive (0.30 and 0.45) and the Z values are large (3.71 and 4.10), which indicate the positive relationships between 'value of the program' and the factors. The relationships are positive and significant, indicating that the attribution of higher values to the program is related to greater contribution to the performance measures factor and marketing planning capability factor (Figure 1).

The positive relationship between the value of the program to the firm and the performance measure factor shows that firms eventually evaluate the marketing planning experience in terms of its contribution to performance. This result shows, as would be expected, that an important factor influencing the value of the scheme to a firm is its impact on performance.

Do the performance factors relate to the performance of the consultant? The hierarchical log-linear models identified that the same two performance factors, i.e. performance measures and marketing planning capability interact with the consultant's performance. There is not only a relationship between these variables, but the linear-by-linear association models for ordinal data indicated that the relationship is of a positive nature (Figure 1).

A positive relationship between contribution to performance and perceived value is not surprising and would be expected. But the positive relationship between evaluation of the consultant and the performance factor is of particular interest. It shows how an external expert can influence the results achieved by the firm and how the evaluation of a consultant is related to higher contribution to performance.

Firms were also asked if they would recommend the program to other companies. Over 82% of firms would recommend the scheme to others. The relationship between this variable and performance factors was assessed. The results identify a positive relationship between all performance factors and recommendation of the scheme to other firms (Figure 2). As would be expected, firm is likely to recommend the program to others only when it has a positive impact on the actual performance.

5. Further Research

This research looked at the impact of marketing planning on the performance of the firms as reported by their managing or marketing directors. As explained earlier, this study could not consider the full impact on performance as it was too early to see this. Further research also requires the establishment of adequate quantitative measures for the evaluation of the impact on

performance. An additional survey is necessary to study how the implementation of strategic marketing planning has contributed quantitatively to performance. It also requires the selection of an untreated matched sample to isolate the effect which resulted from the use of this particular scheme. However, the identification of a matched sample introduces problems, and the criteria for its selection are not clear.

Further research is also required to see whether or not as a result of this particular scheme, the practice of marketing planning has increased in small and medium sized firms. It is important to see if firms are practising marketing planning, if it is being practised in a systematic fashion and more importantly what impact it is having.

This study looked at the impact of marketing consultancy on small and medium sized firms when a monitoring system was in operation. The scheme closely monitored the whole process of consultancy. Also worth considering is the impact of marketing consultancy in the absence of such a monitoring system.

6. Conclusion

Generally speaking, firms believe that marketing planning has improved their performance. Three performance factors have been identified: Performance measures;

FIGURE 1
VALUE TO THE FIRM, EVALUATION OF THE CONSULTANT AND PERFORMANCE FACTORS

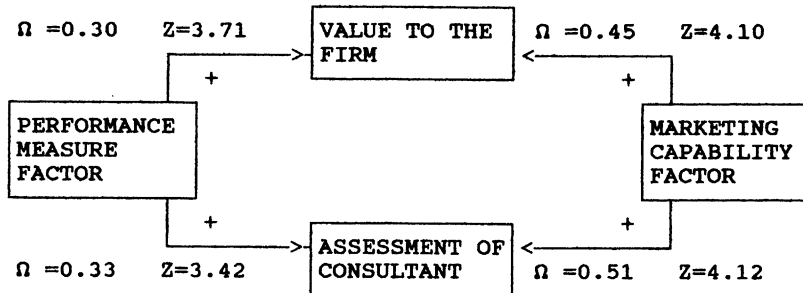
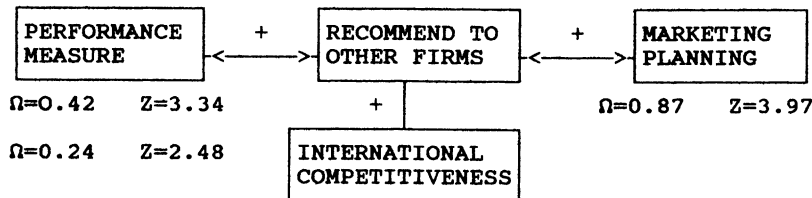


FIGURE 2
RECOMMENDATION OF THE SCHEME AND PERFORMANCE FACTORS



Marketing planning capabilities; International competitiveness. The effect of the scheme on the firms occurs firstly in helping them to improve their performance in areas such as increased turnover, improved profitability, and increase in the number of the customers. Secondly firms are helped to increase their marketing capability, and finally their international competitiveness is enhanced. Impact on performance is also greatly related to how the marketing consultant performs. The relationship between evaluation of marketing consultant and implementation of recommendations and consequently performance of firms shows the role of expert in helping firms to implement the recommendations contained in a plan. As would be expected, where the scheme has a positive impact on the actual performance, the firm is likely to recommend it to others.

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EVALUATING MANAGERS' PERCEPTIONS OF COMPETITIVE INDUSTRY STRUCTURE

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Abstract

Strategic group analysis portrays an industry as a few categories of firms, but researcher selected variables curtail its reflection of managerial reality. From a cognitive perspective it is shown that managers simplify their environment by grouping similar competitors. It is argued that they do not perceive industry structure in the manner proposed by economists. Interviews amongst managers in the oil pump industry showed evidence of them simplifying their environment by grouping competitors. None perceived the industry as economists suggest and more similar perceptions were seen between managers in the same firm than between different firms.

Introduction

When managers formulate a competitive strategy, Porter (1991) advocates they should seek attractive positions, offering a sustainable advantage. This takes time and considerable analytical effort. In view of managers' finite mental capabilities (Simon 1957; Schwenk 1988), they are unlikely to evaluate each competitor on an attribute by attribute basis. Indeed, it is doubtful as to how thorough their analysis is likely to be of all five forces. We are particularly interested in managers' assessment of competitors, the subject of this paper. A new stream of literature is emerging showing that managers simplify their competitive environment using mental models, grouping similar competitors (Porac and Thomas 1990). This notion is supported by research on perception, (Bruner 1957).

Understanding managers' mental groupings provides insight as to their positioning options. The idea of analysts grouping competitors can be traced back to Hunt's (1972) "strategic groups" concept which has been widely adopted (McGee and Thomas 1986). But, it is questionable as to how well this replicates managers' perceptions, since researchers employed a wide range of variables without consulting managers about their relevance.

The success of a positioning strategy results, in part, from the way managers in different departments coherently implement consistent activities (Porter 1985). An assumption frequently made is that all managers in a firm have similar perceptions of the competitive structure of their industry and are all directing their departments to satisfy the same competitive positioning objective. If, however, there are significant differences between managers' perceptions then, without an alerting device, progress may be impeded. While the review by St. John and Rue (1991) indicates differing views about the need for consensus

amongst managers, they reported a strong relationship between consensus and performance.

It is also argued in the strategy literature that with mechanisms such as trade organisations and trade publications facilitating the diffusion of ideas, there will be common belief systems between managers in the same industry. Little empirical work has been published about this and we seek to add to the literature.

The paper opens by being critical of strategic group analysis for being too researcher centred. We then present a cognitive justification for managers grouping similar firms and review empirical evidence of this. A rationale is considered as to why managers and economists may have differing views about the competitive structure of industries. The literature on similarities of perceived industry structure between managers in the same firm and between firms in the industry is reviewed. A methodology is described to assess if managers mentally group competitors, whether they view industry structure as economists argue and whether there are similarities between managers' perceptions. Conclusions and recommendations are then considered.

Strategic Groups and Managerial Cognitive Processes

To understand performance in the white goods industry, Hunt (1972) introduced the term "strategic groups" to describe analysis of competition based on understanding barriers to entry to each group of firms. By using a few variables, an industry can more simply be portrayed as a few categories of firms. However, reviews (McGee and Thomas 1986) show that economic, marketing and corporate strategy variables were used by researchers, without checking their managerial relevance. As others then questioned (Huff 1982; Reger 1990), are researchers reflecting managers' mental representations?

More recently researchers have started to adopt a cognitive perspective, about how managers perceive the competitive environment. Porac et al (1987), working with retailers, found managers having a hierarchical cognitive taxonomy of retailing businesses. This result must be seen within the context of a hierarchical probing procedure, selected because of their belief that competitors are stored in memory at increasingly abstract levels (Mervis and Rosch 1981). Focusing on manufacturers of Scottish Knitwear, Porac et al (1989) concluded that managers perceived their industry as groups of firms. The theoretical basis for managers categorising competitors is next considered.

Managers' Simplification of the Competitive Environment

Popular textbooks (eg Kotler 1991) discuss marketing planning and positioning as a systematic process, moving from analysis to planning to implementation. Appealing though this might be, there is evidence (Johnson 1987) against the assumptions of managers, with time to access and process large quantities of information and who progress matters in a sequential manner.

Instead, managers' decision making can be better modelled under an assumption of limited information capacity (Stubbart 1989, Day and Lord 1992) where simplification processes, such as heuristics and categorisation (Huff 1990), facilitate information processing. Much has been published on the way managers use heuristics (eg Schwenk 1988). While they provide a short cut through information processing, they lead to judgemental errors (Tversky and Kahneman 1974). Of more interest, is simplification through categorisation.

By grouping competitors into a few categories, according to the way they match certain characteristics, managers can simplify their competitive environment and are able to appreciate the likely activities of a newly grouped competitor. They do this by drawing inferences from the characteristics of other competitors in that category (Kiesler and Sproul 1982). Without this mental categorisation process, managers would be overwhelmed analysing large numbers of ambiguous and uncertain situations.

We sought to add to the sparse empirical literature about managers' perceptions of the competitive environment and posit that:

H1: Managers simplify their understanding of the competitive environment by grouping related competitors.

Managers' and Economists' Views About Competitive Industry Structure

Porter (1991) argues that when managers formulate a competitive strategy, they should identify the competitors constituting their industry. The problem is appreciating which firms constitute an industry. Economists typically consider industry structure in terms of firms sharing similar technological production characteristics, or on the basis of product substitutability, or the materials processed (Triffin 1962). However, managers may not be aware of all the subtleties about materials, products or technologies. They are attentive to only part of the information (Kiesler and Sproul 1982; Porac et al 1987). As such, their views about the structure of the industry might not include all the firms in the

economist's definition.

Two pieces of research are illuminating. Gripsrud and Gronhaug (1985) focused on a Norwegian town, in which there were 51 grocery stores. Interviews with grocery store managers showed that the highest number of named competitors was seven, with managers on average naming just over three competitors. Likewise Easton (1988) found that managers in four industries have a much reduced view of competition than that of the economists definition. A parallel to these findings is Howard and Sheth's (1969) concept of the "evoked set", which Woodside (1987) has shown applies in industrial markets. As managers have limited cognitive capacities, they do not carry all competitors in their minds. Rather, they focus on a subset, referred to as their evoked set.

We set out to test the hypothesis,

H2: Managers consider only a limited subset of competitors as constituting their industry.

Managers' Similar Perceptions about Competition in their Industry

Several authors argue that managers working in the same industry, or the same firm, should have similar belief structures. If so, we propose that they should also have similar perceptions about the nature of the competitive environment.

Spender (1989) considers each industry as having its own "recipe", ie a set of beliefs and assumptions common to most managers. Viewing the firm as a body of knowledge, managers build on unspoken assumptions to analyse and respond to new opportunities. The process of social interactions within the firm leads to mutual expectations which, when confirmed, are treated as social understandings. While the recipe encourages a convergence towards similar beliefs, there may be some individual difference as, "the recipe is open, incomplete, ambiguous and in need of interpretation" (p7). Grinyer and Spender (1979) argue that with trade associations and trade magazines acting as good communication channels between firms, ideas diffuse between managers in the industry, resulting in common beliefs. It should be noted though that communication passing through multiple channels is subject to perceptual distortion, encouraging the possibility of some differences.

Huff (1982) argues that the firms constituting an industry represent a pool of experience, which each firm draws on to make sense of the external environment. Firms learn from each other's experiences and adopt their strategies accordingly. Managers do not have the breadth and depth of experience to form unique views. Instead, they exchange and mutually build an understanding of their external environment.

Through this pool of shared experiences, managers from competing firms should, she argues, have common perceptions, or "interlocking metaphors" about the external environment. Porac et al (1989), from a cognitive enactment model, argue that there should be similar "group level" beliefs between managers in different firms.

From the preceding reviews, we anticipated a hierarchy of similarity between managers' beliefs and assumptions about the external environment. The greatest similarity may be expected between managers in the same firm, then between managers from competing firms in the same industry. Thus, we posit that:

H3: Managers in the same firm will have similar perceptions about the composition of competition in their industry.

H4: There will be a greater degree of perceived similarity about the composition of competitors between managers in the same firm, than between managers in different firms.

Methodology

We focused on manufacturers of pumps for the off-shore North Sea oil industry. This selection was made as there are many competitors and the market leaders do not have an exceptionally high market share. It is also a tightly defined market in terms of products, geographical scope and end users.

A convenience sample of 10 firms was selected, including both major and minor competitors. A letter was written to the Managing Directors of each firm, seeking their co-operation to interview them and those nominated as having responsibility for formulating and implementing strategy. Five firms participated, one of whom was perceived by all of the others as being one of the largest competitors. A total of 24 senior commercial managers were interviewed between May and July 1992. Of the 23 who provided details about their working career, their average experience of working in the pump manufacturing industry was 11.2 years.

A semi-structured questionnaire, built around a card sort technique (cf McKeown and Thomas 1988), was administered. Each manager was asked, and probed, to name their competitors which were written on cards, along with their firm. These were shuffled and returned with a request to place them on their desk to give a picture of which firms compete most closely with each other. While the data could have been analysed in a myriad of ways (eg developing and comparing managers' mental maps), this is outside the scope of this paper, but will be documented as this research programme progresses.

Results

(i) Managers' mental groupings

Hypothesis 1 proposed that managers simplify their competitive environment by grouping related competitors. If this is not to be refuted, they should be able to quickly undertake this exercise with ease and form groups of competitors (Bower and Clapper 1989).

All completed this in a short period of time, typically less than 30 seconds. None found this demanding and all were able to arrange named competitors into a few groups. Due to the ease with which managers were able to group their named competitors, we believe we were observing managers simplifying their competitive environment through the use of mental grouping. The ease and speed with which they did this suggest that they were not facing a new problem, but rather were recalling from memory a categorisation pattern. Amongst these managers, we accept H1.

(ii) Managers' definition of their industry

Hypothesis 2 proposed that managers' only consider a subset of competitors as constituting their industry.

In this industry, there are at least 24 competitors. However, table 1 shows that only one manager mentioned as many as 11 different competitors and none came anywhere near this objectively defined industry. On average each manager named 5.3 competitors. Table 1 thus supports hypothesis 2

TABLE 1
DISTRIBUTION OF NUMBER OF NAMED COMPETITORS

Number of competitors	Number of managers
0-1	-
2	1
3	3
4	6
5	5
6	1
7	6
8	-
9	1
10	-
11	1
	24

(iii) Intra and inter firm industry views

Hypothesis 3 posits that managers in the same firm will have similar perceptions about the composition of competition in their industry. This was tested using Cochran's Q test (Hays 1988). Table 2 shows that within each of the 5 firms where interviews were undertaken (coded B, C, D, F and M), and across all 24 managers,

there are statistically significant disagreements about which firms are competitors. This refutes H3.

TABLE 2
COCHRAN'S Q TEST FOR PERCEIVED COMPETITORS

Analysis	Cases	Q	df	P
Within firm B	6	87.02	23	0.001
Within firm C	3	52.76	23	0.001
Within firm D	3	53.51	23	0.001
Within firm F	5	64.98	23	0.001
Within firm M	7	76.66	23	0.001
Across all managers	24	158.37	23	0.001

The extent to which managers have differing views can be appreciated from table 3. In firm B, of the 12 spontaneously named competitors, only 2 were mentioned by all the team. Of the 7 spontaneously named competitors, cited by managers in firm C, the team only unanimously agreed on 2 competitors. In firm D, where 6 competitors were mentioned, only 2 competitors were common and in firm F, only 1 competitor, was common to the team. None of firm M managers mentioned a common competitor.

TABLE 3
NUMBER OF MANAGERS IN EACH FIRM CITING A PARTICULAR ORGANISATION AS A COMPETITOR

No Managers Competitor	Managers in firm:				
	B	C	D	F	M
A	6	3	2	5	1
B	N/A	3	3	4	3
C	2	N/A	3	3	1
D	1	2	N/A	3	2
E	4	-	-	2	3
F	1	-	2	N/A	5
G	-	-	-	-	5
H	6	-	-	1	4
I	3	-	-	3	1
J	4	2	-	-	2
K	-	-	-	1	-
L	-	-	-	2	-
M	-	-	-	1	N/A
N	-	2	-	-	-
O	1	1	1	-	-
P	-	-	-	-	1
Q	-	-	-	-	1
R	-	1	-	-	-
S	-	-	1	-	-
T	-	-	-	1	-
U	-	-	-	1	-
V	1	-	-	-	-
W	1	-	-	-	-
X	1	=	=	=	=
Size of industry structure	12	7	6	12	12

Hypothesis 4 anticipated a greater degree of perceived similarity about the composition of competition between managers in the same firm, than between managers in different firms. From table 3, within the 5 firms where interviews were undertaken, in 4 of these, at least one competitor was always common to all managers in that particular firm. Across the 5 firms, no one competitor is ever mentioned by all managers. Hypothesis 4 is not refuted.

Conclusions

The speed with which managers were able to sort competitors into a low number of groups suggests that managers do take advantage of the simplification process of categorisation. All the managers made sense of their competitive environment by having mental maps.

Managers do not define their industry in the way of economists, considering all firms with similar technological production characteristics, or materials processed, or easily substitutable products. They are not attentive to these details and, with limited cognitive capabilities, consider only a subset of the economist's "industry" definition.

From a cognitive perspective it is inappropriate to talk about "the" industry, since views varied between managers. Within each firm there is evidence of managers perceiving a common core of competitors, but beyond this, each manager has a different perspective as to the competitive structure of the industry.

Firms are characterised by differing degrees of managerial perceptions about the nature of competition. Within each of the five firms, there was a low level of agreement among managers as to industry structure. When comparing perceptions across managers from different firms, even less similarity was noted - in fact none of the managers saw the same firm as being a common competitor.

There are several managerial implications. First, management teams would be wise to assess the consistency of their perceptions about the nature of competition. Any differences should be openly discussed. In so doing any tension within the management team can be relieved and a greater commitment achieved for a particular positioning strategy, benchmarked against agreed competitors. The extent of competitive threats can also be better appreciated through agreeing who are core and secondary competitors.

Secondly, the management team need to clarify their own views about which competitors are most similar and why. While there may well be a few competitive categorisation dimensions that are common between managers, by making explicit individual views, the team can discuss why there are any differences and, in light of this, assess the appropriateness of their firm's

positioning strategy. This issue is the scope for our continuing research programme.

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INFORMATION EXCHANGE IN BUYER-SELLER RELATIONSHIPS

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Abstract

Buyer-seller relationships on industrial markets often are characterized by a complex communication pattern. Efficiency and effectiveness in such a relationship is very much dependent on the quality of the exchange of information. This paper explores the nature of the information exchange, identifying three important roles of communication; coordination, control and learning. It is shown by examples how improvements in information exchange can affect the performance of the buyer and the seller and, thus, increase the quality of the relationship.

Introduction

Buyer-seller relations on industrial markets often are of a long-term nature (Gadde & Mattsson 1987). The relationships of a company, therefore, should be considered as important investments. The establishment and utilization of that investment will create an extensive contact pattern between the buying and selling company. These contacts involve various categories of personnel, which are in need of information from each other. In total a very complex communication pattern characterizes a buyer-seller relationship. Håkansson & Wootz (1978) found that considerably more than half of the working time of purchasing staff was devoted to various forms of communication (telephone, face-to-face conversation, meetings etc). More than twenty per cent of the total working time was used for contacts with suppliers.

The aim of this paper is to explore the characteristics of the exchange of information in a buyer-seller relationship and analyse how improvements in the information exchange can promote the performance of the buyer and the seller.

Relationships and the Roles of Communication

Relationships between industrial buyers and sellers were first observed as an empirical phenomenon (see for example Håkansson, ed 1982), but has successively become regarded important also from a theoretical point of view (Dwyer et al 1987, Narus & Anderson 1987, Turnbull & Valla 1986). The relationships, however, can not be regarded as isolated dyads, instead they should be considered embedded into other relationships, i.e. as parts of networks (Grabher, ed 1993, Ford, ed 1990).

For an individual company, relationships within a network structure can be seen as mechanisms to achieve three important effects (Håkansson & Snehota 1993). The first one is connected to the activity structure of the network. A company can increase its efficiency in performing activities by improving the linkages to important counterparts. Every company is conducting a number of activities (manufacturing, product development, distribution etc). These activities are more or less dependent on activities performed by counterparts of various kinds (suppliers, customers, etc). Development of relationships with other firms, therefore, is a mechanism to handle these dependencies as long-term relations will make it possible to better link activities to each other.

The second important network dimension is the resource structure. Every company has a certain amount of resources under its own control. The value of these resources is dependent on how they are combined with resources that are controlled by others. The efficiency in the utilization of the resources, therefore, is very much due to how they are tied to resources of other companies. By establishing relationships to other companies a firm can make use of other resources, e.g. through transfer of knowledge.

The third dimension of the network regard the actor structure. A company has a certain position or identity in the network, based on its relations and bonds to other companies. One important type of bonds are the social bonds which are established through the development of mutual trust between the actors. A relationship, therefore, can serve as a basic mechanism for affecting the identity of a company, by influencing the relation to other actors.

We have, thus, identified three important roles of buyer-seller relationships in industrial networks. They can link activities to each other, they can tie resources to each other through transfer of knowledge, and they can affect the identity of a company by influencing other companies.

In all these aspects exchange of information will be an important prerequisite for obtaining the potential benefits from a relationship. The linking of activities will require exchange of information between the actors to achieve the coordination that is necessary. The first role of communication, therefore, is the coordination role. The second one deals with efficiency in resource utilization which is improved through sharing of resources. Transfer of knowledge between actors will require exchange of information

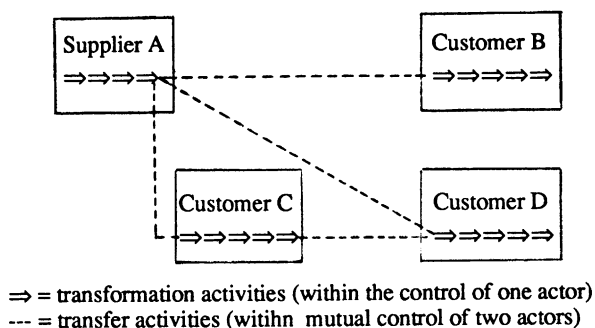
- we call that the learning role of communication. The third role of communication is the controlling role. By that we mean the exchange of information that is necessary to influence other actors in such a way, that the identity of a company will be strengthened in one way or another.

The Role of Coordination

The first communication role is the one of coordination. In most industrial networks specialization has increased over time, meaning that companies have concentrated their activities more and more to limited parts of the total production chain. The change has resulted in increasing efficiency when carrying out these activities per se. However, it has also increased the need for coordination of the activities performed by the various companies. The need of coordination has increased due to two factors. Firstly; due to the specialization, every manufacturer now is to an increasing degree relying on flows of materials and components from specialized suppliers instead of producing them in-house. The suppliers of the manufacturer must be well informed about the ongoing activities as well as of those planned by the buying company, which in turn is dependent on similar information from suppliers.

Secondly; as the various companies have enhanced their specialization, there is an increasing need in general to develop integrating or linking mechanisms between them. These coordination needs are illustrated by Figure 1. The supplier A has three customers B, C and D. The activities taking place within the companies are called transformation activities. The customers has due to an increasing specialization different demands on the supplier. To make it possible for them to use the same supplier there is a need for activities to overcome these differences. These activities are called transferring activities. The transferring activities need to have some linking quality. The linkage can regard technical attributes or activities in the material flow or the administrative flow.

FIGURE 1
ACTIVITY INTERDEPENDENCE



Information is an important tool in coordination of activities. A very obvious example is the reductions of inventories that has been undertaken by many companies. More accurate and reliable information systems have decreased the demand for buffers. Just-in-time manufacturing has increased the need to provide suppliers with accurate information concerning future deliveries and demand. We can see, thus, a trade-off between different kinds of resources. By developing more efficient communication and transportation systems, companies have been able to reduce inventories and, thus, tied-up-capital.

An illustration of this role is given in Roos (1988). The example shows how Volvo has been able to reduce inventories substantially for some specific items, through deepened supplier relations and more efficient exchange of information. A number of adaptations undertaken by Volvo and the suppliers made it possible to decrease inventory levels in three warehouses substantially (reductions ranging from 30 to 65 percent). These reductions were possible to attain in spite of the fact that the volume purchased increased by more than a third when Volvo cut the number of suppliers. Moreover, delivery times were substantially reduced and delivery reliability considerably increased.

One of the most important factors in this change process was the improvement in the communication process. The improvements regarded not only Volvo and the major supplier, but was extended also to the supplier of the supplier and even further on in the activity chain. The changes were partly of a technical nature - computers, fax and telex were used at an increasing rate instead of letter and phone calls. This shift increased the speed of the information flow, but also the accuracy.

The Role of Learning

Relationships can be used as a mechanism to aquire and develop knowledge. The corresponding communication role is the one of learning. Two important conditions for a succesful learning to take place in an industrial company are identified by Håkansson (1993). One of them is a certain stability in the relationship to the counterparts. The other one is that a certain variability in the characteristics of the relationships are required. A set of connected relationships can create such a combination if the combination within and between the relationships is functioning in an appropriate way. The information exchange must be directed towards transfer of knowledge, as well as towards creating a dialogue where different knowledge bodies are confronted with each other. The most obvious dimension of learning regards technology and technological development, but also manufacturing and management techniques, as well as marketing capabilities might be relevant aspects of learning.

Donaghu & Barff (1990) describe how Nike, the American foot-wear producer, very actively tries to transfer various capabilities to the suppliers. Nike's production system is entirely based on out-sourcing to different kinds of suppliers and subcontractors. Improvements in the performance of this industrial network will require that Nike shares its knowledge and resources with these suppliers. One way of doing this is an "expatriate programme" wherein technicians from Nike become permanent personnel in supplier factories. Suppliers are also encouraged to participate in joint product development activities. Some suppliers in low-cost countries have a very limited competence. It is important, therefore, for Nike to increase the capability of these factories to meet the global standard of Nike. In the process of doing so, also the more advanced Nike suppliers take part. Many establishments of Nike operations in low-cost countries take the form of joint-ventures between Nike, one advanced and experienced supplier and a local firm with limited resources and technological competence. Due to the joint venture agreement it will be interesting for the advanced and experienced supplier to transfer technology and knowledge to the less experienced partner.

Another illustration of the learning role regards Motorola (Cayer 1988). Motorola is a well known example of a company promoting quality. Training and education of the employees in new techniques for manufacturing, design and quality control have been important components of the internal quality programme. The major effects for Motorola, however, were not attained until the training programmes were extended also to suppliers. Due to Motorola's dependence on suppliers, one company representative stated that suppliers "affect quality more than any other factor in the equation except for design". Today, it is a prerequisite to take these programmes for a supplier to keep its position in the Motorola network.

The Role of Control

Linking activities and tying resources to each other will require that buyer and seller make certain adaptations to the counterparty. A characteristic of the buyer-seller relationships we are dealing with is that most actors are independent of each other regarding ownership. There is, thus, only seldom that one actor can force another one to certain kinds of adaptations. In the short run the activity dependence discussed earlier might create power imbalances that makes it necessary for one actor to subordinate oneself to a more powerful counterpart. In the long run, however, it will always be possible for the less powerful actor to make a reorientation towards other counterparts if the present ones are perceived to be unsatisfactory.

Therefore, the desired effects of relationships in terms of coordinated activities and sharing of resources must be based on mutual trust between the actors, rather than on exploiting power bases of various kinds. If a buyer-seller relationship is characterized by mutual trust it will be possible to influence the other actors in a way that is beneficial for both parties in a dyad. Developing trust in a relationship will put substantial requirements on information exchange. This leads us to the third role of communication. We refer to this role as the controlling role and it has to do with influencing other actors.

One illustration of the controlling role is provided by Eriksson & Håkansson (1990). They show and discuss how a manufacturer of pharmaceutical systems managed to change its own assembly operations by influencing the suppliers to change. The system assembled by the pharmaceutical manufacturer was based almost entirely on components purchased from suppliers. Originally only 20 per cent of the components were technically adapted to the system, while the remaining 80 per cent were purely standard products. The company decided to update and redesign the system, as quality requirements were increasing. One important means of enhancing quality was to obtain components that were well adapted to their function in this particular system. The companies that were suppliers of standard components for the original system received inquiries concerning the new technical specifications. The majority of the suppliers, however, turned out to be either unable or unwilling to meet the new requirements. Some of them were large companies and quite uninterested in adapting their standardized components to satisfy a relatively small customer.

Some of the existing suppliers, however, gradually became interested in adapting their products. For other components, the buyer had to turn to new suppliers and try to persuade them. The new technical specifications demanded by the pharmaceutical company was sometimes perceived by suppliers to be almost impossible to fulfill. One valve manufacturer, for instance, considered an idea of making a new type of valve, cast in one piece, to be absurd. After a lot of involvement of the technicians in the buying company it was possible to make the supplier see the advantages of the proposed design.

In this way the buyer had to influence a lot of suppliers to make adaptations. At the end the outcome was a new system that fulfilled the requirements with regard to design and quality. That version of the system consisted of 80 per cent specially designed or adapted components and of 20 per cent standardized components, i.e. a completely reversed situation compared to the old version of

the system. This example, thus, is a very relevant illustration of the controlling role of communication.

Discussion

Our three examples have shown that information exchange is an important tool when using relationships to improve performance in industrial networks. Volvo was able to rationalize the total activity structure by moving activities to and from suppliers and link these activities better to each other. One important factor in this process was to change the way that information was exchanged.

Other important areas for coordinating actions are for instance in distribution/transportation and product development. The introduction of JIT-manufacturing has put pressure on coordination of various transportation activities as well as on coordination between transportation and production processes. In product development activities, suppliers have come to be more and more important cooperative partners. To be able to shorten product development cycles, manufacturers have tried to integrate suppliers in their product development programmes. These new arrangements call for a number of coordination activities between buyer and seller (see for example Raia 1988).

The learning role was illustrated by Nike and Motorola. As was shown, transfer of knowledge between an actor and its counterparts is very important for keeping the network as a whole competitive. In the Nike case this transfer was stimulated due to an economic interest through common ownership. In the Motorola case it was organized through compulsory training programmes and seminars. The major part of knowledge, however, is transferred in more informal ways, through small pieces of information over long periods in the regular contacts between various actors in the companies.

The controlling role was illustrated by the pharmaceutical company that finally succeeded to affect some suppliers to major adaptations. Such adaptations where a company can influence others are very important for the performance of industrial relationships and networks. In many industries production facilities need to be adapted to each other. Establishment of joint transportation systems and integrated communication links are other examples of cooperation that are supposed to affect efficiency and effectiveness. In all these situations one actor has to influence others to be able to achieve the potential benefits. As mutual trust is a prerequisite for such adaptations information exchange is a crucial factor.

It is obvious, thus, that developing relationships to important counterparts should be an important strategic aim for a company. By deepened relationships it will be possible to improve the links of the company activities to the activities undertaken by other actors. Relationships will also serve as a mechanism for tying the resources of the company to the resources of other actors. Furthermore, relationships are important as they can help to influence the identity of the company by creating bonds to other actors. In all these aspects exchange of information is an important determinant of the quality of the relationship.

So far, however, it seems as if many companies not yet has realized the potential benefits arising from well developed relationships. The ability to make use of them also differs a lot. Galt & Dale (1991) found that some customers communicated with their suppliers in a way that was characterized as "abysmal". On the other hand one of the companies stood above the rest. This firm had established "an excellent network to ensure that suppliers are assisted in every reasonable way to meet the buying firm's procurement requirements" (p.19). At the other end of the spectrum no well-defined communication strategies from the buying firms could be observed. Most communication tended to be supplier-driven and "it appeared that even this activity was discouraged as much as possible" (p. 19). Only four of the ten companies in the study conducted any form of training of their suppliers which indicate a substantial potential for improvements.

Conclusions

The analysis of the three roles of communication has shown that information exchange has clear strategic implications. It seems also as if companies differ very much in their ability to promote supplier relationships through communication. Our discussion has shown that the quality of the information exchange is an important determinant of the ability of the relationship to serve as a mechanism for linking activities, tying resources and creating actor bonds.

When dealing with strategic consequences concerning information exchange we also have to consider the nature of information. Gadde & Håkansson (1993) identify three major types of information that are important in a buyer-seller relationship from the perspective of the purchasing company - technical, commercial and administrative information. Technical information concerns the technical aspects of the product or service that is exchanged. Commercial information is information that is used in the evaluation of the various

suppliers when a purchasing decision is taken and regards which supplier alternatives that are available and the conditions for dealing with them. Administrative information is the information that is exchanged in a specific business transaction (orders, documents, etc). Efficiency and effectiveness in communication will require that these different types of information are exchanged in a rational way.

We can combine the perspectives regarding the nature of information and the role of communication according to figure 2, from which we will discuss the most relevant dimensions.

FIGURE 2
INFORMATION EXCHANGE DIMENSIONS

Roles of communication	Nature of information		
	Technical	Commercial	Administrative
Coordinating	1	2	3
Learning	4	5	6
Controlling	7	8	9

The learning and influencing roles are most important regarding exchange of technical information (4 and 7 above). It is obvious that the mutual trust that is necessary for transfer of knowledge and adaptations of various kinds will require a substantial amount of personal contact. Only occasionally will it be possible to use a more standardized way of transmitting this kind of information. One example is that video tapes and interactive video training can be used in supplier training programmes.

One important aspect of commercial information is the various kinds of business negotiations that takes place within a buyer-seller relationship. Such negotiations are part of the controlling role (8). Also that kind of communication has to take place through personal contacts - at least in its final stages.

Exchange of administrative information, on the other hand, usually does not require personal contact. On the contrary, a number of advantages are obtained if this kind of information can be standardized and exchanged by the use of information technology. Using information technology will improve the quality of the exchange both with regard to speed and accuracy. As is shown by Gadde & Håkansson (1993) it is very clear that it is within coordination of administrative information (3), that information technology has found its most significant applications so far. Substantial rationalizations can be obtained in the administrative flow as well as in the material flow by the use of IT.

There is also another clear benefit from the use of information technology for this kind of communication. When seller and purchaser meet in person they will not be busy with booking of orders and discussing delivery schedules. Instead the limited time available can be devoted to discussions and analysis of a more strategic nature. As has been shown in this paper the quality of the information exchange is an important determinant for the substantial benefits that can be obtained from a deepened buyer-seller relationship if it is handled in a proper way.

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STRATEGIC VERSUS OPPORTUNISTIC SOURCING: AN EXPLORATION

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Abstract

International sourcing is becoming a critical aspect of international marketing. In this article the authors discuss international sourcing from two different perspectives. First, international sourcing is done to take advantage of existing opportunities in international markets. Second, international sourcing takes place in an effort to implement a long-term corporate strategic plan. In both cases, however, international sourcing may improve the firm's competitive advantage. The authors maintain that there are eight factors behind international sourcing decisions. Results of a preliminary study are also presented.

International Sourcing: A Necessity?

More and more international firms are buying their raw materials, parts, semi-finished components and other supplies from overseas suppliers. Because these play an important role in the price and the quality of finished products, international sourcing is becoming a very widespread marketing function. It is not, however, clear if these firms are engaged in international sourcing because of their opportunistic tendencies or long-term strategic reasons. In other words, it is reasonable to assume that some firms are in international sourcing because they find real bargains and have many great opportunities, in the short-run, whereas others use international supplies as part of their overall long-term strategic plan.

Because of their overseas exposure many companies are in a very good position to take advantage of special opportunities that may occasionally appear in international markets. They are well situated and well informed regarding the availability of cost advantages, special bargains and unexpected price reductions of international suppliers.

Other firms, however, may consider international sourcing as part of their competitive edge. If these firms consider international sourcing as part of their competitive edge, then they may include it in their long term strategic plans rather than assigning simply an opportunistic status to international sourcing. This may mean international sourcing is one of their strategic tools to produce a superior product or deliver a superior service leaning toward establishing a competitive edge in their markets. It is important to determine the role of international sourcing as it takes place in international marketing decisions and in strategic plans. This clearly identified role of international sourcing would lead to different purchase and/or sales strategies.

This paper attempts to examine the role of international sourcing in marketing plans by analyzing the reasoning behind international sourcing. Then, the results of a preliminary study are reported to confirm and/or explain further the current status of international sourcing.

Reasons for International Sourcing

There are at least eight key reasons for international sourcing: (1) price, (2) quality, (3) availability, (4) advanced technology, (5) personal connections, (6) delivery, (7) countertrade, and (8) overseas offices.

Price

Many international firms are realizing that they can purchase some of their required materials overseas at a lower price than can be purchased domestically. This is an important consideration for such firms as General Motors which spends in excess of 50 percent of its sales dollars on purchased components (Pooler 1987a). It is approximated that in the U.S. about 55 percent of sales revenue is paid to outside suppliers by the firm. International sourcing is receiving an increasing share of this overall outsourcing process. Despite the higher cost of the purchase transaction and shipping costs, the overall cost can still be lower. Machine tools is an area that has experienced a 25 to 30 percent savings from Japanese compared to domestic sources (Franceschini 1987). For a firm with a five percent net profit, a dollar saved in purchasing has the same profit impact as a \$12.50 increase in sales revenue. Factors that cause more competitive prices include lower labor rates and more efficient equipment and manufacturing processes. The foreign supplier may be producing at higher levels of capacity which allow for a lower piece price. Furthermore, it may be less costly to purchase the complete product from a foreign source as opposed to purchasing only the components and assembling the product in the U.S. For example, a Japanese machine tool manufacturer is now sourcing complete low-technology machines from the People's Republic of China. This strategy has opened capacity in their plant for more sophisticated, higher margin products (Curtin 1987).

Lower prices from foreign sources may be due to the exchange rates, when the dollar is valued higher than the supplier's currency. Exchange rates become particularly important when payment for the goods is made in the supplier's currency and there is a lag between the time the contract is signed and payment is made. When the dollar is strong this lag can result in substantial savings for the buyer.

Quality

Many foreign suppliers have found ways to increase efficiency. They are continuing to develop advanced technologies in both manufacturing methods and in their final products. For example, from 1965 through 1985, Japanese machine tool manufacturers averaged seven percent annual improvement in productivity while their American counterparts did not gain an increase in their productivity (McGrath 1987). Along with increased productivity in many countries there is also a quality goal which is one of zero defect. Thus the quality control systems in these countries may be superior to that of American firms in the same industry. As Korea, other NICs (newly industrialized countries) and some other developing countries become more technologically advanced, they are able to insure higher quality and, in many cases, lower cost. General Binding Corporation (GBC) was initially forced to source internationally when its domestic suppliers could no longer meet the company's requirements for a critical component. Today GBC purchases components from suppliers throughout the Pacific Rim. Not only does the company materialize 30 percent savings on these components but it also believes that it is getting higher quality goods than it has been obtaining from its domestic sources (Cayer 1988ab).

Availability

Some companies procure internationally to obtain materials or components that cannot be acquired in the United States. For instance, there are several minerals including chromium, manganese, platinum group metals, and cobalt which can only be obtained from foreign sources. In fact 22 of the 36 minerals considered strategic by the U.S. government must be bought from foreign sources (Dobler et al. 1990). Furthermore, perceived shortages in steel and similar items stimulated overseas sourcing (Dowst 1986). Finally, there are components which cannot be produced efficiently by domestic companies which further encourage international sourcing.

Advanced Technology

Some technologies particularly those in the electronics field, may be more advanced overseas than those found in the U.S. For instance, Japanese steel makers are developing technologies to counter the sluggish steel market. These include continuously cast carbon steel strip made cheaper than by conventional melting, casting and rolling processes, and rust-resistant, alloy-coated and electrogalvanized sheet for automotive applications (Purchasing, May 21, 1987).

Another factor which is increasing the use of foreign sources is the shortage of skilled labor among small U.S. manufacturers. As stated by the National Tooling and Machining Association, "Our day-to-day contact with thousands of shop owners across the country suggests that contracts for work in the United States are at the point of being sent abroad because these small businesses

cannot find the skilled labor then need" (Purchasing, September 14, 1989).

Personal Connections

Many companies that already have overseas operations or are presently involved in international sourcing have also established personal connections which are invaluable particularly in industrial marketing. However, such personal connections also lead to opportunistic sourcing. If the U.S. firm is purchasing from an international source, because of the personal connections this sourcing activity can increase or change suddenly. This type of sudden changes or increases are not likely to have strategic implications in terms of implementing a carefully planned long-term strategy.

Delivery

Foreign sources, in some cases, may be more dependable than domestic sources. For example, steel buyers have had problems in the area of quality and delivery from American suppliers. A Cleveland buyer states that when he orders foreign made steel the lead times are long but it is delivered when promised, while the American companies promise 10 to 14 weeks and deliver in 12 to 20 weeks (Purchasing, August 17, 1989).

International sources are often used to round out a firm's supplier base. In order to enhance the reliability in delivery a firm may have to obtain a foreign source. In certain industries, domestic suppliers become more aggressive in both their pricing strategy and product quality to compete with the foreign suppliers.

Countertrade

Exchanges in goods instead of cash is an important stimulant of international sourcing. There are at least 90 countries which require some form of countertrade in their international transactions (Buddress 1988). In 1983, worldwide countertrade was approximately \$150 billion per year, or eight percent of the total volume of world trade. In the event a U.S. firm wants to sell its products in a foreign country which does not have hard currency, it must consider whether that country has certain raw materials or components that can be used by its firm.

In some cases the firm may decide to build a plant for the manufacturer of components or finished goods in overseas. Several U.S. semiconductor firms, for instance, have assembly plants in Singapore, including AT&T, Fairchild Semiconductor, and General Motors. These companies have been attracted to Singapore because of low labor rates, and political and social stability (Nahabit). In such cases, some degree of countertrading is inevitable.

Finally, many foreign countries require that a firm purchase materials from that country in order to sell U.S. products there. This reciprocity restriction may include everything from imposing tariffs to not allowing the U.S.

firms to be included in government bid lists. These countries have local content requirements to gain a foreign exchange advantage or acquire foreign technology and to encourage growth in their domestic markets. However, many of these restrictions lead to a variety of countertrading practices.

Overseas Offices

The company's overseas offices are very instrumental in instituting international sourcing. Companies may find it quite convenient to source internationally if they have offices overseas and these offices have access to local industries. Although overseas offices may have been established for other reasons such as selling in that market, assembling there, etc., it becomes almost natural to expand international operations to include many phases of sourcing. However, it is also reasonable to consider the fact that overseas offices are mainly a part of long range plan and as such it may lead to strategic sourcing.

Strategic Versus Opportunistic Sourcing

Exhibit 1 illustrates the eight factors behind international sourcing and attempts to break them into two categories: strategic and opportunistic. Of the eight factors discussed above, three perhaps can be considered for both purposes. These are pricing quality, and overseas offices. It is possible to proceed with international sourcing on the basis of finding or taking advantage of various low price offers around the world. However, it is equally feasible that the firm is using one of Porter's (1980, 1985, 1990) "generic" strategies, i.e., pricing in an effort to establish an international competitive edge.

Similarly, quality can be a part of a strategy to establish and maintain a competitive edge. Companies can be into international sourcing from this possible perspective. The operative concept here is competitive advantage which implies the use of international sourcing as a strategic weapon in the long run. However, it is also possible to use quality as an opportunity which already exists. Finally, a firm may develop overseas offices as part of its future plan for enhancing its competitive edge. However it is quite feasible that those firms that already have overseas offices may succumb to temptation of buying bargains and hence exercising opportunistic sourcing.

Beyond these three factors, Exhibit 1 indicates that advanced technology, delivery, and countertrade are primarily strategic factors. Similarly the exhibit classifies availability and personal connections as opportunistic factors. It must be reiterated that all of these eight factors can be truly opportunistic and similarly they can be strategic. However their typical use are perceived to be as presented in Exhibit 1.

In terms of advanced technology, delivery, countertrade and overseas offices it is assumed that these difficult and costly considerations

are all parts of a longer-run game plan and are not acted upon in order to increase opportunistic sourcing solely.

Exhibit 1
OPPORTUNISTIC AND STRATEGIC REASONS
FOR INTERNATIONAL SOURCING

	Opportunistic Reasons	Strategic Reasons
Price	++	++
Quality	++	++
Availability	+	-
Advanced Technology	-	+
Personal Connections	+	-
Delivery	-	+
Countertrade	-	+
Overseas Offices	++	++

++ Dual reasoning

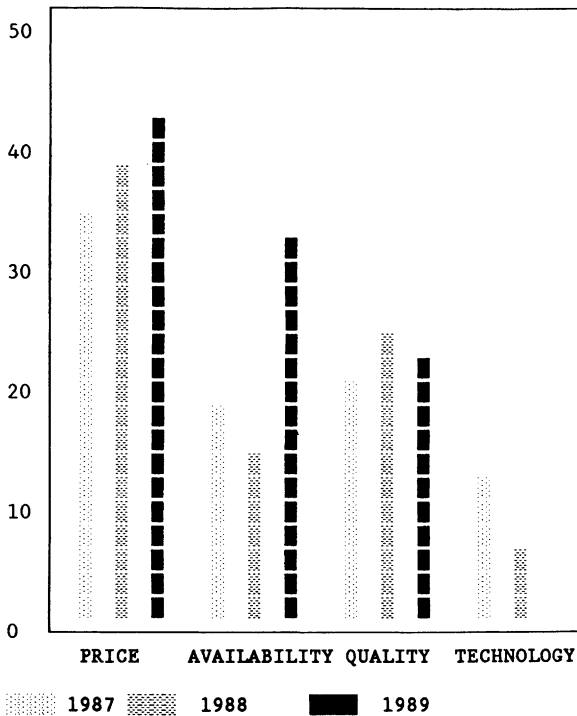
Recent Trends

Exhibit 2 illustrates some of the major reasons for international sourcing in recent years among American firms. As can be seen, while technology and quality are becoming less important as sourcing factors, price and particularly availability are becoming more important. These trends indicate a tendency toward more opportunistic than strategic sourcing. If quality and technology factors were to increase along with price, then it would have been easier to stipulate that price is used in conjunction with strategic sourcing. However, since quality and technology factors have not been increasing, the fastest growing international sourcing factor namely price is likely used in opportunistic sourcing. In order to determine if the national trends are applicable at the local level, a small preliminary study of international sourcing was undertaken in Northeast Florida, U.S.A.

Preliminary Study Results

A group of ten companies that are known to be engaged in international sourcing were contacted. The executives who are directly involved in international sourcing were interviewed on the phone. Each interview took about 25 minutes. Only two of the 10 respondents imported more than 10 percent of their purchases from overseas. While four reported an increase in their international sourcing five indicated that it has remained the same since the program was initiated. All of the respondents have been involved in international sourcing for more than two years. Nine have been sourcing internationally for over five years. They mostly purchased from Western Europe and Scandinavian countries.

Exhibit 2
REASONS FOR INTERNATIONAL SOURCING



Sources: *Purchasing*, June 25, 1987; January 28, 1988; November 9, 1989.

Perhaps the most important finding of this exploratory study was that the respondent companies have initiated their international sourcing programs because of availability (7) and price (3). Thus, the local picture also appeared to be moving in the direction of opportunistic sourcing. When the respondents were asked the reasons for their international sourcing, the same findings prevailed with, perhaps, a slight shift towards strategic sourcing (Exhibit 3). Exhibit 3 indicates that during the past five years or so technology started playing an important role for some of the respondents, thus it is likely that they are switching to strategic sourcing. Those who are moving in this direction expected that their international sourcing activity is likely to increase.

Conclusions

International sourcing is an important phenomenon which is attracting more and more attention and gaining momentum. There are at least eight key factors which necessitate or facilitate international sourcing. These are: (1) price, (2) quality, (3) availability, (4) advanced technology, (5) personal connections, (6) delivery, (7) countertrade, (8) overseas offices.

It is argued that international sourcing could be opportunistic as well as strategic. While price, quality, and overseas offices can be the key

Exhibit 3
REASONS FOR SOURCING INTERNATIONALLY

	I	II	III	IV
Price	1	3	2	4
Quality	3	3	0	4
Availability	6	1	1	2
Advanced Technology	2	3	2	3
Personal Connections	1	1	2	6
Delivery	1	0	3	6
Countertrade	0	0	1	9
Overseas Offices	1	0	0	9

I Very Important # of Respondents
II Somewhat Important # of Respondents
III Neutral # of Respondents
IV Not an Issue # of Respondents

factors in both sourcing orientations, availability and personal connections are more in line with opportunistic sourcing. On the other hand, advanced technology, delivery, and countertrade can all be cited as factors leading in the direction of strategic sourcing.

Analyzing national trends indicate that there is a greater tendency towards being engaged in opportunistic sourcing rather than strategic sourcing. An exploratory local survey also indicates that much of the sourcing activity was originated because of opportunistic factors. However, those who have been in sourcing for longer periods of time are moving in the direction of strategic sourcing.

It is necessary, however, to point out that regardless of being opportunistic or strategic, international sourcing, on the whole, is likely to improve the firm's international competitive advantage. Much research needs to be undertaken if the competitive advantage is enhanced more or less if the firm uses strategic versus opportunistic sourcing.

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UNDERSTANDING DISTRIBUTORS' PURCHASE CRITERIA IN INTERNATIONAL INDUSTRIAL MARKETS:
DIFFERENCES BETWEEN HIGH-INVOLVEMENT AND LOW-INVOLVEMENT EXPORTERS

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Abstract

Understanding the elements driving the import decision making process is of major importance to the establishment and development of exporting activities. Nevertheless, a relatively small number of studies have dealt with the issue of import decision variables. The primary focus of this paper is an investigation of potential differences in perceptions of import decision variables between importers and two different exporter groups in terms of export involvement, within the context of a specific industrial product category. Firms involved in relatively high levels of exporting appeared to have developed a better understanding of those elements influencing the import decision of their overseas distributors, in comparison with low-involvement exporters. Managerial and public policy implications are discussed, and suggestions for future research directions are outlined.

Introduction

Examining the industrial marketing empirical literature suggests that the issue of purchasing firms' supplier selection criteria has primarily been investigated in the domestic market framework (Lehman and O'Shaughnessy, 1974; Dempsey, 1978; Cameron and Shipley, 1985; Shipley, 1985; Kassicieh and Roger, 1986; Shipley and Prinja, 1988; Shipley *et al.*, 1991). Relatively little attention has been paid to the study of supplier selection criteria in the context of international purchasing.

As a result of the tendency towards a global economic system and the reduction of trade barriers in most countries worldwide, international sourcing decisions have become increasingly important to firms' survival and long-term existence. The function of international purchasing is quite different from that of domestic purchasing, since it is affected by various factors unique to the international environment. Such factors include: foreign exchange rates fluctuations; complex documentation requirements; trade regulations; customs duties; cultural differences; complex payment procedures; and, transportation difficulties (Min and Galle, 1991).

In addition, it should be noted that the process of international purchasing decision making is of major importance from an exporter's point of view. It has widely been accepted in the exporting literature that the import process plays a vital role in the early stages of internationalization, where firms make no heavy commitments to foreign markets such as establishing sales subsidiaries or manufacturing operations abroad (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Cavusgil, 1980; Czinkota and Johnston, 1981; Katsikeas and Piercy, 1991).

Nonetheless, it has been found that a major problem experienced by firms in export markets is acceptance by importers (Angelmar and Prass, 1984). It may be reasonable to suggest that if exporting firms can identify the relative importance of choice criteria that importers use when making international supplier selection decisions, they could then design and implement effective export marketing strategies. The present study focuses on the investigation of supplier selection criteria within a specific exporter-importer relationship context. This refers to Bahraini distributors trading with UK export manufacturers of electronics and electrical products for industrial use.

Background And Purpose

The majority of studies, dealing with the purchasing side of the international trade equation, have focused on the role of 'country of origin' and the 'made-in' label in consumer evaluations of imported products (Gaedeke, 1973; Hampton, 1977; Bannister and Saunders, 1978; Bilkey and Nes, 1982; Kaynak and Cavusgil, 1983; Erickson *et al.*, 1984; Yavas and Tuncaalp, 1984, 1985; Johansson *et al.*, 1985; Han and Terpstra, 1988; Johansson, 1989). The rationale underlying the execution of these studies is that consumers' attitudes towards products from a foreign country can be a significant determinant of export development and success (Cavusgil and Yavas, 1987).

In a similar vein, Nagashima (1970, 1977) surveyed Japanese business executives' attitudes towards products made in selected foreign countries. His studies suggest that businessmen are characterized by patterns of stereotyping attitudes towards both consumer and industrial product classes. These attitudes, in turn, play an influential role in organizational buying decisions for particular products from specific countries.

Another stream of research has concentrated on the examination of perceptions of 'made-in' labels among channel intermediaries including importing firms. In a relatively early study, Tookey (1970) found that price was held in high regard in the decision of UK retailers to import knitwear products from developing countries. Rao's (1977) study reported that product quality and promotional support were of major importance for the Spanish importers' purchasing decision to trade with US exporters. Analyzing US purchasing managers' attitudes toward industrial products manufactured in five countries, White (1979) identified the existence of stereotypes for the products being traded by these nations. Cattin *et al.* (1982) also revealed significant differences between US and French purchasing directors of major industrial firms regarding their perceptions of five 'made-in' concepts. Similarly, Niffenenger *et al.* (1982) reported the existence of significant differences between UK and French retailers' attitudes toward US products. Another study by Ghymn (1983) suggests that the importance attached to the import decision variables by US companies is related to the exporter's country of origin.

The major premise of the above studies is that the country of origin has a significant effect on purchasing firms' assessments of imported products. Nevertheless, in these studies evaluation of foreign suppliers was based upon buyers' perceptions of the country of origin. No attempt was made to examine managers' perceptions of imported products on the basis of their experience with specific suppliers they traded with from the country of origin, thus minimizing the mediating effects of country stereotyping. Although empirical evidence suggests a strong relationship between attitudes toward countries and attitudes toward companies (Bradley, 1984), the mediating effects of country stereotyping may lessen the meaningfulness of research findings.

The issue of importers' perceptions of foreign products based upon their experiential knowledge of specific overseas supply sources was addressed in the research by Yavas *et al.* (1987), Leonidou (1988) and Kraft and Chung (1992). Specifically, Leonidou (1988) revealed that the import decision of developed country importers to trade with developing country export manufacturers was primarily influenced by several elements including: good value for money; high product quality; satisfactory ordering/shipping procedures; reliability/security of regular delivery and long-term supply; and, high level of mark-up. Investigating Saudi importers' evaluations of their overseas supplying firms from the US, Japan, England and Taiwan, Yavas *et al.* (1987)

found that these importers perceived significant differences in supplier attributes among the four national groups of exporters. Kraft and Chung's (1992) study indicated that Korean importers of industrial products rated Japanese exporters more favourably than their US rivals with regard to both the product offer and exporter characteristics.

Despite the clear contributions of these studies to the relatively limited empirical knowledge relating to the field of international purchasing, two limiting empirical considerations warrant discussion. First, research findings are based on data gathered among importers, thus reflecting purchasing firms' perceptions of those elements stimulating the establishment and development of trading activities with overseas suppliers. However, it is important to note that a key requirement for building sound international business relationships refers to the active participation of both importer and exporter (Hakansson, 1982; Narus and Anderson, 1986; Dwyer *et al.*, 1987; Hallen *et al.*, 1991). Either party's inability to understand what is important for the other member can have a negative effect on the development and maintenance of an effective interaction pattern between the two firms. Notwithstanding this, prior research on international purchasing has paid no attention to the extent to which exporters' perceptions of the importance of import decision variables are consistent with those held by importing firms.

The second limiting consideration is an extension of the previous issue and is connected with the process of exporter internationalization. Specifically, it refers to the lack of research analyzing exporter perceptions of import decision variables in relation to the degree of export involvement. Johanson and Vahlne (1977, 1990) have theorized that experiential export market knowledge generates export business opportunities and is consequently a driving force to internationalization. It follows that firms involved in distinctively different levels of exporting may differ in their ability to perceive the importance attached by overseas customers to those variables stimulating their import decision making process.

In view of this gap in the international marketing and purchasing literature, the primary objective of this study is to investigate the extent to which there are potentially significant differences in perceptions of import decision variables between importers and different classes of exporters in terms of export involvement. In order to accomplish this task, both importer and exporter groups are surveyed, while the distinction between 'high-involvement' and 'low-involvement' exporter categories is pursued.

Import Decision Variables And Export Involvement

Empirical evidence by Diamantopoulos and Inglis (1988) suggests that firms involved in relatively high levels of export activities are distinguished by larger numbers of export staff and better organized export departments, in comparison with those firms involved in relatively low levels of exporting. This, in turn, implies that the former group of exporters may have gained more internal capability to identify and evaluate the requirements of their overseas customers as compared to others. In the context of the present study, it may thus be reasonable to expect that manufacturing firms engaged in relatively high levels of exporting are more capable of understanding those elements driving the import decision of their overseas customers, compared to manufacturers characterized by relatively low levels of export involvement.

Methodology

Fieldwork focused on both Bahraini importers and UK exporting manufacturers of electronics and electrical products for industrial use. On the one hand, the UK is a major exporter of industrial products to Bahrain. On the other hand, electronics and electrical products constitute a major part of Bahrain's imports of industrial products, as they play an important role in the country's industrial development. The decision to focus on a specific exporter-importer relationship type and on firms in a single industry was made

to minimize significant inter-sample and intra-sample heterogeneity. It is suggested that such heterogeneity can lessen the meaningfulness of empirical findings, whether relating to cross-cultural research (Douglas and Craig, 1983; Cavusgil, 1984; Sullivan and Bauerschmidt, 1988) or being connected with industrial buying behavior (Lehmann and O'Shaughnessy, 1974; Shipley *et al.*, 1991).

In developing the study questionnaire, first, the relevant literature was systematically reviewed to formulate effective operational measures of the variables under study. Secondly, the final list of questionnaire items was developed with the help of four managers experienced in international business and two academics familiar with research on international marketing and purchasing of industrial products. Thirdly, the study questionnaire was initially formulated in English, was then translated into Arabic and, subsequently, was retranslated back into English by another bilingual to minimize potential errors arising from translation (Yavas *et al.*, 1987). Finally, both the exporter and importer versions of the questionnaire were presented and refined through personal interviews with four UK export manufacturers and five Bahraini importing distributors. Emphasis was placed on ensuring that the questions were relevant and phrased in a meaningful fashion, while maintaining compatibility between the two questionnaire versions.

Export involvement in this study was operationalized as the proportion of total sales accounted for by export sales, since it is a measure of the extent to which a firm is dependent upon export activity for its business (Diamantopoulos and Inglis, 1988). This operational approach is compatible with export involvement measures employed by other researchers (Czinkota, 1979; Makekzadeh and Rabino, 1986; Da Rocha *et al.*, 1990). Diamantopoulos and Inglis (1988) advocate that companies deriving more than half of their annual sales from export markets intuitively exhibit a high degree of dependence upon exporting, and vice versa. This would suggest that the 50 per cent level in terms of export sales contribution to total sales can be used to distinguish between 'high-involvement' and 'low-involvement' exporting firms. Moreover, it was found that the overwhelming majority of firms in the sample had exports-to-total sales ratio of either less than 35 percent or greater than 60 percent; while, no firm of those falling into the export ratio range from 35 to 60 percent was reported to have an export contribution close to the cut-off point of 50 percent. This in turn attaches a substantial degree of distinctiveness to the exporter categorization between 'high-involvement' and 'low-involvement' groups.

The two populations associated with this study included 112 UK manufacturers and 48 Bahraini distributors, and were identified from the current edition of the Arab-British Chamber of Commerce Directory. In view of the relatively small population sizes, all importing distributors and exporting manufacturers identified were asked to participate in the study. Personal interviews were employed to attain higher respondent participation and better quality data. In total, 35 importers and 66 exporters were interviewed, thus achieving response rates of 73% and 59%, respectively.

In the process of data collection, attention was paid to identifying and selecting the most appropriate individual in each case to provide the necessary information. An attempt was also made to minimize the chance of interviewer bias by employing a structured questionnaire. Interviewees were asked to indicate the importance of each import decision variable investigated on a five-point scale, ranging from "Not at all important" (1) to "Extremely important" (5).

However, it has been argued that data gathered from a single informant may introduce a considerable source-of-measurement error, due to the complexity of the behavioral judgements involved, positional bias, and ignorance of facts (Phillips, 1981; Phillips and Bagozzi, 1981). In an attempt to minimize the potential for systematic and random sources of errors, the guidelines provided by Butaney and Wortzel (1988) for using a single informant were strictly followed in this study.

The examination of potentially significant perceptual differences in import decision variables between each of the two exporter groups (high-involvement and low-involvement) and importers (overseas distributors) was performed using Multiple Discriminant Analysis (MDA). Besides considering the simultaneous influence of all import decision variables, MDA determines the contribution of each of these variables to the discriminant function. This, in turn, can facilitate interpretation of the perceptual differences identified.

Results

Our analysis commences with the investigation of potentially significant differences in perceptions of import decision variables between the groups of importers and low-involvement exporters. Table 1 presents mean values and standard deviations, as well as the MDA results. The discriminant function was derived by employing a step-wise selection procedure. A Wilks' lambda of 0.6249 and a chi-squared of 35.024, with 5 degrees of freedom, had a 0.0001 probability of erroneously rejecting the null hypothesis that there were no significant perceptual differences between the two groups. The derived discriminant function had a canonical correlation of 0.6124, whose squared value, $(0.6124)^2 = 0.3750$, suggests that this model explains 37.5 % of the variance in the dependent variable.

Import Decision Variable	Discriminant Loadings	Means (S.D.)	
		Importers (n=35)	Exporters (n=44)
Price Competitiveness	0.607	4.31 (0.63)	4.48 (0.66)
New Product Development	0.595	3.54 (1.12)	2.61 (0.92)
Product Quality	0.538	4.63 (0.55)	3.89 (0.95)
Exclusive Distributorship/Agency	0.465	4.09 (0.98)	3.30 (1.19)
Sales/Promotional Support	0.387	3.66 (0.94)	3.34 (0.99)
Reliable Delivery	0.347	4.40 (0.81)	4.39 (0.75)
Effective Communication	0.227	4.20 (0.76)	3.93 (0.73)
Technical/Managerial Advice	0.141	3.94 (0.84)	3.75 (1.01)
After-Sales Service Support	0.131	3.66 (1.20)	2.75 (1.24)
Parts Availability	0.098	3.97 (1.20)	2.91 (1.34)
Extended Credit	-0.094	2.74 (1.17)	2.09 (1.03)
Transportation Costs/Arrangements	0.016	2.43 (1.30)	2.43 (1.15)

Wilks' Lambda = 0.6249; chi-squared = 35.024; d.f. = 5; p < 0.0001

To validate the discriminant function a classification matrix was computed, and the results are reported in Table 2. It should be noted that the total sample was not divided into two groups, namely, an analysis sample and a hold-out sample, due to its relatively small size. All 79 cases were used for the analysis in an attempt to produce more efficient estimates, by reducing the instability of the discriminant loadings associated with large sampling errors which may arise from a relatively small ratio of observations to loadings. Due to the unequal group sizes in the overall sample, the proportional chance criterion was utilized to test the validity of the model. This criterion gave a value of 50.6%, while the maximum chance criterion, indicating the percentage of correct classifications if all cases are allocated in the larger group, took a value of 55.7%. As the resulting overall classification accuracy of 79.8% is significantly higher than the values of both the proportional chance criterion and the maximum chance criterion, this discriminant analysis model can be considered valid.

Actual Group	Predicted Group		Actual Total
	Importers	Exporters	
Importers	27 (77.1%)	8 (22.9%)	35
Exporters	8 (18.2%)	36 (81.8%)	44
Predicted Total	35	44	79

Percent of cases correctly classified = 79.8 %
Proportional chance criterion = $(35/79)^2 + (44/79)^2 = 50.6\%$
Maximum chance criterion = $44/79 = 55.7\%$

The importance of each criterion variable in discriminating the two groups was evaluated through considering the relative magnitude of the canonical loadings. Conventionally, variables with standard loadings $\pm .30$ or higher are considered significant (Hair et al., 1987). The results reported in Table 1 suggest that the import decision variables exercising the most influence on the overall differences between the groups of importers and low-involvement exporters were, in descending order: price competitiveness; new product development; product quality; exclusive distributorship/agency; sales/promotional support; and, reliable delivery. The positive signs of the discriminant loadings indicate that, in comparison with importers, low-involvement exporters perceived all these six variables as significantly less important in simultaneously influencing the import decision making process. Table 1 also shows that there were insignificant perceptual differences between the two groups of firms, regarding the importance attached to six other import decision elements including: transportation costs/arrangements; extended credit; parts availability; after-sales service support; technical and managerial advice; and, effective communication patterns.

Having considered perceptual differences between importers and low-involvement exporters, our analysis proceeds with the examination of potentially significant differences in perceptions of import decision variables between importers and high-involvement exporters. The results are reported in Table 3. The discriminant function was derived by means of a step-wise selection procedure, which showed that four import decision variables were sufficient to significantly discriminate between the two groups (Wilks' lambda = 0.6740, $p < 0.0013$). The value of canonical correlation connected with this discriminant function was 0.5709, whose squared value (0.3260) suggests that 32.6% of the variance in the dependent variable can be accounted for by this model. The classification results reported in Table 4 suggest that 76.4% percent of the cases were correctly classified. Compared to the values of 53.7% and 63.6% given by the proportional chance criterion and the maximum chance criterion, respectively, the resulting overall classification accuracy of 76.4% appears to be substantially higher. This in turn entails that the derived discriminant function can be considered to be valid.

As is shown in Table 3, of all four import decision variables that had significant discriminatory power, price competitiveness was the one that best discriminated between the two groups. This import decision element was followed by the variable relating to new product development, while product quality and exclusive distributorship/agency made relatively lower but significant contributions to the value of the discriminant function. The positive signs of the discriminant loadings pertaining to these variables suggest that exporters perceived all four elements as significantly less important in having a simultaneous effect on the import decision, as compared to the degree of importance which importers attached to these import decision variables.

Import Decision Variable	Discriminant Loadings	Means (S.D.)	
		Importers	Exporters
Price Competitiveness	0.570	4.31 (0.63)	4.30 (0.47)
New Product Development	0.516	3.54 (1.12)	2.70 (1.17)
Product Quality	0.363	4.63 (0.55)	4.05 (0.95)
Exclusive Distributorship/Agency	0.338	4.09 (0.98)	3.30 (1.22)
Sales/Promotional Support	0.280	3.66 (0.94)	3.75 (0.85)
Reliable Delivery	0.202	4.40 (0.81)	4.20 (0.83)
Effective Communication	0.183	4.20 (0.76)	4.10 (0.64)
Technical/Managerial Advice	0.170	3.94 (0.84)	4.05 (0.83)
After-Sales Service Support	0.168	3.66 (1.20)	3.35 (1.46)
Parts Availability	-0.145	3.97 (1.20)	3.45 (1.50)
Extended Credit	-0.091	2.74 (1.17)	2.20 (1.06)
Transportation Costs/Arrangements	0.042	2.43 (1.30)	2.50 (1.19)

Wilks' Lambda = 0.6740; chi-squared = 19.922; d.f. = 5; p < 0.0013

Discussion

The majority of the import decision variables investigated were held in relatively high regard by the group of importers and the two exporter classes, as is signified by the overall mean scores. However, it is clear that both low-involvement and high-involvement exporters have underestimated the role which several important variables play in driving the import decision of their overseas distributors. The above analysis also indicates that manufacturing firms involved in relatively high levels of export activities have developed a better understanding of those elements influencing the import decision making process of their overseas distributors, in comparison with manufacturers engaged in relatively low levels of exporting. This finding provides support to a key aspect of internationalization theory, according to which the development of substantial knowledge of foreign markets and operations is likely to lead to a reduction in the level of uncertainty and risk associated with exporting; and, consequently, to increase a firm's commitment to and involvement in export operations (Johanson and Vahlne, 1977; Cavusgil, 1980; Thomas and Araujo, 1985; Sullivan and Bauerschmidt, 1990).

Actual Group	Predicted Group		Actual Total
	Importers	Exporters	
Importers	30 (85.7%)	5 (14.3%)	35
Exporters	8 (40.0%)	12 (60.0%)	20
Predicted Total	38	17	55

Percent of cases correctly classified = 76.4%
 Proportional chance criterion = $(35/55)^2 + (20/55)^2 = 53.7\%$
 Maximum chance criterion = $35/55 = 63.6\%$

The fact that both groups of exporting manufacturers have not fully realized the importance of major elements, stimulating the import decision of their overseas customers, may threaten these firms' export survival and success. Inability to adequately understand and, in turn, effectively meet the requirements of overseas distributors may provide foreign market entry and expansion opportunities for rival exporting firms. In broad terms, it is essential that exporters pay utmost attention to minimizing the identified perceptual gap (whose magnitude appears to vary with different degrees of export involvement), thus becoming fully aware of the real forces driving the import decision making process of their customers in foreign markets.

This problem may be addressed by exporting manufacturers through the pursuit of developing close export business relationships. Emphasis should be placed on keeping "psychological distance" as low as possible (Johanson and Wiedersheim-Paul, 1975). This may be achieved by maintaining effective communication patterns with overseas distributors; adopting regular personal visits to their establishments; and, initiating exchanges of "social elements" with individuals from importing firms (Hakansson, 1982; Cunningham, 1986; Johanson and Wootz, 1986). This would enable exporters not only to understand those elements stimulating the import decision making process and, in turn, try to respond to the requirements of their overseas customers; but also, could facilitate the process of building effective export marketing channels by proselytizing overseas distributors into partners (Narus and Anderson, 1986; Shipley *et al.*, 1991).

The findings imply that export public policy makers should organize knowledge based programs focusing on the dynamics shaping import decision making and the management of trading relationships with overseas distributors. The design and implementation of such programs should be tailored to firms' degree of export involvement. Special attention should be paid to firms characterized by relatively low degrees of involvement in exporting

for two major reasons. First, as this study has revealed, importing firms' selection criteria of overseas suppliers have been less understood by low-involvement exporters, as compared to firms engaged in relatively high levels of exporting. Secondly, low-involvement exporters have significant export potential and, depending upon market and firm conditions, these firms could evolve into high-involvement exporters more easily than firms with no export involvement.

While exploratory in nature, partly due to the relatively limited amount of empirical work done in the field of international purchasing, the present study has made a contribution to extant knowledge. In addition to importers' perceptions of the elements influencing their import decision, it has empirically examined exporting firms' understanding of these import decision variables by concentrating on two distinctively different exporter categories in terms of export involvement.

However, in classifying exporting firms on the basis of the degree of export involvement, no attempt was made to shed light on the reasons underlying the existence of low-involvement exporters. Are these firms involved in relatively low levels of exporting due to the fact that they happen to go through an early stage of their process of internationalization, or does this form of export involvement reflect a purposive ongoing activity? Since these two types of low-involvement exporters are likely to be characterized by differences in their export approach and behavior, it is important that this issue is taken into account in the research design of future studies.

Another limiting issue which may be considered in the context of the present study is associated with its focus on inter-group comparisons between importing and exporting firms, regarding perceptions of import decision variables. In order to keep the impact of inter-group variation on the study findings as low as possible, future research should be directed to the examination of exporter-overseas distributor matched pairs, rather than analyzing different structural groups of firms.

In addition, it would be of importance to the enhancement of current knowledge in the area of international purchasing that future researchers direct their efforts to the study of import decision elements alongside other variables connected with importing behavior. These may include: importing problems; importer power bases and dependence on the exporter; importer commitment to the relationship with the exporter; import performance; and, attitudes towards future importing activities. The design and implementation of such studies would enable researchers to determine the direction, strength and significance of causal relationships among the variables analyzed, and this in turn could help build empirically tested models explaining international purchasing behavior.

Finally, one should be cautious in attempting to generalize the results of the present study to other contexts. It should be remembered that this study was conducted in the framework of the trading relationship between two specific countries, and by focusing on a specific industrial product category. Although one may expect the emergence of similar results from research efforts performed in other similar contexts, more research is required, based on research designs resembling the one in this study, in order to test the generalizability of our findings.

The references are available from the authors.

SALES MANAGEMENT

THE EFFECTS OF A SALESPERSON'S UTILITIES ON OPTIMAL
SALES FORCE COMPENSATION STRUCTURES
IN UNCERTAIN ENVIRONMENTS

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Research-in-Progress Abstract

It has long been held that monetary rewards are the most effective way to motivate salespeople (Ford, Churchill and Walker 1981). Unfortunately, there is no general agreement concerning the level, frequency, and determinants for the distribution of this money. A majority of small business owners contacted in a recent survey report that their sales compensation plans fail to adequately motivate salespeople. A near majority report that the plans overpay poor performers (Ricklefs 1990). While most practitioners and researchers agree that a well designed plan should be good for both the company and the salesperson, the goal of defining such plans in a broad spectrum of market conditions has been rather elusive. However, poorly designed plans may not only prevent firms from reaching sales targets, but may also increase a firm's selling costs if it overrewards, or increase turnover if it underrewards.

Perhaps the biggest challenge facing compensation plans designers is in controlling the behaviour of a salesperson in the field. Salespeople typically work outside the office environment and are responsible for scheduling their work time. This requires plans which do not rely on constant managerial supervision for the distribution of the rewards. Salary, commissions and bonuses must be distributed in a way that automatically controls the behaviour of salespeople through some intervening mechanism, typically the level of sales. Following Farley's lead (1964), researchers have concentrated their efforts on determining optimal structures of remuneration components through analytical methods. These studies of optimal salesforce compensation policies typically rely on a set of oversimplified assumptions.

In this paper, a model of decentralized salesforce compensation is developed, wherein some of the classical assumptions are challenged: (1) salespeople are either risk prone or risk averse, (2) the relationship between sales effort and sales is stochastic, (3) firms and salespeople have different planning horizons, (4) the salesforce is heterogeneous, and (5) the problem is dynamic.

In addition, a simulation is used to investigate a wider range of conditions with a particular emphasis on salespeople's behavioral reactions to financial incentives. Research propositions focusing on the impact of a salesperson's utility functions on optimal salesforce compensation structures under various conditions are developed: (1) a salesperson's attitude toward risk, (2) degree of environmental uncertainty,

(3) a salesperson's preferences for leisure versus working time, (4) a salesperson's degree of preference for short versus long term revenues. The proposed approach is then illustrated with an empirical application. Response surface methodology (RSM) is used to optimize decentralized compensation policies over this set of simulated conditions. In the context of optimal salesforce compensation plan designs, RSM appears particularly promising because it performs "if-then" types of investigations. In other words, RSM locates optimal solutions through experimentation. During the first phase, the method of steepest ascent is used to reach the optimum region. Canonical analysis is then performed to characterize the optimal surface. In this study, response surface methodology analysis is applied for each simulated condition in order to locate the optimal compensation structure.

To assess the impact of a salesperson's utility functions on optimal compensation structures analyses of variance are performed to test the research propositions.

This study breaks away from much of the traditional research on optimal compensation schemes: (1) broader array of compensation structures can be examined with the proposed methodology, (2) the most restrictive assumptions can be challenged because of the innovative approach adopted, (3) the simulation methodology provides some preliminary evidence about decentralized structures and their determinants, (4) managers are provided with an operational procedure for deriving optimal sales compensation plans which can be routinely used for compensating the salesforce.

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PERCEPTIONS OF FOREIGN FIELD SALES FORCES: AN EXPLORATORY FACTOR ANALYSIS OF THEIR CHARACTERISTICS, BEHAVIORS AND SALES

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Abstract

The environments in which foreign sellers work is an underresearched topic in international marketing. This 14 MNC-135 subsidiary examination of managerial perceptions of foreign sales environments and behaviors was factor-analyzed. Data from 45 countries was reduced to five factors, three environmental and two salesperson stereotypes. Results suggest that there are cross-cultural commonalities among salespersons and their environments which contribute to managerial and academic understanding of international sales environments.

When American multinational corporations (MNCs) step into foreign markets, one of their most important preliminary tasks is to set up their foreign sales forces. Mostly they build up their own sales forces, perhaps using an independent selling organization to bolster sales in low potential or geographically-obtuse areas (Hill and Still 1990). Generally, (the major exceptions being in high tech sectors requiring special skills), MNCs take the low exposure approach to grass-roots selling and prefer local people to handle their own markets.

But while the tendencies have been to localize many sales management tasks (Hill, Still and Boya 1991), managers at headquarters and at subsidiary levels are aware that "reinventing the sales management wheel" in all their markets is expensive, and, in this era of global marketing awareness, constantly look for similarities among their various national markets to promote degrees of sales standardization. In doing so however, they also find pockets of foreign sales behaviors which prompt decentralization tendencies.

The problem is that foreign environments have rarely been systematically examined from field selling perspectives. Certainly there is some anecdotal evidence highlighting cultural idiosyncrasies (e.g. Terpstra and Sarathy 1991, Cateora 1990, Kirpalani 1985). Similarly, there has been some research into MNC perspectives and strategies (e.g. Hill and Birdseye 1989, Hill, Still and Boya 1991, Business International 1986, Still 1981). But overall little empirical research about foreign sales environments has been reported. The objective of this paper is to examine (mainly) foreign-based managerial perceptions of the market environments in which their sellers operate. Data was obtained from a 14 MNC-135 subsidiary study of international selling practices in US multinationals.

Literature Review

Empirical research in the international sales area has never been plentiful. Cavusgil and Nevin (1981) called the topic "neglected". Gestetner's (1974) contribution focused on "centrist" and "non-centrist" approaches to multinational sales management [a perspective partially confirmed in the Hill, Still and Boya (1991) study]. Still's (1981) essay on cross-cultural aspects of sales management drew mainly on anecdotal and personal experience data. Indeed, throughout the early 1980s, most evidence of international sales practices was either case study-oriented (e.g. Business International 1986) or anecdotal (e.g. Business International 1985, Kirpalani 1985, Terpstra 1987). Then, towards the end of the 1980s, empirical research came on-stream. Apasu, Ichikawa and Graham's (1987) piece contrasted U.S. and Japanese approaches to sales management. Hill and Birdseye (1989) evaluated salesperson selection criteria in foreign-based U.S. multinational subsidiaries; Hill and Still (1990) reported on sales-force structures used in the U.S. MNC subsidiaries. Finally, Hill, Still and Boya (1991) examined patterns of head office influence on foreign sales functions.

But while there is emerging a body of knowledge on multinational selling activities, still there has been little systematic examination of the market environments in which foreign sellers operate. What follows is an attempt to shore up the dearth of knowledge in this important area.

Methodology

This was a research study of US MNCs and their overseas subsidiaries. Initial contacts were made through telephone calls to U.S. headquarters. Twenty-seven MNCs were contacted to solicit participation in the survey. The 27 corporations were selected from listing in the Directory of American Companies Operating in Foreign Countries. The primary criteria for inclusion were that the companies be well-known; have six or more subsidiaries overseas; and be principally involved in either the general consumer goods, pharmaceuticals, industrial, or hi-tech industries.

Initial contacts with the companies varied. In most cases first discussions were with international marketing directors or regional vice-presidents, (e.g. for Europe, or Latin America). Less frequently, executives in international divisions and public relations provided the platform through which company participation was solicited. After explaining the general nature of the project, the questionnaire and a cover letter were sent to the company. About two weeks later, another telephone call was made to enquire about participation. Fourteen out of the twenty-seven MNCs

elected to participate in the survey (52 per cent). Most questionnaires were received direct from foreign subsidiaries, with either the country manager, or the marketing manager responding. In all twelve questionnaires were returned from international divisions in the USA and 123 from overseas. Statistical contrasts between U.S. home market and foreign-based responses showed no significant differences between the two.

Information Collected

Data used in this article came from 15 Likert-type statements concerning perceptions of sellers, their personal characteristics, work habits and behaviors, and the environments in which they operated. The statements were based on commentaries from the literature.

Personal Sellers: Characteristics, Work Habits and Behaviors; Eight statements comprised this section.

1. **"Our salespersons are very achievement-oriented"**

In the U.S. sellers have reputations for being "go-getters" or achievers. Elsewhere in the world, achievement orientations in general are not so pronounced [e.g., lesser-developed world (Terpstra and David 1991)]. Firms operating in these environments may consider lesser achievement levels as normal.

2. **"Salespersons need patience to be successful"**

Americans as a nation are known for their lack of rather than abundance of patience (Kohls 1981). In other countries (e.g. Middle East, Asia), patience is perceived as a strength, not a weakness (Copeland and Griggs 1985). This may give rise to significant differences in sales behaviors.

3. **"Our salespersons consider the source of income (salary or commission) to be a more important than the size of income"**

Money is not a significant indicator of social status in many parts of the world [family pedigree, income and education for example, are important in the developing world, parts of Western Europe and Japan (Terpstra and David 1991)]. Still (1981) posited that in some parts of the world (e.g., Asia), sellers preferred a steady, salary-based income to a larger, more variable, commission-based compensation system.

4. **"Our sellers should have definite call schedules and planned routes"**

The literature suggests there are many types of salespersons. Some are order-takers and have little control over how much of their product is sold. These sellers tend to have more restrictions placed on their schedules and routes. There are also order-getters who often have commission-based salaries. These "self-starters" have less constraints on their day-to-day activities (Still, Cundiff and Govoni, 1988).

5. **"Our salespersons are very time-oriented"**

Most firms, whether domestic or internationally-based, prefer their sellers to be time- and efficiency-oriented.

Unfortunately in the developing world [e.g., Latin America, Middle East, parts of Asia (Hall 1976)], such orientations are not widespread. Whether U.S.-based MNCs permit local attitudes towards time to predominate or whether they inculcate American-style time orientations into their foreign-based sellers prompted use of this statement.

6. **"Our salespersons need a lot of supervision"**

Linked with call schedules and time-orientations are needs for supervision. Where problems exist with either or both of these elements, close supervision would be necessary (Still, Cundiff and Govoni 1988).

7. **"Salespersons often move between competing firms in the same industry"**

The U.S. is a market where salesperson turnover (and indeed labor turnover generally) is not low (Still, Cundiff and Govoni 1988). In other parts of the world - notably Asia and especially Japan - moving between competing firms is considered little short of traitorous (Ouchi 1981). Even in Western Europe, company loyalty and lifetime employment are vestiges of only the recent past (Van Ham, Paauwe and Williams 1986).

Perceptions of Selling as a Profession: In the U.S., selling has advanced from the Willie Lomans ("Death of a Salesman") image to something of a respectable profession. Whether such progress has occurred in other markets was investigated using the statement:

8. **"Selling is a prestigious job in the country."**

9. **"University graduates regard selling as worthwhile jobs."**

Terpstra and Sarathy (1991) noted that NCR's Japanese affiliate, despite having been in the market for seventy-plus years, had only been able to recruit university graduates in the last twenty.

10. **"Companies are as likely to employ women as men."**

While the U.S. is emancipated by world standards, chauvinism is apparent in many other parts of the world (Hofstede 1980). Whether and to what extent this male-orientation extends into selling was to be evaluated with this statement.

11. **"We prefer our salespersons to be married."**

Many years ago selling was considered a single persons' profession, due to the extensive travel component. Today, territory design has modified this perception. Whether this perception holds in other parts of the world is a point of inquiry.

12. **"Salespersons are regarded as future managers."**

In many U.S. industries, selling is regarded as the first rung of the corporate ladder - with customer contact being an essential ingredient of management education. But is this the case for sellers in U.S. subsidiaries abroad, where education standards may be lower (e.g. in developing countries)?

The Market Environment for foreign-based sellers

13. "A salesperson's social class can limit his/her contacts and effectiveness."

Ricks (1983) noted that Japanese sellers encountered social class constraints in sales activities during the 1960s. More recently, Hill and Birdseye (1989) found social class to be a factor influencing recruitment of foreign sellers. But how widespread are such perceptions?

14. "Family connections often help salespersons in their work."

Extended family groups and nepotism (the preferential hiring of friends and family) are factors of life in the developing world and are known to influence multinational hiring practices (Ball and McCulloch 1990). It is therefore possible that family connections are useful in the sales arena. Business International (1985) noted that direct sales operations in Asia (e.g. Avon, Amway) started with families, relations and friends.

15. "A salesperson's religious beliefs can limit their contacts and effectiveness."

Religious tensions are problematic in some developed and developing countries. These include Protestant-Catholic conflicts in Northern Ireland, Muslim schisms in the Middle East and Muslim-Buddhist conflicts in Malaysia. Hill and Birdseye (1989) found that religious background was a factor influencing some MNC sales hiring decisions.

Analytic Techniques

Assessing perceptions of the sales profession, foreign salespersons' work habits, characteristics and environments brings together a number of seemingly disparate perceptions. Yet all are part of the international sales picture. All may, or could be correlated with each other, or be part of broader constructs. To evaluate our (necessarily incomplete) perspective on foreign sellers, a factor analysis was performed on the data to separate out commonalities among respondent perceptions of their sales environments. The data was orthogonally-rotated and varimax-converged (in 5 iterations) to reduce the information to manageable proportions.

Results

Our results, shown in [Table 1](#), show five groupings of statements portraying different perspectives on foreign sales forces and their environments. Of the five factors, three seemed to relate to sales environments, two to salesperson stereotypes. They were named respectively 'the professional sales environment', 'the traditional sales environment', the 'tightly-controlled high turnover environment', the 'company man', and the 'efficiency-oriented salesperson', and are now discussed.

The Professional Sales Environment resulted from factor loadings of 0.601 ("salespersons need patience to be successful"), 0.804 ("selling is a prestigious job in this country") and 0.711 ("university graduates regard selling as a worthwhile job"). The notion of attracting university

graduates into sales suggests a conscious upgrading of the Willy Lomans image to give selling careers professional status. Patient, mature recruits would be part of this image change.

The Traditional Sales Environment brings together four components: male chauvinism (a -0.591 on "companies are as likely to employ women as men"), a preference for married sellers (0.507 on "we prefer our salespersons to be married"), and two environmental elements (0.697 for "family connections often help salespersons in their work", and 0.620 for "a salesperson's religious beliefs can limit their contacts and effectiveness"). Put together, this factor suggests that some sellers operate in highly-traditional environments where their family background and religious beliefs are evaluated alongside company reputations and products as part of the sales mix.

The "Tightly-controlled - High turnover environment" takes account of the need for definite call schedules (0.684), the notion that sellers often move between competing firms within industries (0.588), and negative reactions to the idea that social class distinctions limit selling effectiveness (a -0.666, suggesting that there are no real social entry requirements in their type of selling).

The final two factors comprise just two components each. "The Company Man" scored positively on "our salespersons consider the source of income (salary or commission) to be more important than the size of income" (0.7520). This suggests that financial motives are not dominant means of bonding sellers to their companies. A 0.639 loading on "salespersons are regarded as future managers" indicates that some companies work to create environments that foster salesperson longevity and company career paths beyond sales. Finally, Efficiency-oriented sellers are necessarily very achievement-oriented (0.782) and, to complement this trait, and also very time-conscious (0.705).

Summary and Conclusions

This was an exploratory study of managerial perceptions of field sales-force characteristics, work habits, selling environments, and of how the sales profession is perceived abroad. It shows that fifteen perceptual statements taken from the sparse literature in the area can be condensed to five factors. Three of these differentiate various selling environments. The professional sales environment documents foreign efforts to upgrade the maverick image plaguing the sales profession abroad; (and which still exists in U.S. selling today). Traditional sales environments are suggestive of developing markets where religious divisions and family pedigree are potent forces affecting salesperson credibility, and where chauvinism is still apparent. Finally, some industries and companies are known for their high seller turnover. The connection between high turnover and tight control of sellers' activities could bear some follow-up work.

With regard to sales stereotypes, this factor analysis gives rise to two more, perhaps at opposite ends of the selling

spectrum. At one extreme, some firms encourage sellers to be company-loyal - by preparing definite career paths out of the sales area. Others want go-getters', time-conscious high achievers to secure results but who may not be regarded as future managerial material (a 0.104 for "sellers regarded as future managers").

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TABLE 1
 FACTOR ANALYSIS OF 15 ITEM EVALUATION OF
 FOREIGN SALESPERSON CHARACTERISTICS, HABITS,
 BEHAVIORS, AND ENVIRONMENTS

	<u>Factor 1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Need patience to be successful	0.601	-0.096	0.203	-0.288	0.277
Selling is a prestigious job in this country	0.804	0.101	0.154	0.157	-0.101
University graduates regard selling as worthwhile jobs	0.711	0.079	-0.204	0.320	0.036
Companies are as likely to employ women as men	-0.044	-0.591	0.118	0.108	0.135
We prefer our salespersons to be married	-0.171	0.506	0.022	-0.037	0.074
Family connections often help salespersons	0.152	0.697	0.010	0.167	-0.548
A salesperson's religious beliefs limit effectiveness	0.806	0.620	0.016	0.060	0.148
A salesperson's social class can limit effectiveness	-0.139	0.142	-0.666	0.162	0.109
Sellers should have definite call schedules	0.165	0.189	0.684	0.029	0.196
Salespersons often move between competing firms	-0.294	-0.112	0.588	0.286	-0.173
Salespersons consider source of income more important than the size of income	0.011	-0.075	0.122	0.752	0.034
Salespersons are regarded as future managers	0.274	0.124	-0.094	0.640	0.103
Salespersons are very achievement-oriented	-0.144	0.041	0.556	0.106	0.782
Salespersons are very time-oriented	0.183	-0.056	-0.126	-0.001	0.705
<u>Compendium</u>	"Profess- ional Sales Environment"	"Trad- itional Sales Environ- ment"	"Tightly- Controlled High Turnover Environ- ment"	"The Company Man"	"Efficiency -oriented Sellers"

ETHICAL BELIEFS OF SALES MANAGERS OPERATING IN SOUTH AFRICA

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Abstract

The high visibility, importance and degree of ethical conflict associated with the sales function has resulted in increased levels of attention being paid to the area of ethics in sales. This paper presents the ethical beliefs of 377 sales managers operating in South Africa. Results reported are based on a ranking of 50 ethical scenarios with responses ranging from highly unethical to not at all unethical. Analysis of responses according to age was also performed. The authors call for company policy to address ethical issues so that deviant sales behavior can be monitored and controlled.

Introduction

Historically, the ethics of salespeople is an area of marketing that draws constant criticism (Chonko and Burnett 1983). The public image and stereotype of the salesperson is indeed a negative one. Thompson (1972) comments that the public visualise salespeople as being deceitful liars, psychologically maladjusted, arrogant and overbearing, brainless and lacking in talent.

Increased levels of attention have been paid to the area of ethics in sales from a sales management perspective (Dubinsky and Ingram, 1984, Caywood and Laczniak, 1986). Assisting salespeople to address their ethical conflict constitutes a critical sales management responsibility. Analysis of the marketing literature reveals a variety of justifications for reducing ethical conflict (Tsalikas and Fritzsche 1989). Owing to the high level of interaction made by the salesforce, regulation of their behavior may be considered even more vital than in other functions within the company. Unethical or inappropriate performance of the sales function could lead to customer dissatisfaction, unfavourable word-of-mouth promotion, as well as reduced profits for the firm.

Inherent in attempting to reduce ethical conflict is an understanding of ethical beliefs of sales personnel. The objective of this article is to investigate the ethical beliefs of South African sales managers, and to determine whether or not such beliefs vary significantly by age.

Literature Review

Whilst ethical conflict will have a negative effect for any employee, Dubinsky (1985) comments that if salespeople do not act in an ethical manner, the costs to a firm could be significant and could lead to lower job performance and increased job turnover of sales staff. Dubinsky and Ingram (1984) state that given that salespeople are key links between their customers and company, ethical conflict, if not resolved, could lead to

job stress, poor sales performance, job dissatisfaction, ridicule from management, unhappy customers, increased sales force turnover and decreased sales and profits for the firm.

Owing to the link that the salesperson forms between the company and its customers, the salesperson is referred to as a boundary spanner. Conflict will often occur as a result of the boundary spanning role (Lyonski and Johnson, 1983). Belasco (1966) emphasises the complexity of the role played and comments that, with the possible exception of the president, the salesman's role is the most independent in the organisation. Chonko and Burnett (1983) note that the integration of role expectations experienced by the seller can be quite painful if the performance of the role requires behaviors that are incompatible with the individual's beliefs. Chonko and Burnett (1983) found that sales managers, sales support personnel and sales representatives feel that there is ethical role conflict associated with aspects of the sales job.

Methods of reducing ethical conflict have been suggested by a number of scholars. Murphy (1988) comments that corporate codes of ethics have long been viewed as the major organisational structure in which to implement ethical policy.

Codes of conduct are one of the most pervasive responses used by the business community to improve ethical conduct (Tsalikas and Fritzsche, 1989) and have been justified on the grounds of efficiency, as a binding ideal for a profession, as in the public interest, as consistent with rational self-interest, and as an effective tool towards self-regulation (Starr, 1983).

The existence of company policy to aid decision making can be a valuable tool for sales personnel (Dubinsky, Berkowitz and Rudelius, 1980). Levy and Dubinsky (1983) propose a method for retail sales managers to establish ethical policies. Inherent in the procedure is an understanding of ethical dilemmas experienced by sales managers.

Both Dubinsky, Berkowitz and Rudelius (1980) and Dubinsky and Gwin (1981) comment that salespeople experience ethical dilemmas and generally want to have stated policies to guide them when ethical conflicts arise. Levy and Dubinsky (1983) found that ethical concern of retail sales personnel could be divided into two areas, customer related situations and work related situations. Dubinsky and Ingram (1984) established that there was no relationship between the level of role conflict experienced by sales personnel and their level of ethical conflict (thus contradicting the findings of Chonko and Burnett, 1983).

Patty and Hite (1988) comment that ethics can enter into relationships between : sales personnel and customers (bribes, gifts and entertainment, betraying of a confidence and other conflicts such as conflicts of interest), sales personnel and competitors (poaching sales personnel from competitors, demeaning competitors' products and tampering with their merchandise) and sales personnel and the company (padding expense accounts, using company time for non-company activities and cheating in sales contests).

Various studies addressing the ethical beliefs and perceptions of sales personnel have been conducted in the United States of America (Dubinsky, Berkowitz and Rudelius, 1980, Dubinsky and Gwin, 1981, Levy and Dubinsky, 1983, Dubinsky and Ingram, 1984 and Trawick, Swan and Rink, 1989), but no corresponding studies in Africa could be found.

An examination of how demographics relate to ethical behavior is important to understanding ethical behavior, and should help in developing predictive models and control mechanisms (Kelley, Ferrell and Skinner 1990). Goodman and Crawford (1974) highlight the importance of determining whether or not ethical perceptions vary by age in order to determine whether or not ethical standards are likely to change. If younger organisation members play by different rules, they deserve the special attention of leaders concerned with issues of corporate responsibility and ethical behavior (Longenecker, McKinney and Moore 1989).

Methodology

As previously stated, the major purpose of this study was to establish the ethical beliefs of sales managers operating in South Africa, and to determine whether or not these beliefs vary by age.

One hypothesis was postulated for investigation:

H1 There are no significant differences between the ethical beliefs of sales managers of different ages.

The Instrument

A questionnaire addressing the opinion of respondents to a variety of ethical scenarios was constructed. These scenarios were taken from previous studies by Bellizzi and Hite (1989), Dalrymple (1988), Dubinsky, Berkowitz and Rudelius (1980), Dubinsky and Gwin (1983), Chonko and Hunt (1985), Patty and Hite (1988), Pitt and Abratt (1986) and Newstrom and Rush (1975). The number of scenarios chosen totalled fifty (refer to [Table 1](#)). A five point itemised rating scale with verbal descriptions attached was used to allow for easy response. Before being mailed, the questionnaire was pre-tested on five sales managers and minor adjustments were made.

The Sample

Owing to the unavailability of a sample frame, convenience sampling was employed. The national sample consisted of all sales directors and managers listed in the mailing list of Successful Salesmanship magazine. The questionnaires were mailed to 1 066 managers consisting of 135 sales directors, 160 national sales managers, 102 regional sales managers and 669 sales managers.

Responses were received from 395 respondents. Of these 18 were rejected owing to incompleteness, resulting in 377 useable questionnaires, a response rate of 35,57 percent. 24 percent of the respondents were under the age of 35, 64 percent were from 35-50 years old, and 12 percent were over the age of 50.

Date Analysis

Various statistical tests employing SAS UNIVARIATE were performed in order to analyse data. Responses were assigned variables ranging from 1 (highly wrong) to 5 (not wrong at all). Where respondents failed to respond to a particular issue, a non-response variable was entered. Calculation of inter alia, the mean, the median, the standard deviation, the variance, skewedness and Kurtosis revealed the probability that the data was normally distributed was less than 0 percent of all issues. This resulted in the use of the Kruskal-Wallis One-Way Analysis of Variance instead of the Parametric One-Way Analysis of Variance in order to test the hypotheses.

Limitations

This survey was subject to a number of limitations. Firstly, the use of a convenience sample as opposed to a random sample may have resulted in bias. Secondly, although the response rate was good, the voluntary completion of the questionnaire may have resulted in non-response bias. Thirdly, the sensitive nature of the survey may have prevented respondents from answering honestly.

Results and Discussion

The results of this study are shown in [Table 1](#) which depicts the mean scores and standard deviation for all scenarios, as well as the Kruskal Wallis analysis of variance by age.

The following issues were regarded as being the most unethical/wrong by the respondents:

- Double an order to reach quota.
- Fail to encourage deletion when safety is an issue.
- Overstate expense accounts by plus 10 percent.
- Offer a customer a cut of commission.
- Accept a favour for overlooking company policy.
- Divulge confidential company information to a customer.
- Overstate expense accounts by minus 10 percent.
- Fail to report an associate's theft.

- Continue to promote an unsafe product.
- Bend to pressure from senior management not to report theft.
- Accept a favour in return for overlooking tax laws.
- Accept a favour in return for overlooking a crime.

The least unethical (wrong) issues mentioned by the respondents were the following:

- Take a prospective customer to a football match.
- Buy merchandise for personal use before it becomes available to customers.
- Attempt to sell a product by taking a customer out to lunch.
- Follow a supervisor's orders to promote underselling brands.

The study revealed that managers were clearly concerned with customer safety, although making false claims about products (by exaggerating quality, demand and usefulness) was not regarded as being highly wrong. Any activity which involved covering up a crime, theft or evasion of tax laws was also seen to be highly wrong. Overstatement of any expense account was regarded as being wrong, as was divulging of confidential company information. In accordance with the findings of Fritzsche and Becker (1983), it appeared that the more risky the dilemma faced, the more ethical the manager's response.

An analysis of histograms compiled for each issue revealed that all categories were well used in the following issues (implying a high level of discordance):

- Exaggerate demand for a product.
- Promote a product by over-emphasising quality levels.
- Use company time for non-company activities.
- Ignore one prospective customer for another.
- Withhold negative information about a product.
- Fail to tell a customer of an upcoming sale including merchandise that he/she is planning to buy.
- Buy Merchandise for personal use before it becomes available to customers.
- Sell a more expensive product when a less expensive one would suffice.
- Give a friend or family member a discount from commission earned.

Responses to the following issues fell in few categories, thus implying a high level of concordance:

- Double an order to reach quota.
- Fail to encourage deletion when safety is an issue.
- Divulge confidential company information to a customer.
- Fail to report an associate's theft.
- Take prospective customers to a football match.
- Continue to promote an unsafe product.
- Accept a favor in return for overlooking a crime.

Scenarios in which beliefs differed significantly according to the age of the manager are depicted in [Table 2](#).

TABLE 1
MEAN AND STANDARD DEVIATION SCORES AND KRUSKAL WALLIS ANALYSIS OF VARIANCE TEST ON ALL ETHICAL SCENARIOS.

Ethical Scenario	Mean	Std Dev	Krusk Wallis
1. Charge full price on an item that the customer does not know is on sale	1.87	1.05	0.312
2. Double an order to reach quota and hope that the customer does not notice	1.26	0.58	0.154
3. Speed up a sales by exaggerating demand for a product	2.63	1.19	0.044
4. Fail to encourage deletion of a product when safety is an issue	1.15	0.44	0.807
5. Promote a product by over-emphasising quality levels	2.62	1.26	0.122
6. Overstate expense accounts by more than 10% of the correct value	1.54	0.74	0.840
7. Persuade a customer to buy a product by offering him/her a cut of sales commission	1.81	1.16	0.959
8. Accept a favor in return for overlooking company policy by allowing a customer to jump the queue	1.51	0.81	0.554
9. Fail to inform a customer that a product has little or no applicable value	1.81	0.87	0.446
10. Accept a favor in return for divulging confidential company information to a customer	1.12	0.38	0.293
11. Overstate expense accounts by less than 10% of the correct value	1.61	0.78	0.951
12. Fail to report a fellow salesperson's violation of company policy	2.13	0.86	0.321
13. Make false promises in respect of delivery of an item	1.65	0.73	0.742
14. Fail to report a fellow salesperson's violation of a law	1.99	0.93	0.107
15. Make false excuses when merchandise is not ready for collection	2.14	0.99	0.514
16. Retain free samples meant for distribution to customers	1.66	0.75	0.082
17. Use company time for non-company activities	2.28	1.04	0.665
18. Ignore one prospective customer for another believed to be a better prospect	2.39	1.09	0.347
19. Withhold negative information about a product which could place the sale in jeopardy	2.34	1.09	0.620
20. Fail to tell a customer about an upcoming sale which would include merchandise that he/she is planning to buy	2.47	1.16	0.174
21. Buy merchandise for personal use before it becomes available to customers	3.28	1.25	0.562
22. Sell an expensive product when a less expensive one would suffice	3.16	1.20	0.144
23. Hide merchandise and purchase when a store mark-down occurs	1.78	1.82	0.269
24. Sell a product as an exclusive when it is available from other sources	1.93	0.93	0.576
25. Poach sales from a fellow salesperson's territory	2.03	1.08	0.145
26. Bend to pressure from fellow sales-persons not to report theft	1.30	0.52	0.274
27. Remove competitors display materials	2.28	1.17	0.846
28. Take prospective customers to a football match	4.47	0.70	0.137
29. Bend to pressure from a friend/family member to give them a discount at company expense	2.15	1.01	0.507
30. Bend to pressure from a friend/family member to give them a discount from commission earned	2.53	1.58	0.755
31. Sabotage competitors' plans by stealing shelf space	2.98	1.35	0.084
32. Reveal current trade secrets of competitors	2.93	1.44	0.397
33. Fail to tell a customer about an upcoming launch of a new model/issue that he/she would prefer	2.20	1.07	0.381
34. Continue to promote a product when safety is an issue	1.29	0.60	0.028

35. Attempt to sell a product by taking a prospective client out to lunch	4.17	0.95	0.367
36. Give customers who are personal friends preferential treatment	2.79	1.13	0.959
37. Bend to pressure from senior management not to report theft	1.45	0.69	0.14
38. Fail to tell a customer that the company is disinvesting from the country when concluding a sale	2.10	1.08	0.727
39. Reveal past trade secrets of competitors learned whilst in their employ	2.77	1.26	0.533
40. Overstate product lifespan	1.85	0.76	0.126
41. Follow the orders of a supervisor to bend company policy	2.06	0.89	0.485
42. Knowingly sell a product with a hidden defect	1.41	0.60	0.408
43. Collude with a fellow salesperson to raise the price of a product	2.23	1.14	0.111
44. Falsely state that competitors prices are higher in the hope that the customer does not shop around	2.05	1.02	0.948
45. Follow the orders of a supervisor to promote underselling brands	3.68	1.25	0.611
46. Accept to raise company/product credibility by overplaying negative aspects of competitors/their products	2.60	1.20	0.530
47. Collude with a fellow salesperson to reach quota in order to participate in company incentive schemes	2.45	1.20	0.775
48. Accept a favor in return for overlooking tax laws	1.56	0.73	0.604
49. Fail to inform the authorities about illegal acts performed by senior management	1.83	0.88	0.223
50. Accept a favor in return for overlooking a crime	1.20	0.44	0.570

Scale:

- 1 - Highly wrong
- 2 - Wrong
- 3 - Neutral
- 4 - Acceptable
- 5 - Not wrong at all

* Denotes significant differences at an alpha level of 5 percent.

TABLE 2
RANKING OF AGES WHERE BELIEFS DIFFER SIGNIFICANTLY

Scenario	Action believed to be most wrong Age, Mean Score, Respondents in group	Action believed to be least wrong Age, Mean Score, Respondents in group
3. Exaggerate demand	50- 2.24 43	21-34 2.90 91
34. Continue to promote an unsafe product	21-34 1.25 90	50- 1.49 43
37. Bend to pressure from senior management not to report theft	21-34 1.32 92	50- 1.70 43

Beliefs differ significantly at an alpha level of 5 percent.

There were few significant differences between the perceptions of sales managers of different ages. Older sales managers appear to be more likely to continue to promote an unsafe product than their younger counterparts who seem to be the most likely to exaggerate demand for a product and report theft despite appeasement by senior management.

Retraining older managers on consumer safety issues appears warranted, while youthful optimism and challenging spirit can explain the other differences which should be considered when designing and enforcing codes of conduct.

Conclusion

The hypothesis that was postulated (there are no significant differences between the ethical beliefs of managers of different ages) is accepted with the exception of issues 3, 34 and 37 as shown in Table 1.

Knowledge of differing beliefs can aid sales managers to manage their sales forces more effectively by reducing unethical behavior and reducing perceived ethical conflict of sales personnel. Such knowledge has ramifications for the recruitment, selection, training, motivation and leading of sales personnel. Levy and Dubinsky (1983) stress the need for management to develop an increased awareness of the ethical problems confronting sales personnel.

In order for sales managers to utilise this information, it is necessary for them to determine the perceptions of top management regarding issues with ethical content. Where these differ to those of sales staff, attention to the effective implementation of company policy is called for. The sales manager will need to concentrate on enforcing those issues which are not regarded as being highly wrong by sales practitioners. The study found that the most discord existed for issues concerning competitors, the making of false claims to customers in order to increase sales and the using of company time for non-company activities. Sales managers should attempt to reduce perceived conflict, by ensuring that company policy addresses these issues.

When enforcing ethical codes of conduct, managers should be able to identify the most likely deviants. The study revealed that the age of a sales manager is unlikely to influence ethical beliefs, with the exception of older sales managers who appear somewhat less sensitive to consumer safety issues than their younger colleagues.

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A COMPARATIVE STUDY OF SALES MANAGERS
FROM TWO DISPARATE POLITICAL, CULTURAL AND ECONOMIC ENVIRONMENTS

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Abstract

It is frequently asserted that the political, cultural, and economic environments in which managers work play a significant role in their managerial behavior. On the other hand, some researchers claim that the process of globalization of trade diminishes the effects of these important environmental factors. As far as could be ascertained, no studies have been conducted to test these hypotheses in the sales management area. This paper reports the findings of a study of two randomly selected groups of sales managers in two countries with very disparate political, cultural, and economic environments - South Africa and the USA. It was established that there was substantial similarity between the two groups with respect to several areas of managerial behavior.

Introduction

Sales managers have the very important task of ensuring that their firms' marketing strategy is effectively implemented at the operational level. The sales force is a very costly marketing resource that requires skillful management. One study established that personal selling dominates the promotion mix in all five principal product sectors, i.e., fast moving consumer goods; consumer durables; services; capital goods and industrial goods (Abratt & van der Westhuizen, 1985). The role and task of the sales manager is indeed a multifaceted one, and it would be difficult to obtain consensus on the variables that combine to influence the behaviour of sales managers. It was therefore decided to investigate four independent variables which were thought to significantly affect the behaviour (and hence influence the effectiveness) of sales managers. The four independent variables chosen were: corporate ethical values; organizational commitment; management decision style; and Machiavellianism. The two countries chosen for the study were South Africa and the United States of America - two countries which differ significantly in respect of their political, cultural, and economic environments.

Corporate ethical values

Interest in business ethics in general has risen dramatically since the early 1980s and much concern for the subject has been shown by corporate managers (Cooke, 1986). As much as there has been a concern about business ethics in general, considerable attention has been given to ethics in marketing. Indeed, Lacznik and Murphy (1985) claimed that marketing was the functional area of business most closely related to the abuse of ethics. Corporate ethical values were defined by Hunt, Wood and Chonko (1989) as: "... a composite of the individual ethical values of managers and both the formal and informal policies on ethics of the organization."

Organizational commitment

Numerous scholarly works suggest that organizational commitment is positively associated with organizational performance (e.g., Buchanan, 1974; Mowday & McDade, 1979). No doubt contributing to the interest in the relationship between organizational commitment and productivity is the apparent ability of the Japanese to maintain a highly committed workforce (Lincoln & Kalleberg, 1985). One of the common conclusions drawn from this observation is that Japanese workers are more committed to the organizations they work for than their American counterparts, and this explains the greater productivity of the Japanese workforce (Luthans, McCaul & Dodd, 1985). There are many other manifestations of the assumption that the more organizational commitment the better (e.g., Bateman & Strasser, 1984; Logan, 1984). Organizational commitment was defined by Hunt, Chonko and Wood (1985) as: "... a strong desire to remain a member of the particular organization, given opportunities to change jobs."

Management decision style

One of a manager's key functions is decision-making. In the narrow sense, managerial decision-making can be defined as making a choice between two or more alternative courses of action. More broadly, decision-making can be said to include all the actions necessary before a final choice is made. Many of these actions will be managerial in nature, for example situation analysis, which was probably the reason Simon (1965) suggested that it might be as well to treat: "... decision-making as synonymous with managing." Hence it can be inferred that management style and management decision style are synonymous. A study was undertaken by Slater (1989) to test the importance of the relationships among the three components of: (i) managerial style (personality traits, background characteristics and managerial behaviors), (ii) business unit strategy, and (iii) business unit performance. The results provided support for the theory that some managerial style characteristics are universally desirable and for the complementary theory that the importance of others is contingent upon the strategy of the business unit. He also found that representatives from all three categories of managerial style were found to be related to business unit performance. In other words, no particular style was found to produce superior performance compared to others.

Machiavellianism

Many present day studies of business issues such as leadership and success are based on early writings. One such notable work is that of Niccolo Machiavelli, a Florentine nobleman who held numerous diplomatic appointments in the late fifteenth and early sixteenth centuries before

turning to writing. His best known work, "The Prince," was published in 1513 and essentially he concluded that success or failure of states depended directly on the qualities of the leader. His work inspired a number of researchers to investigate his theories, and the concept of Machiavellianism was evolved. An important development was a scale to measure Machiavellianism, known as the Mach IV Scale, by Christie and Geis (1970). The twentieth century Machiavellian is defined by Calhoun (1969) as: "... one who employs aggressive, manipulative, exploiting, and devious moves in order to achieve personal and organizational objectives."

Objectives

Having regard to the factors discussed above, the following objectives were established for this study:-

1. To determine whether or not there was any difference in their perception of the corporate ethical values of their employer organizations by South African and American sales managers.
2. To determine whether or not there was any difference between the degree of organizational commitment indicated by South African and American sales managers.
3. To determine whether or not there was any difference between the management decision styles of South African and American sales managers.
4. To determine whether or not there was any difference between the level of Machiavellianism indicated by South African and American sales managers.

The Study

Samples

Two survey populations were selected - one in South Africa and one in the United States of America. Appropriate sample frames were identified and samples specified. The South African sample frame used was the latest corporate member list of the Institute of Marketing Management. Service industries were excluded and 264 randomly selected sales managers in manufacturing and distribution firms were targeted, of whom 87 responded. The American sample frame used was the latest list of manufacturing and distribution firms registered with the career center of a prominent Southern California university as potential employers of graduates, and 245 randomly selected sales managers were targeted, of whom 81 responded.

Questionnaire

The questionnaire used comprised four different research instruments, although the first two were combined in SECTION ONE of the questionnaire. These two instruments were developed by Hunt,

Wood and Chonko (1989) and Hunt, Chonko and Wood (1985). The first instrument, consisting of five statements, dealt with corporate ethical values. This measure incorporated three broad-based perceptions:-

1. The extent to which employees perceive that managers are acting ethically in their organization.
2. The extent to which employees perceive that managers are concerned about ethical issues in their organization.
3. The extent to which employees perceive that ethical behavior is rewarded or that unethical behaviour is punished in their organization.

The five statements Hunt, Wood and Chonko (1989) developed were:-

1. Managers in my company often engage in behaviors that I consider to be unethical. (Coded ETH1 in Table 1)
2. In order to succeed in my company, it is often necessary to compromise one's ethics. (Coded ETH2 in Table 1)
3. Top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated. (Coded ETH3 in Table 1)
4. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in personal gain (rather than corporate gain), he or she will be promptly reprimanded. (Coded ETH4 in Table 1)
5. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in corporate gain (rather than personal gain), he or she will be promptly reprimanded. (Coded ETH5 in Table 1)

Respondents were asked to respond to each statement using a seven-point Likert format, where 1 = Strongly disagree to 7 = Strongly agree.

The second instrument, consisting of four statements, dealt with organizational commitment. This measure incorporated the degree of loyalty marketers would have to an organization, given four attractive incentives to change companies. The four incentives are:-

- * Higher pay
- * More creative freedom
- * More job status
- * Friendlier working environment

The four statements Hunt, Chonko and Wood (1985) developed were:-

1. I would be willing to change companies if the new job offered a 25% pay increase. (Coded OC1 in Table 2)
2. I would be willing to change companies if the new job offered more creative freedom.

(Coded OC2 in Table 2)

3. I would be willing to change companies if the new job offered more status. (Coded OC3 in Table 2)
4. I would be willing to change companies if the new job was with people who were more friendly. (Coded OC4 in Table 2)

Respondents were asked to respond to each statement using the same seven-point Likert format detailed above.

The third instrument was the Mach IV scale developed by Christie and Geis (1970). It consists of twenty statements and was scored according to the method established by Christie and Geis. This involves adding a constant of 20 to all scores in order that the total score be at the neutral point of 100. Theoretically, this implies a median rating of four on all 20 statements plus the constant (four times 20 items plus 20). The minimum score is 40 (one times 20 items plus 20) and the maximum score is 160 (seven times 20 items plus 20).

The fourth instrument used was the Decision Styles Inventory (DSI) of Rowe, Mason and Dickel (1987). The decision style model they developed is based on two dimensions - the manager's cognitive complexity and values orientation. It incorporates the task/people dimension as part of the values orientation and develops a distinction between the manager and the leader based on cognitive complexity. The right and left halves of the model correspond with the results of research on the right and left hemispheres of the brain. The four basic management decision styles were described as directive, analytic, conceptual and behavioral. (These are coded DIR, ANA, CON, and BEH respectively in Table 4). The DSI consists of twenty statements with four alternative responses to each statement. Respondents are required to score each alternative response as follows:

- 8 = When the response is MOST like you.
- 4 = When the response is MODERATELY like you.
- 2 = When the response is SLIGHTLY like you.
- 1 = When the response is LEAST like you.

The scores from each respondent are entered into the computer program developed by Rowe, Mason and Dickel (1987) which then calculates the scores on each dimension and prints out a summary of the individual's management decision style.

Data collection

The primary data was collected by means of a mailed questionnaire which incorporated the four research instruments described above. The number of usable questionnaires returned by the South African sales managers was 87, a response rate of 32.95%. The number of usable questionnaires returned by the American sales managers was 81, a response rate of 33.06%.

Data processing

The primary data was processed using SPSS Release

4.0 to perform the multiple regression procedures and the paired t-tests. The objective was to look for any significant differences between the South African and American samples on the variables measured.

Research Findings

The values obtained from the statistical analysis of the data to establish the differences between the mean scores of the independent and dependent variables, are summarized in Tables 1 to 4 below.

Table 1
DIFFERENCES IN MEAN SCORES FOR ETHICAL VALUES

VARIABLE	SA SAMPLE			USA SAMPLE			t value	2-tail prob.
	n	Mean	S.D.	n	Mean	S.D.		
ETH1	87	5.471	1.810	81	6.025	1.369	-2.22	0.028 ¹
ETH2	87	5.759	1.562	81	6.148	1.295	-1.75	0.082 ²
ETH3	87	5.965	1.551	81	6.136	1.339	-0.76	0.449
ETH4	87	6.414	1.427	81	6.370	1.167	0.22	0.830
ETH5	87	5.230	1.891	81	5.605	1.678	-1.36	0.177

¹ = p < 0.05

² = p < 0.10

[ETH1, ETH2, ETH3, ETH4, and ETH5 are the five statements of the research instrument used.]

It will be noted that there were significant differences between the means of only the first two ethical value items. This suggests that the American sales managers generally agreed that managers in their companies often engaged in behaviors that they considered to be unethical and were personally prepared to compromise their ethics in order to succeed in their companies. The South African sales managers, on the other hand, only moderately agreed on the same two points. The inference, therefore, is that the American sales managers perceived that managers in their organizations were slightly less ethical than managers in the South African sales managers' organizations.

There was no significant difference between the third ethical values statement, both samples generally agreeing that top management in their companies has let it be known in no uncertain terms that unethical behaviors will not be tolerated. What appears to be of particular note is that, in both samples, the highest mean score was for ETH4 which concerned personal gain. (There was no significant difference between the two samples). This would seem to suggest that the employer organizations take a very strong position on unethical behavior on the part of employees. Conversely, however, the lowest mean score for both samples was for ETH5 which concerned corporate gain. (Again, there was no significant difference between the two samples). This would seem to suggest that employer organizations are somewhat less concerned about unethical behavior which results in corporate gain. One is led to observe that this is a rather unfortunate state of affairs. However, it seems consistent with the view held by many employees that companies don't mind if the rules are "bent" in favor of the company, but that the company takes a rather

different view of any unethical behavior by employees which benefits them. This observation cannot, however, be confirmed by the results of this study, since much more detailed analysis of the findings would have to be undertaken to establish the possible reasons for this situation.

Table 2

DIFFERENCES IN MEAN SCORES FOR ORGANIZATIONAL COMMITMENT

VARIABLE	SA SAMPLE			USA SAMPLE			t value	2-tail prob.
	n	Mean	S.D.	n	Mean	S.D.		
OC1	87	3.782	1.845	81	4.420	1.877	-2.22	0.028 ¹
OC2	87	4.103	1.971	81	4.123	1.887	-0.07	0.947
OC3	87	3.402	1.852	81	3.653	1.726	-0.91	0.364
OC4	87	3.069	1.879	81	3.049	1.635	0.07	0.943

¹ = p < 0,05

[OC1, OC2, OC3, and OC4 are the four statements of the research instrument used.]

It will be noted that there was a significant difference between the means of only the first organizational commitment item. This suggests that the American sales managers indicated somewhat more willingness to change companies than the South African sales managers if the new job offered a 25% pay increase. Perhaps the reason for this is the perception on the part of the American sales managers that a 25% increase would represent a substantial real increase, given the much lower rate of inflation and personal income tax in America compared to South Africa.

Both groups were neutral to the second statement regarding their willingness to change companies if the new job offered more creative freedom and there was no significant difference between the mean scores of the two groups. Presumably this means that they do not value creative freedom that highly.

Both groups tended to moderately disagree that they would be willing to change companies if the new job offered more status. Similarly, both groups were virtually equal in scoring "moderately disagree" to the proposition that they would be willing to change jobs if they could work with people who were more friendly. In both cases there was no significant difference between the mean scores of both groups. Presumably this means that they are unconcerned about status or the friendliness of their coworkers.

Table 3

DIFFERENCES IN MEAN SCORES FOR MACHIAVELLIANISM

VARIABLE	SA SAMPLE			USA SAMPLE			t value	2-tail prob.
	n	Mean	S.D.	n	Mean	S.D.		
MAC	87	99.41	10.00	81	101.1	8.361	-1.21	0.226

[MAC is the research instrument used - the MACH IV scale.]

It will be noted that there was no significant difference between the means for the Machiavel-

lianism score of both samples. This would suggest that there is no significant difference in the level of Machiavellianism indicated by both the South African and American sales managers polled in this study.

Table 4

DIFFERENCES IN MEAN SCORES FOR MANAGEMENT DECISION STYLES

VARIABLE	SA SAMPLE			USA SAMPLE			t value	2-tail prob.
	n	Mean	S.D.	n	Mean	S.D.		
DIR	87	81.70	14.83	81	80.30	12.41	0.66	0.508
ANA	87	83.83	13.95	81	85.96	14.97	-0.96	0.340
CON	87	77.13	13.95	81	75.43	14.15	0.78	0.436
BEH	87	57.34	14.76	81	58.31	15.33	-0.42	0.679

[DIR = Directive; ANA = Analytic; CON = Conceptual; and BEH = Behavioral management decision styles.]

It will be noted that there were no significant differences between the means for the management decision styles of both samples. This would suggest that the management decision styles of the South African and American sales managers polled were very similar.

Interpretation of the Findings

The findings of this research study suggest that, in general, South African and American sales managers are very similar with respect to the four independent managerial variables tested. This supports the view of Abratt, van der Westhuizen, and Blem (1989) who assert that South African organizations follow the American model of sales management in most respects. Further support for this view is given by Tse et al (1988), who found that cultural and other differences tend to diminish in a global market characterized by intensive communications, standardization, and the employment of similar decision technologies.

This could be of significant importance to, for example, American corporations considering entering the South African market. Political changes initiated in South Africa over the last three years have resulted in the lifting of trade sanctions against that country by the United States and many other countries. But the ability of American (and other) companies to compete effectively in the South African market could be impeded by the cost and availability of managerial talent. Apart from the higher cost of using expatriate sales managers, Cateora (1993) also points out that firms in the United States are finding it difficult to persuade managers to take overseas posts. A solution to the problem, therefore, would be to hire South African sales managers. Not only would this be less costly, but the results of this study indicate that the American firms would probably find it relatively easy for the South African sales managers to adapt to their corporate cultures and managerial styles. The South African sales managers would also have much valuable local knowledge.

It is conceivable that the same findings could pertain to other countries, and multi-national

companies investigating the viability of entering new markets could undertake similar research to establish the similarity (or difference) of managerial behavior in the respective countries. This would do much to reduce the risk of failure of firms entering foreign markets unknown to them. If it can be established, for example, that there is substantial similarity between the management perceptions, commitment, and style of the sales managers in the exporting country and the proposed host country, sales managers native to the host country could be employed with much greater confidence. This would lead to more effective sales management, and hence greater sales force productivity. It could also alleviate the problem of host country restrictions frequently placed on the number of non-nationals allowed to work within the country.

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TRUST IN HORIZONTAL SELLING ALLIANCES

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Abstract

Relationships between perceived trustworthiness, trusting behaviors, and perceived task performance were examined in the context of working relationships between sales representatives involved in horizontal selling alliances in the Canadian computer industry. Trustworthiness was found to indirectly impact perceived task performance through mediating trusting behaviors of relationship-specific investment and communication openness. These results suggest prescriptions to improve selling partner working relationships and illustrate the utility of studying trust at lower levels of abstraction.

Horizontal selling alliances are cooperative efforts between two or more independent sales organizations, at the same level of the value chain, aimed at the joint initiation and maintenance of customer relationships. Marketers faced with complex, uncertain, and rapidly changing environments are increasingly forming these alliances to augment the skills and resources of their own multi-functional selling teams. IBM, for example, has developed a formal selling alliance program with a variety of hardware and software partners (Agents) where IBM and Agent marketing representatives are encouraged to work together cooperatively to provide integrated customer solutions and ongoing support.

Horizontal selling alliances can result in strategic flexibility, increased competitive advantage, and greater account coverage, sales, and customer satisfaction. These anticipated benefits may not be realized, however, unless key implementation issues are addressed. One such issue is the development of effective working relationships between partner sales representatives. Most sales representatives have considerable choice of partner organizations and individuals. They can select different partners for different opportunities, can change partners during a sell-cycle, or can work alone. Since individual-level exchange is typically voluntary and successful exchanges are necessary to achieve alliance benefits, it is critical that partner sales representatives choose to work together, and work together effectively.

Trust was identified as the critical factor differentiating effective and ineffective selling partner relationships in preliminary interviews with computer sales representatives and managers. When trust was evident, partner sales representatives were observed to work closely and openly. Lack of trust lead to avoidance or an adversarial approach to the relationship. The importance of trust for facilitating exchange is well documented in the literature (e.g., Moorman, Zaltman, and Deshpandé 1992; Hakansson 1982). Trust is required since parties have no way to ensure appropriate reciprocation of unspecified obligations (Blau 1964) and contracts cannot foresee all contingencies (Williamson 1985).

Despite the importance of trust, it is a relatively unexplored construct in marketing. While there are some conceptual foundations (cf., Dwyer and Legace 1986) and some empirical foundations (cf., Swan et al. 1988), it is not clear what trust is, what facets of trust are important in different working relationships, how facets of trust should be measured, how they interrelate, or how they relate to key antecedents or consequences. This paper examines relationships between perceived trustworthiness and key trusting behaviors in a simple casual model of effective selling partner working relationships. Following a brief review of the trust literature, support is provided for hypothesized relationships in the causal model. The methodology used to test the model is described and the results presented. The paper concludes with a discussion of the study implications, limitations, and directions for future research.

Literature Review

Researchers have studied trust in a variety of interpersonal and professional relationships and the literature reflects a variety of perspectives, paradigms, and approaches. Marketers have generally viewed trust as a cognitive belief, or expectation, and/or an affective sentiment about the likelihood of an event (cf., Anderson and Narus 1990; Anderson and Weitz 1989). Marketers have also adopted Deutch's (1958) conceptualization of trust as risk-taking behavior; acceptance, or a willingness to accept vulnerability in the face of uncertainty (cf., Moorman, Zaltman, and Deshpandé 1992; Swan, Trawick, and Silva 1985). Use of one term for two conceptualization is confusing. We advocate referring to the cognitive/affective component as perceived trustworthiness and the intent/behavioral component as trusting behavior; distinct but related concepts.

Trust varies with tasks, situations, and persons. It may be general or specific, and it is thought to become more focused, or specific, over time. Facets of perceived trustworthiness identified in the literature include: character, competence, and judgement (Gabarro 1978); and dependability, reliability, responsibility, honesty, competence, and likability (Swan, Trawick and Silva 1985). These facets, however, have generally not been reflected in empirical research. To the contrary, research on relationalism (e.g., Crosby, Evans, and Cowles 1990) has included aspects of trust as part of higher-order constructs such as relationship quality and relational behaviors. While this research has been useful for a macro understanding of relationship development, it may be more conceptually and managerially appealing to understand relationships at a lower level of abstraction, such as Swan et al.'s (1988) study of customer perceptions of sales representative trustworthiness. Swan et al. (1988) found some evidence that dependability, reliability, honesty, responsibility and likeability are distinct dimensions of trustworthiness and that competence may be

another. Their study, however, did not examine determinants or consequences of these dimensions and it is not clear if these, or others, apply in different contexts. Some research on determinants and consequences of behaviors indicative of trust, such as open communication and relationship investment, have been examined in the context of channel relationships (e.g., Anderson and Narus 1990), but further investigation of their relational impact at the individual level is warranted.

Conceptual Model

Theoretical underpinnings for the model (Figure 1) are provided by social exchange theory (e.g., Blau 1964) and attribution theory (e.g., Heider 1958). Conceptual and empirical underpinnings are provided by the Institute for Marketing and Purchasing (IMP) Interaction Approach (e.g., Hakansson 1982) and the channel and buyer-seller working relationship literatures (e.g., Mummalaneni and Wilson 1991; Anderson and Weitz 1989). The unit of analysis is the working relationship between partner sales representatives. Briefly, the model posits that perceived task performance is determined by the extent that three key trusting behaviors are evident in a relationship, these in turn being determined to a large degree by the extent the partners perceive each other as being trustworthy. Modeled constructs are briefly defined and conceptualized below and support is provided for the hypotheses.

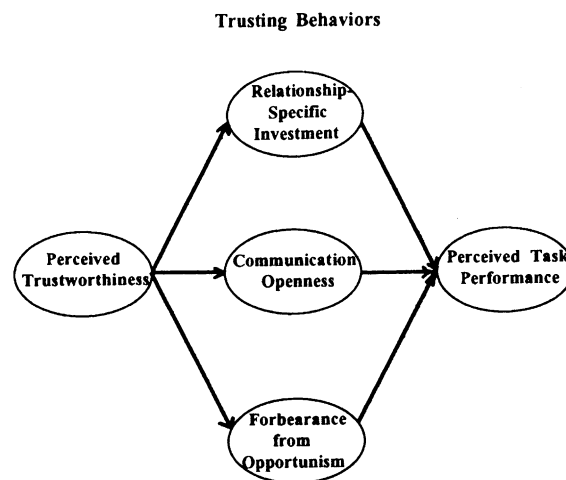
Perceived Task Performance

The effectiveness of selling partner working relationships can be assessed with a variety of performance or non-performance outcomes, objectively or subjectively, at the individual, relationship, or organizational levels of analysis, and from management, participant, and customer perspectives (Smith and Barclay 1993). Perceived task performance is a subjective, participant evaluation of the extent to which partnership objectives, such as sales and customer satisfaction, have been realized. Perceived task performance is an appropriate measure of effectiveness in this context where long sell-cycles and competitive factors limit the validity of more objective outcomes such as partnership sales (Gladstein 1984). While the customer's perspective may be conceptually appealing, it is the partners themselves who have the greatest understanding of their relationship.

Trusting Behavior

Trusting behavior is action that increases one's vulnerability to another, whose behavior cannot be controlled, in a potentially harmful situation (Deutsch 1958). Three trusting behaviors stand out in social exchange theory and extant research as being central to ongoing relationships: relationship-specific investment, communication openness, and forbearance from opportunism. Relationship specific investment is the resource, effort, and attention devoted to a relationship that does not have outside value and would be lost if a relationship is terminated (Mummalaneni and Wilson 1991). Communication openness is the formal and

FIGURE 1
MODEL OF PERCEIVED TASK PERFORMANCE



informal sharing of timely information between firms (Anderson and Weitz 1989). It is concerned with the mutual disclosure of plans, programs, expectations, goals, motives, and evaluation criteria rather than the quantity or frequency of information exchanged. Forbearance from opportunism is acting in the spirit of cooperation, not cheating, and not withholding helpful action (cf., Buckley and Casson 1988).

Each of these trusting behaviors signals interest in, and commitment to, making a relationship work. They facilitate exchange by indebting a partner to reciprocate vulnerability and each episode may be viewed as a test which must be passed for continued exchange (Blau 1964). Investment of time, effort and other resources in a relationship establishes psychological ties or bonds between partners necessary for coordinated action. Similarly, open communication helps partners align perceptions and expectations, clarify roles, and avoid misunderstandings that could cause dysfunctional conflict and poor performance (Anderson and Weitz 1989). By forbearing from opportunism partners avoid retaliation and retribution which would reduce the partners desire to jointly manage their territories and show a united front to customers. Thus, partners are more likely to achieve their mutual objectives when these trusting behaviors are evident in their relationship than if they are not. From an attribution perspective, sales representatives are likely to react to these behaviors based on their attribution of intent. When the behaviors are viewed as facilitative they serve to draw the parties closer together and enhance their ability to improve their performance.

Illustrative empirical support for a positive relationship between key trusting behaviors and perceived task performance is found in Crosby, Evans, and Cowles's (1990) model of relationship quality. They found that relational selling (a higher order construct reflecting effort/investment, communication openness, and cooperation) was a predictor of sales effectiveness through the intervening construct relationship quality (a higher order construct reflecting trust and satisfaction). Thus we hypothesize:

H_{1.3}: Greater relationship-specific investment, communication openness, and forbearance from opportunism will result in greater perceived task performance by selling partners.

Perceived Trustworthiness

Perceived trustworthiness is the belief or expectation of another's role performance and fiduciary responsibility (Young and Wilkinson 1989) and that one's needs will be fulfilled in the future by actions of the other party (Anderson and Weitz 1989). Based on preliminary interviews with sales representatives involved in horizontal selling alliances, and integrating the works of Swan et al. (1988) and Gabarro (1978), perceived trustworthiness is specifically conceptualized as selling partners having confidence in each other's character, role competence, judgement, and motives/intentions.

Perceived trustworthiness is hypothesized to be a determinant of the key trusting behaviors. Insofar as cognition and affect lead to intent and subsequent behavior, trustworthiness is a logical antecedent of trusting behavior. Blau suggests that since exchange requires trusting others to reciprocate, the initial problem is to prove oneself trustworthy (1964, p. 98). This is evident in Hawes, Mast, and Swan's (1989) finding that buyer perceptions of sales representative trustworthiness are important in facilitating the trusting behavior of a purchase.

Specifically, if either partner perceives the other as being untrustworthy that partner is less likely to make relationship-specific investments of time, effort, and other resources. To be willing to accept the vulnerability of full disclosure inherent in open communication, sales representatives must believe that their confidences will not be broken and that the other can be relied on to be discrete and responsible with the information. Similarly, a trustworthy sales representative is likely to cheat on his or her partner, reducing the need for retaliation and reducing the likelihood of the partner cheating preemptively. Thus we hypothesize:

H_{4.6}: Greater perceived partner trustworthiness will lead to greater relationship specific investment, communication openness, and forbearance from opportunism by selling partners.

Methodology

The model (Figure 1) was operationalized as a multiple indicator structural equation (causal) model. Hypotheses were tested using a cross-sectional, field survey research design in which pre-tested mail questionnaires were used to collect perceptual, self-report information from sales representatives involved in horizontal selling alliances in the computer industry.

The data were collected in two stages. In stage one, 250 sales representatives were randomly chosen from the

employee records of a large multinational in Canada that was selected on a convenience basis. Half these respondents were asked to identify a partner with whom they had some success in the previous six months and to respond about their relationship with that partner. The other half were asked about a partner relationship that had little or no success. In the second stage of data collection, the partners identified in stage one were phoned to solicit cooperation and were then mailed an equivalent questionnaire asking for their perspectives on the relationships.

Constructs were operationalized with multiple indicators using a mix of original and adapted Likert scale items. Epistemic relationships were specified as reflective since the unobserved constructs give rise to the observed variables. Trustworthiness was measured with four summed scale items relating to character, role competence, judgement, and motives/intentions. The character item was a sum of three measures of reliability and dependability developed by Swan et al. (1988) as these aspects of character were found in preliminary interviews to be most relevant in this context. Role competence was measured as a sum of six context specific skill and knowledge measures adapted from the competence measures of Gabarro (1978). Judgement and motives/intentions were both measured by summing three items adapted from the works of Swan et al. (1988) and Gabarro (1978). Descriptions of the other scale items are provided in Table 1.

A variety of statistical techniques were used to assess the reliability and validity of the measures. Directional hypotheses were tested using the structural equation modelling algorithm Partial Least Squares (PLS). PLS is more appropriate in this context than the more common approach LISREL because of its objective of prediction and its minimal demands on residual distributions, and sample size (e.g., Fornell, Tellis, and Zinkan 1982).

Results

Field and operational procedures resulted in 177 responses (46% first stage and 75% second stage). This sample represented a mix of experienced and less experienced sales representatives. Twenty-two percent of the relationships were less than a year old and 16% were of more than 3 years. Eighty-five percent of respondents were male, consistent with industry employment.

Measurement Results

PLS measurement parameters represent epistemic relationships between the 17 observed items in the study (manifest variables) and the 5 constructs they measure. The strength and pattern of item loadings were used to assess item and composite reliability, and convergent and discriminant validity, following the guidelines of Fornell and Larcker (1981) and Fornell, Tellis, and Zinkan (1982). Item loadings (Table 1) were all above .70, indicative of item reliability. Composite reliability was also evident as internal consistency (IC) ranged from .85 to .92, well above Nunnally's

TABLE 1
MEASUREMENT RESULTS

Scale	Items	Loading	AVE	IC	Alpha
Trustworthiness			.73	.92	.84
X1	Character (reliability/dependability).	.89			
X2	Role Competence.	.86			
X3	Judgement	.88			
X4	Motives/Intentions	.80			
Relationship Specific Investment			.68	.87	.77
X5	Devoted time and energy.	.79			
X6	Effort to increase time together.	.80			
X7	Equity would be lost.	.89			
Communication Openness			.68	.89	.84
X8	Discuss accounts and opportunities.	.84			
X9	Tell each other things in confidence.	.78			
X10	Talk candidly with each other.	.82			
X11	Provide timely information.	.86			
Forbearance from Opportunism			.66	.85	.75
X12	Some cheating and deceit.	.76			
X13	Never act at each other's expense.	.80			
X14	Always act in the spirit of cooperation.	.87			
Perceived Task Performance			.69	.87	.77
X15	Our customers have been pleased.	.82			
X16	Closed a lot of business together.	.80			
X17	Effective performance wise.	.89			

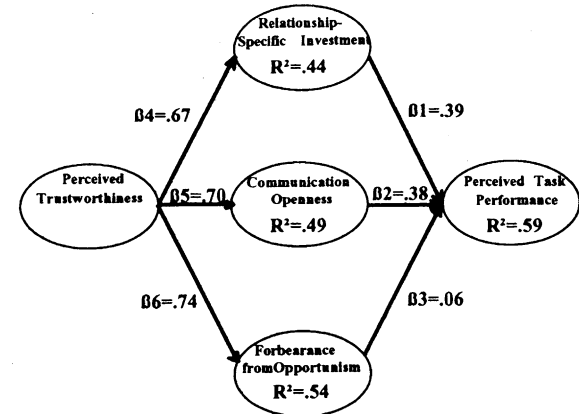
(1978) reliability guideline of .70. Although atheoretical, and hence less appropriate for reliability assessment, Cronbach's alphas were also above .70. Convergent validity was also evident as the average variance of manifest variables explained by latent variables (AVE) was at least .66, indicative that more variance was explained than unexplained. Finally discriminant validity was evident as correlations between constructs (squared path coefficients) were found to be significantly different than one at the .10 level using Fisher's Z-transformation, and the variance shared between two constructs was less than the variance shared between either construct and its measures.

These results are strong and, consistent with previous PLS studies (e.g., Barclay 1991), are adequate for structural model evaluation. However, latent variable correlations (Table 2) suggest there is high multicollinearity in the model, particularly among the trusting behaviors. Principal components factor analysis found that the underlying structure of these trusting behaviors could be simplified with two underlying factors: relationship specific investment/communication openness and forbearance from opportunism. As factor analysis is atheoretical, these results do not refute the measurement model, but do suggest directions for model respecification and further research.

Structural Results

Structural parameter estimates (Figure 2) provide strong support for the theoretical network. Modeled constructs explained 59% of the variance in perceived task performance

FIGURE 2
STRUCTURAL RESULTS



and more than 44% of the variance in the trusting behaviors. Path coefficients were all significant at the .01 level (using jackknife estimates), and all were positive, as hypothesized. Thus the model exhibits nomological validity and is hence appropriate. As PLS does not attempt to minimize residual covariance there is no summary statistic of overall model fit.

Path coefficients, interpreted like standardized regression coefficients, indicate the strength of direct relationships between constructs. Relationship-specific investment ($\beta_1=.39$) and communication openness ($\beta_2=.38$) were found to be important predictors of perceived task performance while forbearance from opportunism was a very modest predictor ($\beta_3=.06$). Trustworthiness was found to be a strong predictor of relationship-specific investment ($\beta_4=.67$), communication openness ($\beta_5=.70$), and forbearance from opportunism ($\beta_6=.63$). Thus, while one path coefficient was very modest, evidence was found in support of all the hypothesized relationships.

Discussion

Perceived partner trustworthiness appears to be critical for facilitating task performance in selling partner working relationships. Thus to provide a foundation for effectiveness, sales representatives need to demonstrate and communicate their reliability and dependability, skills and knowledge, judgement, and integrity of intentions. As one sales representative suggested, this involves "not just meeting commitments and not low-balling verbal pricing, but also doing the little things like returning calls and calling with account updates." To facilitate development of partner perceptions of trustworthiness, sales representatives might conduct role plays, discuss how they would handle account situations and opportunities, or engage in other activities that would demonstrate experience, expertise, and professionalism in approach to the business.

The findings that relationship-specific investment and communication openness were key determinants of perceived task performance adds to the growing evidence that these constructs are central to effective working relationships. Selling partners can enhance their performance by committing time, energy, and other resources to the partnership and sharing plans, programs, goals, and account, territory, and industry knowledge. By making their investments and openness known to their partner, sales representatives demonstrate commitment to the relationship, promote reciprocity, and thus build strong relational bonds. Managers can facilitate this process by instigating team building activities such as formal account planning sessions.

The finding that forbearance from opportunism explained little of the variance of perceived task performance is interesting. It may indicate that not taking advantage of a partner is a necessary condition for effective selling partner relationships but is not sufficient.

Together, the strong structural and measurement results support the utility of separating the cognitive/affective component of trust from the intent/behavioral component, and examining linkages between them to better understand working relationship effectiveness. This conceptual and empirical treatment of trust may be useful to others studying trust in other relationship contexts. It may be even more fruitful, however, to examine trustworthiness at an even lower level of abstraction conceptualize trustworthy character, competence, judgement and motives as distinct constructs. This study limitation, as well as others, needs to be addressed in future research. Antecedents and consequences of perceived trustworthiness and trusting behaviors need to be examined in broader nomological networks, in a variety of contexts, and longitudinally. Some facets of trustworthiness, for example, may be more important in buyer-seller relationships than channel relationships, or at the individual rather than organizational levels. A better understanding is also required of how trust develops and how the concept differs across business cultures.

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SERVICES MARKETING

UNDERSTANDING THE UK HEALTH CARE CONSUMER

A Study of Management Orientation in UK Health Care.

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Abstract

The environment for Health Care managers in the UK has recently changed due to government policy demanding more accountability and an increasing customer orientation in this sector. This paper reviews the influences on these managers and goes on to describe research which assess their knowledge and skills regarding their ability to become customer oriented. The paper concludes that Health Care managers are not currently have the infrastructure to react to customer needs and wants although they do acknowledge the need for the application of marketing techniques and skills in this field. Viewed in the context of the former medical emphasis as opposed to performance/management emphasis of UK healthcare, this new environment is radically different and is proving a major challenge for managers in this sector.

Background

Like all public sector services in the UK, the National Health Service (NHS) is aiming for improved quality of care and levels of service through the development of a customer orientation.

There have been a number of events which have led the National Health Service in the UK to consider becoming market oriented. The first move towards marketing was an emphasis on Quality Assurance. Some hospitals have now recruited marketing managers and more are currently recruiting. This paper reports on the preparedness of health care managers to operate in a marketing oriented way, reporting on the consumer orientation of senior health care managers.

Influences on health care

Until the late 1980s, most quality assurance in the NHS took place on a fragmented and sporadic basis (Walshe). Quality Assurance was considered a peripheral activity by both the Department of Health and by Health Authorities. Rather than demonstrate enthusiasm for quality assurance, most clinical professionals actively resisted it (Shaw). There was little consumer pressure on quality of service.

Griffiths Report

In 1983, the Griffiths report (Griffiths) emphasised the need for the NHS to be accountable to the public:

“there is little measurement of health output; clinical evaluation of particular practices is by no means common, and economic evaluation of these practices extremely rare.... whether the NHS is meeting the

needs of the patient and the community, and can prove it is doing so, is open to question”.

World Health Organisation Declaration

In 1984, Britain, along with other European countries, committed itself to the principles of “Health for All” (World Health Organisation), becoming a signatory to a declaration to develop:

“effective mechanisms for ensuring quality of patient care within their health care systems by 1990.”

Working for Patients

The Department of Health published ‘Working for Patients’ (Department of Health) in 1989. This working paper proposed a major reform of the structure of the NHS, advocating the development of comprehensive plans for each Health Authority for:

“The systematic critical analysis of the quality of medical care, including the procedures used for diagnosis and treatment, and use of resources, and the resulting outcome and quality of life for the patient”.

The suggested framework for such analysis was Medical Audit, in which every doctor should participate. This initiative was supported by two major professional bodies (Royal College of Surgeons and Royal College of Physicians). Other Working for Patients reforms included:

- Splitting purchase and provider roles
- Contracting for health services
- Creation of an internal market
- Independence and freedom for NHS trusts
- New contracts for medical staff
- Incentivised involvement of clinicians in management

All of these elements of the NHS reforms require quality assessment and mechanisms for the sustainment and improvement of quality to ensure successful implementation.

From Quality to Marketing

In the Forward to Working for Patients, the Prime Minister stated:

“We aim to extend patient choice, to delegate responsibility to where services are provided and to ensure the best value for money. All the proposals in this White Paper put the needs of the patients first.”

Much of the NHS management effort in recent years has been aimed at increasing the responsiveness of the service to the customer. It is only very recently, however, that this has been recognised as a marketing orientation.

Two publications, *The Health of the Nation* and *The Patients' Charter*, have effectively put marketing on the health care agenda. *The Health of the Nation* addressed clinical objectives and *The Patients' Charter* centred on objectives concerned more with quality of service than with technical quality of treatment.

The Health Of The Nation (July,1992)

The Health of the Nation White Paper (1992) sets out specific health care objectives in a strategic approach to health. It recognises the need to concentrate on health promotion as much as health care. The White Papers' overall goal is to add years to life and life to years. It considers that the NHS structural and management reforms has put in place the right environment to allow the actualisation of health promotion issues which have not been seriously addressed since 1948.

It is arguable that all of the requirements of the Health of the Nation White Paper, could be best addressed by marketing personnel and general managers with a sound marketing acumen. Only the setting of the quantified "clinical" objectives requires the advice and input from other professional sources.

The Patients Charter

Guaranteeing the quality of an intangible service or the intangible elements of a service seems on the face of it to be far from easy. In addition, a service cannot be tasted, test driven, or tried out prior to consumption. A difficulty also arises if one has to investigate whether or not a service on an occasion was up to standard - because it has been used up!

The Patients Charter came into effect on 1st April, 1992. This in effect was a "guarantee of satisfaction" covering key issues of service delivery. It introduced three new statutory rights to the public,

- i To be given detailed information on local health services, including quality standards and maximum waiting times,
- ii To be guaranteed admission for treatment by a specific date no later than two years from the day when your consultant places you on a waiting list, and
- iii To have any complaint about NHS services - whoever provides them - investigated and to receive a full and prompt written reply from the chief executive or general manager.

The History of Marketing in the NHS

The management discipline of "marketing" has not played any significant role in the management of the Health Service since its formation in 1948. In fact it could be argued that marketing per se has been purposely avoided by many in the NHS management (or administration).

Marketing is a discipline which is culturally very strongly

linked with the commercial sector. Marketing is considered to be basically as "selling", and generates images of advertising and promotion. Furthermore, one of the central objectives of marketing, which concerns favourably differentiating an organisations products or services in order to command increased business at the expense of other providers, is considered to be unethical within many of the healthcare professions. It is a principle which is viewed by many Professional Associations and Societies as "misconduct" which may merit the striking off of individuals from the professional Register of names.

"Publicity for professional services is permitted provided that such publicity does not create an invidious distinction between pharmacists or pharmacies, is dignified, and does not bring the profession into disrepute. All publicity must..

not disparage the professional services of other pharmacists or pharmacies, nor make claims of superiority, either expressed or implied, in this respect.

not offer any inducement by way of discount, gift, reward, dividend, rebate or participation in a competition in relation to professional services.

All forms of communication are embraced in this guidance, including, for example, newspapers, leaflets, notices, signs, packaging material, labels, and radio and television announcements."
(Medicines, Ethics and Practice : A Guide for Pharmacists, 1991)

Similar guidance is found controlling the activities of the other medical professions.

Advertising and promotion is only a part of an effective marketing orientation. Nevertheless, "the baby has been thrown out with the bathwater", due in the main to misunderstanding the marketing concept, and it appears that the other marketing functions have not been accepted due to their association with this "unethical" practice.

Research Method

The Development of the Research Tool

Prior to developing a research tool, several in-depth discussions were held with health care managers at various levels, including chief executive level. In addition, interviews were held with directors and managers who were known to be advocates of the marketing concept. Also, one interview was held with an assistant marketing director, one of the few posts currently dedicated to marketing within the Health Service. Several issues were raised which were to guide the construction of the research tool:

Historical and cultural problems would present difficul-

ties, especially if the area of clinical choices were considered,

Marketing is a very misunderstood concept, yet very strong opinions are held regarding it,

There is a growing 'interest' in aspects of management practice which are concerned with customer service. This is due to the state of flux within the structure of the Health Service, current issues such as applications for Trust status, and the effect of growing numbers of GP Fund Holders.

There is an extreme variation in the knowledge of health care managers concerning marketing issues.

There may be some sensitivity concerning the use of marketing language, jargon, etc., ranging from objections to its use on one hand, to the risk of patronising if it were avoided.

The research was carried out at an NHS hospital trust, where the clinical specialties were divided into fourteen Units, each with a general manager and a clinical director. Consequently, another difficulty was perceived:

The capability of the research took, because of the variation in the activities, objectives and responsibilities between directorates, and their various degrees of patient (consumer) contact.

An in-depth interview/questionnaire was considered to be the most suitable style of survey. This was because the interviewer could ensure that suitable data was collected, and be in a position to adapt questions as appropriate.

In addition, fourteen interviews were considered to be quite manageable by the researcher. The improved quality and depth of information, together with full compliance, offset the significant amount of time required to conduct the interviews.

Respondents

Senior managers of an NHS Trust Hospital were interviewed. Thirteen completed interviews were obtained from Clinical Directors and General Managers amongst the fourteen Clinical Directors of the Trust.

Managing a Consumer Orientation in Health Care

The results of the study which relate to the identification and analysis of customer needs are presented here.

The managers who participated in the interviews had all found that their jobs in the NHS have changed over recent years, from administration to general management and from an environment in which their work has changed from an insulated organisation towards a free market. With these changes has come a whole new spectrum of activities. This has arisen because for the first time consumers can choose not to use particular facilities and can go elsewhere for health care services. In the past, hospital administration was arguably a

day-to-day task. Management did not have to think strategically about the positioning of their service and waiting lists which were becoming absurdly long were the earmark of inefficiency.

Ability to Assess Changing Customer Needs

One of the most basic requirements of a marketing oriented organisation is a clear understanding of exactly who the consumers and purchasers of your services are.

Respondents were asked a number of questions about their formal information gathering systems.

Do you have a formal system to assess future needs?	Yes 46% (6)	No 54% (7)
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Is information from patient records used in the business planning process?	39% (5)	61% (8)
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Half of the directorates had a formal needs assessment system and half used internal sources of secondary information in their business planning. Those who did have a formal system felt it important to know who their consumers and purchasers are so that they can manage the interface with these parties. Those who did not have a formal system recognised the desirability of customer analysis of external customers. Internal marketing was more of a problematic concept. When other departments were the customers, this interface was not being managed with the same care and attention as customers external to the organisation. This "captive" market is being taken for granted in most cases. In addition, it is not considered worthwhile to tailor services to the requirements of patients who are being referred internally:

"The problem is that the consumers of our services follow the trends of the front line directorates who refer them - the internal market is not a true market".

Information from these patients was not generally considered useful for planning purposes,

".....because it is a secondary referral".

It was the secondary directorates which tended not to use patient records in planning, although the patient records of the key front line directorates may well contain information which could assist secondary directorates. Joint planning of the information systems could provide pertinent information for planning.

Do you use patient records to study the attitudes, preferences and behaviour of current customers?	Yes 8% (1)	No 92% (12)
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Do you have any facility to help you predict the attitudes, preferences and behaviour of potential customers?	31% (4)	69% (9)
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(Of those not having a facility) Would such a prediction be desirable?	78% (7)	22% (2)
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In the main, patient information systems had not progressed further than their confidential clinical records. The information in these records could not be searched effectively or efficiently to provide information which would be useful in planning the delivery of services.

Only one directorate measured the wants and needs of current consumers. There were, however, several instances of comprehensive clinical records being maintained which facilitates clinical audit and provide useful statistics on clinical trends. Also, a few directorates have effective records detailing the volume and nature of business contracted with each organisational buyer (health authorities and fundholding GPs) but no data for individual consumers (patients). It is characteristic of current information systems that they are service-driven, not patient driven. Attempts to gather consumer information which would lead to a better understanding of their requirements and behaviour are hindered by a basic misunderstanding of the key motivations which drive consumer behaviour. Most managers agree that being able to predict such behaviours would be desirable and practically useful:

“If concern is real, you must be doing these things. Otherwise you would be burying your head in the sand. The Patients’ Charter will encourage complaints and suggestions, but we must try and do something by preventing these complaints in the first place”.

Another comment demonstrates a more sceptical attitude towards the value of the prediction of behaviour and attitudes:

“The point about it is, when people come in here, they’re scared stiff. It’s the fear of the unknown, so the key thing is to put them at their ease. I don’t think that when people come into hospital, that they have preferences per se. It’s much truer.... than it was, but for the most part, they act like sheep - they’re just taken over”.

Respondents were asked about the use of questionnaires and other forms of consumer survey:

Are questionnaires and consumer surveys appropriate for assessing consumers characteristics, requirements and satisfaction in health care?	Yes	No
	92% (12)	% (1)

Most were convinced of the appropriateness of marketing research techniques and tools in health care and many had recently undertaken such a survey very recently:

When was your last formal survey of patients?	<1 month	1-6 months	>6 months
	61% (8)	31% (4)	8% (1)

Different kinds of information featured with different emphasis in these surveys:

How important was this survey in.....

	Very important	Important	Not appropriate	Unimportant	Very unimportant
assessing consumer demographics/statistics	38% (5)	23% (3)	15% (2)	8% (1)	15% (2)
assessing consumers’ satisfaction with the service	54% (7)	23% (3)	23% (3)		
assessing and prioritising consumers’ actual requirements	-	31% (4)	23% (3)	38% (5)	8% (1)

Clinicians in particular were committed to the delivery of high quality medical care and are vulnerable to overlooking issues which are important to consumers. One clinical director conducted a survey of consumers’ requirements to highlight areas for improvement in services. The outcome indicated that the most important issues are adequate parking facilities and access to telephones. The clinician commented that he was:

“.....surprised to find the delivery of the service proper was further down the list of requirements”.

The objectives of investigating actual consumer wants and requirements ranked much lower than assessing satisfaction with the service received - a product rather than consumer orientation.

	Yes	No
Is there a system for noting patients’ suggestions?	39% (5)	61% (8)
Do you ever get complaints from patients?	100% (13)	0% (0)
Is there a system for formally noting such complaints?	100% (13)	0% (0)

When a patient complains formally, there is a legislatively controlled system for dealing with the complaint, ultimately through the Community Health Councils. This procedure is mandatory and thus no measure of consumer orientation. All the departments get complaints although few have a system for noting patients’ suggestions which may lead to a real opportunity to reduce patient complaints.

Discussion

The use of the word “customer” within the NHS is relatively new. Some within the NHS are still unhappy about this term, being used to the idea of ‘patients’, ‘residents’ or at best, ‘clients’.

External customers of the NHS are becoming more varied. A health service has to look at its population of customers on several levels:

- patients who are direct users
- potential patients - people who will become users of the service

- carers of patients who may be affected by health care services
- the public - demographic and social trends in the population.

Recent changes in the environment have meant that health care providers must focus more on a customer orientation. They have been put in a position in which they have a duty to know what their customers want and whether their needs are met. Definitions of quality of service now include the needs and wants of the customer. The relationship of health care professionals with the customer is intimate and complex. These features imply a responsibility on the side of service providers to be sensitive to patients' needs and provide information about services, treatments and possible outcomes.

The research presented in this paper demonstrates that some health care managers operate with their customers very much in mind. Some do not as their culture is only now changing and they do not have the tools and the skills to become marketing or customer oriented.

The culture of the National Health Service regarding its attitude towards its customers and consumers has changed dramatically in recent years. These changes have been imposed on the organisation by legislation and strategy documents produced by government departments along with specially commissioned reports. Health Service managers have themselves had to adjust to major changes very quickly whilst at the same time managing the changing culture throughout the organisation.

There is now a general acceptance of the need for good management skills and that effective general managers do not necessarily come from the clinical base of professionals currently within the Health Service.

The concept of quality standards has permeated throughout management and a developing customer orientation is creating an awareness of the application of marketing in the National Health service.

Health Care managers recognise the importance of collecting information about their consumers. There are, however, barriers to making best use of internal resources:

- there is no efficient means of collating data from individual clinical files
- secondary referral (from another department) is not thought an important source of information

There is a clear opportunity for the development of interdepartmental or interdirector information systems which will lead to improved planning tools for the total organisations.

Collecting information from current customers is generally

for product/provider based evaluation (clinical audit) not for customer based (marketing) objectives.

There is, overall, a positive perception of the role of marketing research in the NHS. It is, however, a feature of the NHS that inadequate information systems are cited as an excuse for not having enough information on consumer attitudes and behaviour. It is clear that the identification and meeting of consumer requirements is not a genuine element of their management philosophy and not yet a key feature in their service design.

A gap exists between an acknowledgement of the necessity and desirability of a consumer orientation and the development of systems and culture to facilitate this - for example the lack of interest in patient suggestions ignores a very straight forward opportunity to become more consumer oriented.

To ensure that the NHS meets the expressed demands that it becomes customer oriented, the following questions must be asked of (and answered by) all professionals:

- Who are your customers?
- How do you anticipate their needs and wants?
- How do you respond to their demands?

Having identified the major issues of marketing for health care managers, the next phase in this research programme will be to quantify the applications of marketing strategies amongst the whole population of UK health care managers.

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Marketing Strategies for Financial Instruments in Ukraine

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Abstract

Emerging from the collapse of the Soviet empire, Ukraine is confronted with a number of marketing obstacles in tapping global financial markets. A significant problem is overcoming the after-effects of centuries of colonial rule which directly contributed to low awareness of Ukraine worldwide. Since Ukraine lacks a track record, apart from its Soviet past, on which to judge credit worthiness, it faces serious skepticism from investors with regard to its potential issues. Therefore, it would be wise as a first step to target friendly markets for its securities, such markets as the worldwide Ukrainian Diaspora, to establish a credit record that can be used as evidence of fiscal responsibility before the world community.

Introduction

As Ukraine seeks to revitalize its economy and shed the ravages of seven decades of communism, she is faced with daunting tasks that challenge and strain her available skills and resources. Thus, Ukraine has initiated contracts with numerous governments and international agencies for wide ranging forms of assistance, especially financial credits. However, in order to secure credits, Ukraine must first resolve a difficult marketing problem. For years countries as diverse as Lithuania, Ukraine and Azerbaijan had been homogenized by the term "Soviet", or its incorrect but commonly used synonym "Russia", and thereby effectively shielded from world consciousness. With the exception of the legacy of the defunct USSR, Ukraine emerged on the world scene with no independent track record on the basis of which politicians or financiers could make judgment with regard to her future conduct. In truth, neither Europe, America or Japan knew much about Ukraine apart from it being an important component, the "breadbasket", of the Soviet Union. Thus, while there may be "experts" on Russia there are no "experts" on Ukraine. The shield was finally lowered on December 1, 1991, the day the people of Ukraine voted in overwhelming numbers to sever their subservience to the last vestige of Russian imperialism, the teetering Soviet Union, and affirm the earlier independence declaration of the Ukrainian Verhovna Rada (Parliament). However, the events that suddenly threw Ukraine onto the world stage also meant the Ukraine would have to behave like other sovereign states and solve her own social, political and economic problems even though many of them were inherited from three centuries of colonial rule.¹

¹Modern Ukraine traces its history back to Kievan Rus in the middle of the 9th century. Since the second half of the seventeenth century Ukraine was increasingly colonized by Tsarist Russia; after the Russian revolution she became a socialist Republic. Ukrainian history is marked with repeated attempts to assert national sovereignty especially in the twentieth century.

Paramount among the problems facing Ukraine is the necessity to rebuild an economy on the brink of collapse and in so doing provide hope of a better future for a long suffering people. Despite the recognized importance of the domestic agenda, the political imperatives of national security and territorial integrity, such as the disposition of the nuclear arsenal in Ukraine and the division of Soviet assets both within the boundaries of the former USSR and abroad have occupied much attention. (Feduschak, 1993) Well publicized differences with Russia over the disposition of the Black Sea Fleet, and less well known disputes involving embassies and consulates throughout the world have seemingly convinced the Ukrainian leadership that only a Western orientation can provide the technical expertise and financial assistance necessary for improvements in all spheres of life. As Zbigniew Brzezinski wrote: "Above all it is geopolitically essential that Ukraine succeed in stabilizing itself as a secure and independent state." That will automatically increase the chances of Russia's evolution as a democratizing and increasingly European post-imperial state. Accordingly a critical component of Western strategy has to be the deliberate effort - not only economic but also political - to consolidate a stable and sovereign Ukraine." (Foreign Affairs 1992, p.49) Yet how does a newly independent country secure the trust of world financial markets to bring this about? What strategy can her leaders pursue to quickly demonstrate that Ukraine is a good investment risk despite the multitude of problems it faces from its unsavory communist legacy?

One possible approach is to follow proven, accepted strategic marketing practice. In every marketing strategy there are two complimentary parts, identification of a target market and the design of an appropriate marketing mix. This approach can be successfully applied in Ukraine's quest to win credits for her economic renaissance. Consequently, as Ukraine's leaders strive to identify potential sources of funds, they must be ever cognizant of the necessity to properly package the "product" to prospective investors. It is fortunate, that a number of case histories of countries passing through similar experiences with today's Ukraine can be used as guides in identifying different target markets and creating an effective marketing program. In this regard the lessons learned from Israel in its formative years, along with the experiences of Hungary and Turkey in gaining access to world capital markets are particularly useful insight stimulating cases.

Market Segments for Global Bonds

The global bond market can be partitioned along three discernible regional lines with each geographic segment having its own unique characteristics. In addition, there is also the so

For an excellent treatment of Ukrainian history see Ukraine: A History by Orest Subtelny.

called "Patriotic" bond market that should be of special interest for Ukraine's needs. Within each regional market, the distribution depends on the country of origin of the issuer, its track record, the placing power of the lead manager of the bond issue, and the strength of the underwriting group.

The respective markets include:

- o The United States market
- o The Eurobond market
- o The Samurai and yen private placement market
- o Patriotic market

Next we will examine the most important attributes of these markets in terms of greatest potential interest for Ukraine.

United States Market

Capital markets in the United States are the largest in the world measured by the volume of outstanding bond issues as well as annual gross funds raised. The disclosure and registration provisions for US bonds are the most stringent in the world, which makes it a poor alternative for countries learning the mechanics of this type of debt financing. Developing countries have gotten around the disclosure procedures by raising money through private placement with institutional investors or under Rule 144a, neither of which require SEC registration. Generally US markets have serviced the needs of Latin America, the island nations of the Caribbean and some Asian countries. Further, the fact that American bonds are not sold in bearer form might be judged to be another disadvantage for developing countries to market their issues. Without reporting requirements it is difficult to quantify the amount that is being raised in the non SEC regulated markets. The SEC regulated market, the Yankee market, has had a volume of less than US \$10 billion new issues yearly.

Eurobond Market

The Eurobond market is the biggest bond market for a developing country at present; in all likelihood it also represents the most attractive market in the long run. The Eurobond market offers bonds in a variety of currencies, however, it is dominated by two principle currencies, the German mark and the American dollar. These represent the most important issuing currencies for emerging countries and would be the bonds of choice for Ukraine. The European bond market is more mature with a wider investor base than its American or Japanese counterparts. Because bonds are mostly in bearer form, the investor profile is not easy to determine. Fedder and Mukherjee (1991) have profiled the DM market investor base in terms of order of importance as retail German investor - typically the individual German resident, followed by European retail investors examples of which would be British accountants, Swiss bankers and Belgian dentists. (European retail investors have participated in this market because of the traditional strength of the German mark.) Retail investors are likeliest to hold a bond to maturity, even if unfavorable economic developments occur subsequent to issue due to transaction costs, and because individual investors have limited information scanning abilities, that is, they are not as likely to be aware of the latest

developments unless they make headlines. Retail investors are followed by German and European institutions who though more risk averse than retail investors actively participate in this market in order to increase the return on their investment portfolios. Other participants in this market are Latin American investors and Middle and Far East institutional investors.

The US dollar Eurobond market appears to have had a reverse profile with European institutional investors as the primary tier followed by retail investors. This is due to the weakness of the US dollar and to the floating rate issues of the 1980's which were mostly of interest to the institutional investors. The Latin American retail segment along with American institutional investors who are primarily interested in Latin American and Asian borrowers round out this profile.

Samurai and Yen Private Placement

Developing country issues, mostly East European, Asian and Caribbean, in the Japanese securities market have been in both the Samurai and the yen private placement market. The market is illiquid with most investors treating their investment as long term. Investors in these markets have been almost exclusively institutions such as life and casualty insurance companies, regional and city banks, trust banks, financial institutions and in some instances government agencies. These institutions have reached the limits of their lines of credit to developing countries largely due to the collapse of the Japanese real estate and equity markets which have eroded institutional balance sheets. Therefore, it does not appear that in the near future Ukraine will be able to tap into this market.

Patriotic Bonds

The so-called patriotic bonds are a financial instrument that attracts investors on some other basis besides the commonly understood rate of return or coupon rate. Investors who participate in this market may knowingly forego better investment opportunities. The best known examples of patriotic issues are the variety of bonds sold by the state of Israel to world Jewry, individuals and institutions sympathetic to the future needs of Israel. While these types of issues may have merit in their own right, the primary purpose for their purchase is to provide credits to the issuer on attractive terms. Thus, there is no secondary market for this type of issue. In fact without these types of issues, the stark reality for the borrower would be failure to secure any type of credit in the international bond market.

Entry Strategies Into World Capital Markets

The World Bank emphasizes that before making a successful debut in the international bond market, a country must demonstrate prudent economic management, gain control over its fiscal deficit, achieve a "neutral" policy environment which allows both domestic and foreign investors to perceive risks and rewards at their appropriate market valuations. (World Bank Annual report 1991) Furthermore, issuers of bonds must take into account the variables that influence buyer choice of bonds. A study by Tesar and Werner(1992) found

that to the extent that investors hold international securities, the composition of their portfolio of foreign securities seems to reflect factors other than diversification of risk. Geographic proximity coupled with the ease of access to relevant information potentially matter even more than the purely financial motives of diversification. In effect, bond issues seem to have a "country of origin" effect in that Americans are more comfortable investing in the western hemisphere while Europeans exhibit a preference for lands closely tied with their history. This pattern at the same time is an affirmation of political realities, in that European countries have a greater stake in a stable Ukraine than a prosperous Mexico, while the opposite can be expected for America. Another significant variable is "ratings consciousness" and its effect on American investors. Americans are more prone to consider the ratings of Standard and Poor's or Moody's in making their investment choices.

The following three case histories illustrate diverse successful approaches for entry into the bond market. Each case is of interest to Ukraine.

Israel

When Israel achieved independence in 1948, the need to finance the fledgling state was secured by patriotic issues of bonds which initially were guaranteed by the United States, thereby effectively eliminating the risk and making it possible to sell the bonds at a high price and a lower effective interest rate. As a result, even regulated institutions that operate under strict investment constraints could buy these issues. Israeli bonds were heavily bought by individual investors spurred on by effective marketing communication. Since these bonds were and continue to be private in nature, it is difficult to get statistics on the total value of their issue. Using direct marketing offices throughout the Western World, Israeli bonds are sold on a continuous basis with a broad product mix ranging from \$250 certificates with one to five year maturities, to zero coupon bonds, to individual variable rate bonds with twelve years to maturity. Typical prospecti suggest that a single issue will be in the range from \$100 to \$200 million. The marketing thrust of Israeli securities is interesting. A recent ad aired over New York City radio stations effectively illustrates the nature of their appeal. It states:

"Why buy Israeli bonds?

You do it for reasons of the heart! We have never defaulted. With your help we will not default on our people".

Hungary

Hungary is one of the most successful countries in tapping the international bond market. In order to establish credibility, Hungary agreed to service the 1924 sterling bonds and the 1924 US dollar bonds. While Hungary entered the bond market in the 1980's, it introduced a program of market reforms dating back to 1968 with the adoption of the New Economic Mechanism (NEM), thus it was better positioned than any other Eastern European country to meet the challenge of integration into the world economy (Hare 1991). Persistent govern-

ment deficits of the 1980's have been successfully financed with external long term debt. Including the issues in early 1992, the Hungarian bonds are valued at US \$6.5 billion out of a total external debt of \$21 billion, \$19 billion of which is classified as external long-term debt. The composition of the bond issues is more than 45% in German marks, over 32% in Samurai yen, and slightly less than 12% in US dollars with the rest in Swiss francs, Austrian shillings and European Currency Units (ECU's). It is worth noting that none of these issues were listed on the US bond market. Characteristically, issues listed on the European market have maturities from five to ten years with the exception of the Samurai and yen private issues that extend to fifteen years. Hungary has also had guaranteed issues. In 1990, Hungary's US \$200 million ten year Eurobond issue had the principle guaranteed under the World Bank's Expanded Cofinancing Operations (ECO) Program (National Bank of Hungary 1992).

Turkey

Turkey entered the bond market in Europe by tapping the foreign currency deposits of Turkish workers residing in Germany. A special arrangement known as the "Dresdner Scheme" was set up between Dresdner Bank and the Central Bank of Turkey under which Turkish resident workers who preferred to keep their savings in Germany were specifically targeted. The market quickly expanded and at the end of 1990 the bond issues outstanding were valued at US \$5.2 billion. All of the issues are in the Euromarket (denominated in both DM and dollars) and the Samurai market. The shorter maturities are five to seven years in the Euromarket and seven to twelve in the yen. By targeting Turkish workers in Germany, Turkey was successful in using an initial patriotic issue, patriotic in the sense that any associated risk was still Turkish, to establish credibility within the financial community.

The Target Market for Ukrainian Bonds

Reminiscent of the Israeli experience in the late 1940's, Ukraine can rely on a world Diaspora to both initially purchase a portion of its securities and more importantly to provide it with a credit history. To date, Americans and Canadians of Ukrainian ancestry have played a pivotal role as informal advisors in fields as diverse as medicine, banking, law, education and military science. (International Business Week Aug. 17, 1992) Ukrainian communities throughout the world but especially in North America are linked together by a vibrant Ukrainian and English language press along with a series of interlocked religious, social, political, professional and financial organizations. The Ukrainian Diaspora has played a crucial link in setting up structures for the new Ukrainian state to deal with the world community. For instance, local businessmen of Ukrainian heritage and professionals from Ukrainian-American organizations were instrumental in providing quarters and setting up the mechanisms for the Ukrainian ambassadorial staff in Washington, D.C. In Great Britain and in Canada the Ukrainian communities donated buildings for use as embassies in the respective capitals. The commitment of the Ukrainian North

American community is shown by the increasing number of individuals beginning to carve out a stake in Ukraine, some on the basis of well thought out financial analysis, others on emotional grounds. (Fialka 1992)

Marketing Ukrainian Bonds

In order to stimulate investor demand for an external debt issue, Ukrainian policymakers need to factor in the points listed below.

1) Ukraine has inherited part of the legacy of the Soviet Union. As most financial analysts point out the rescheduling and servicing of the Soviet Union external debt obligation must be agreed upon and accepted by the creditors before Ukraine can issue its first external bonds. Over the last half year the Ukrainian government has issued several statements agreeing to accept responsibility for 16.37% of the debt, which would result in an external debt between US \$10-10.5 billion. This was a relatively light debt compared to Ukraine's GDP and would place Ukraine into the lightly indebted countries category by World Bank standards. In November 1992, in exchange for retaining the bulk of the foreign assets of the former Soviet Union, Russia agreed to take over Ukraine's share of the foreign debt (The Wall Street Journal Nov. 25, 1992). This in turn would increase Ukraine's creditworthiness. The IMF's report on Ukraine (Economic Review Ukraine 1992) found that Ukraine's foreign trade deficit has been exaggerated when measured in domestic prices as opposed to world prices. Export values are higher in world than domestic prices while import values are lower in world prices than domestic prices. This they find indicative of Ukraine's competitiveness in its traditional foreign exports (electricity, coal, iron ores, etc.). Ukraine's competitiveness in her traditional exports would indicate an ability to generate export earnings to meet Ukraine's interest and repayment obligations. Thus, while Ukraine has no track record with world investors, it does have a clean slate with no external debt and the potential to generate foreign exchange that can support her borrowing in the external market. This fact must be communicated to potential investors! The standard mechanism for mounting a successful marketing drive to reach potential investors is the "roadshow". Roadshows are organized by the lead manager of the bond issue and target both individual and institutional investors in important investor centers. For successful borrowers yearly roadshows are a sine qua non.

2) Ukraine needs to establish investor demand and overcome the "unknown borrower" factor. This would suggest that an initial issue should be more generously priced with a higher yield to arouse investor interest. Subsequent demand by a growing group of investors will bring the future issue yields down. To build a track record, initial Ukrainian sovereign bonds need to be of short maturities and will need to pay dividends more often. Certificates of \$250-\$500 redeemable after one year in Ukrainian currency could provide a popular and affordable investment instrument for the young and elderly who have visited Ukraine in increasing numbers in recent years. This along with one to three year maturity bonds

paying dividends semiannually or quarterly, or with amortization schedules would provide a track record and investors with confidence as payments are met. It is crucial to make investors feel comfortable if they are to come back into the market in the future.

3) The government of Ukraine needs to carefully consider where to register its bonds. With the exception of Israeli patriotic bonds, the majority of developing country bonds are listed outside the United States. By focusing on the Ukrainian Diaspora, Ukraine can design a first issue that is similar to the Israeli patriotic bonds. The bonds would have to be registered with the respective agencies in the US and Canada. Because the Ukrainian community's economic clout is very small relative to the Jewish, it would be necessary to sell them to institutional investors such as Ukrainian Credit Unions and Savings and Loans. For the Credit Unions to be able to invest in these bonds the bonds would need to be guaranteed. There is precedent for this type of guarantee since the early issues of Israel and Mexico were guaranteed by the US government making them attractive investments for even small financial institutions such as the mentioned Ukrainian Credit Unions and Savings and Loans.

4) Collateralized or securitized issues have a much wider investor base. Presently three opportunities present themselves for collateralizing Ukraine's initial debt issue: (1) Ukraine can pledge a basket of its receivables in convertible currencies, such as the proceeds from the AT&T, Pepsi or Monsanto receivables; (2) Ukraine can pledge commodities such as farm products and minerals; and (3) request a guarantee from Germany or the United States. Although Germany is encountering huge reunification costs and is experiencing social upheavals, it has guaranteed 80% of the export value to Eastern European countries and the republics of the former USSR through its Hermes loans. It is also in Germany's interest to promote stability in the region and prevent additional movement of refugees.

Conclusion

Today Ukraine finds itself in the same position as Israel in the late forties and Turkey and Hungary in the early eighties, when they entered the external capital market. Ukraine could issue patriotic bonds sold through Ukrainian churches, insurance companies and thrift institutions in the Diaspora. While this sale would be small compared to Israel it is a necessary starting point to establish a record of responsibility before the financial community. Another alternative is to issue bonds with high yields in order to compensate for the unknown risk factor. The most desirable alternative would be for Ukraine to issue bonds that were guaranteed by one of the leading industrial nations. However, the first step must be taken by the policymakers in Ukraine. It is in their hands to pass, implement and enforce the market, fiscal and monetary reforms that would make Ukraine a solvent and creditworthy nation. If they achieve these goals, Ukraine has the potential to become one of the more economically powerful countries in Europe.

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INTERNATIONAL SERVICES MARKETING: A COMPARATIVE
EVALUATION OF THE DIMENSIONS OF SERVICE QUALITY BETWEEN
DEVELOPED AND DEVELOPING COUNTRIES

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Abstract

During the 1980s, the international marketing of services has grown tremendously in world trade. As services are having a significant impact internationally, special attention is needed to deal with the opportunities that emerge both domestically and worldwide. This rapid growth of the service sector can be found in both developed and developing countries. With opportunities found in service industries across different countries, it is essential to understand the characteristics of services that distinguish themselves in nations under different stages of development.

The rationale for prescribing an increase in the service sector can be derived in the "stages of development" theories and the sectoral interdependence theories. These theories are presented and a general framework for services quality is discussed in the first sections of the paper. Stages of growth theories have attempted to link the demand for services to the stages of economic development, with services increasing in importance towards the later stages of growth. More recently, the sectoral interdependence approach has argued that selected services are critical before any viable economic development can occur.

The framework for services quality is applied to make a comparative evaluation of ten dimensions of service quality between developed and developing countries. These dimensions include factors such as reliability, responsiveness, competence, access, courtesy, communication, credibility, and others.

The paper discusses the theoretical bases along with practical illustrations and examples of each of these dimensions.

Fifteen specific hypotheses are derived for each of the service quality dimensions based on the relevant environmental factors characterizing developed and developing economies. Managerial implications of the hypotheses that we derive are also proposed. Finally, the empirical investigation of these hypotheses is suggested as a direction for future research. The primary requirements are constraints concerning such a cross cultural research agenda are introduced.

As the significance of international service companies and the international marketing of services in the global economy continues to grow, international services marketing increasingly becomes an important key to successful world business, not only for developed countries, but for developing countries as well. One important consideration in this key is the quality of services issue. A sufficient understanding of the similar as well as different factors that determine the quality of services across countries in different stages of development and with different cultural backgrounds is needed. The framework and the hypotheses in this paper can provide useful tools to facilitate this understanding. With this awareness the international marketer can best develop the effective service marketing strategies appropriate in a global environment.

CONSUMER SWITCHING BEHAVIOR OF BANKING SERVICES:
A CONCEPTUAL MODEL

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Abstract

A conceptual model specifying consumer satisfaction with banking services and importance of services as the critical variables in determining likelihood of a consumer switching from a bank to its competitor. The model is further expanded to include various determinants that may jointly influence the likelihood of switching entire set of banking services. Several hypotheses are proposed in this context and a plan to test the same via a field survey is also presented.

Background

Banking services in the USA, until recently enjoyed high customer loyalty. In an earlier research study, Foster (1968) found that 75% of the respondents changed banks only when the change of residence necessitated it. Traditionally, therefore, banks have focussed upon attracting new residents in an area. Some banks have raised a question with regard to the adequacy of this strategy in 1990s in the light of 18.6% growth in number of banking establishments during 1980-86. In comparison, both the population and mobility (i.e., number of residents that moved in a year) in the USA increased only by 6.1% and 13.6% respectively (see Table 1 -- prepared on the basis of data from the Statistical Abstract of the United States, 1990). Furthermore, statistics reported in Table 1 suggests that both the population and new residents available to a banking establishment during 1980-86 decreased by 10.5% and 3.9% respectively. A similar analysis may be done at the bank and state/city level to gain insights about the variation in severity of the problem faced by various banks located in different states/cities.

This trend probably has worsened in the recent years. This has also led to the practice of more and better marketing techniques by some banks. They are also realizing the need to seriously investigate the possibility of attracting and switching competitors' existing customers. The competing banks may be thinking the same way and thus a strategy to retain existing customers is also needed. The issue of "bank loyalty" and "bank switching" is, therefore, of dominant concern in the retail banking business. Most of the past research has focussed on such issues as selection of banks (Anderson, Cox and Fulcher 1976; Bowers 1969; Dupuy and Kehoe 1976; Linneman and Davis 1976), relationship banking (Berry and Thompson 1982) and market segmentation (Hood and Walters 1985; Kinnaird, Shaughnessy, Strumann and Swinyard 1984). More recently, the topic of bank loyalty and bank switching is gaining the attention of researchers (Jain, Pinson and Malhotra 1987; Moutinho and Brownlie 1989a, Moutinho and Meidan

1989b). Two specific questions that will be addressed in our research are:

1. What makes a bank customer switch to another bank for a particular service?
2. What makes a bank customer switch the entire banking operations to another bank?

In the next section, we review the relevant literature and develop hypotheses relating to the two research questions mentioned above. A conceptual model is developed that presents the key factors and their relationship to bank switching behavior. This model and the hypotheses are tested in a field setting using survey research. The details of the research study are discussed in the section following the hypotheses and the conceptual model.

Previous Research and the Hypotheses

In this section, several factors are identified that could possibly explain why a customer would switch to another bank either for a particular service or for entire banking operations.

Switching to Another Bank for a Particular Service:

Satisfaction with the Banking Services:

In a survey done by Opinion Research Corporation in 1984, one out of four consumers moved at least one account from one financial institution to another in 1983. The reasons cited for the move were convenience, better service, lower service charges and higher interest rates on money market accounts. Recent research by Moutinho and Meidan (1989) suggests that bank customers are more likely to change banks due to high interest rates on credit cards, low interest rates on savings account and denial of loan applications. Although better financial offerings seem to be the major reason for changing banks, convenience and service seem to be the valid reasons too. In the Moutinho and Meidan (1989) study, the customers had high levels of satisfaction with regard to the location and accessibility of banks. Where this is not the case, i.e., location is not convenient or the service is not efficient or up to the expectations, bank switching may take place despite satisfactory financial offerings. Thus a customer may think of changing banks due to any of these considerations, i.e., financial considerations, service considerations, convenience considerations etc. if s/he is not satisfied with the offerings of the bank. Satisfaction/dissatisfaction with the offerings is thus one of the basic determinants of bank switching behavior.

TABLE 1
POPULATION AND BANKING STATISTICS

Information	1980	1986	Growth
U.S. Population (in thousands)	227,757	241,625	6.1%
Mobility (in thousands)*	36,887	41,940	13.7%
Number of Banking Establishments	46,184	54,759	18.6%
Population/Banking Establishment	4,932	4,412	-10.5%
New Residents/Banking Establishment	797	766	-3.9%

Source: U.S. Bureau of the Census, Statistical Abstract of the U.S., 1990, Washington, D.C.

***NOTES:**

1. Statistics reported for the years 1980-81 and 1985-86 respectively.
2. No. of residents who moved -- excludes members of the armed forces living abroad.

Importance of the Banking Services:

Two questions in this context need to be addressed in order to understand the link between dissatisfaction and customers bank switching behavior.

1. Does a given level of dissatisfaction from a particular service lead to the same response from different customers? And,
2. Does a given level of dissatisfaction from different services lead to the same response from a particular customer?

An intuitive answer to both these questions is NO. And the reason is that "importance" of a particular service to different customers is not the same, as also the importance of different services to the same customer is not the same. Thus, importance of a particular service to a particular customer is a critical factor in determining that customer's response to dissatisfaction from a particular service.

Bank marketers have realized that not all banking services are equally important to all bank customers. This has resulted in the proposal of a methodology to measure "Determinant Attributes" (Myers and Alpert 1968; Alpert 1971; Anderson, Cox and Fulcher 1976). This procedure involves measurement of "Attitudes toward features which are most closely related to preference or to actual purchase decisions" (Myers and Alpert 1968).

Determinant attribute analysis technique has been applied to bank selection decisions to assess the relative determinance of various attributes (services) in the selection of a bank. It has also been applied to identify customer segments such as convenience - and service - oriented customers (Anderson, Cox and Fulcher 1976). A goal of our research is to apply the determinant attribute analysis to understand bank switching behavior.

The concept of "determinance" was developed by Myers and Alpert (1968) from the notion of "importance" defined by Krech and Crutchfield (1948). The underlying thinking, however, is the same, i.e., more important an attribute is to an individual, more determinant it will be in decision making. Thus in the context of bank switching behavior, this would mean that individuals would think about switching to another bank only if a particular service was an important one and would rather stay with the same bank if the service was not important. Thus the two constructs, i.e., satisfaction from a service and importance of that particular service will jointly determine the likelihood of a customer switching to another bank for that particular service.

Consider four scenarios resulting from four combinations of high and low levels each of satisfaction and importance. The only scenario under which the customer will consider switching to another bank for a particular service is when the satisfaction is low and importance is high, i.e., the customer is dissatisfied with a service which is very important. This customer will have the "highest likelihood of switching". If the customer was dissatisfied but the service was not important, the customer will have an attitude to "Put up with it or Doesn't matter". If the satisfaction was high and so was the importance, we have a "content" customer. Finally when the satisfaction is high and importance is low, the customer will have the "lowest likelihood of switching". Thus the two variables, satisfaction from and importance of a particular service will jointly determine the likelihood of a customer switching to another bank for a particular service. The nature of relationship of satisfaction and importance with likelihood of switching to another bank for a particular service is captured in the following two hypotheses:

H₁: Satisfaction with a particular banking service would be negatively related to the likelihood of switching to another bank for that particular service.

H₂: Importance of a particular banking service would be positively related to the likelihood of switching to another bank for that particular service.

Switching the Entire Banking Operations:

Another important problem faced by a bank involves identification of conditions under which a customer terminates entire operation at one bank and switches to another bank. An obvious situation when this could happen is when the bank is performing poorly on all or most of its services and the customer considers all or most of these services important. In taking a decision such as complete termination of operations at a bank, some customers are likely to undertake a detailed processing and look at all services used at that bank, respective importance and satisfaction from each service. On the other hand, some customers may be completely driven by financial considerations whereas some others may take into account only convenience aspects. Thus the likelihood of switching entire banking operations would depend upon type of decision making strategy used by a customer in putting together information pertaining to satisfaction from and importance of different services.

At this point, no hypotheses are made relating the satisfaction and importance to likelihood of switching entire banking operations. Instead, our research will focus upon the link between likelihood of switching a bank for just one service and likelihood of switching entire portfolio of banking services. This issue is of central importance for bank marketers. This would reveal why a bank may lose the entire business from a customer on account of one service. Three categories of responses are possible from customers. Many customers would just switch to another bank for that particular service whereas some others would move their entire portfolio. Yet another category of customers may do nothing and would simply continue with their existing bank despite their intentions of switching one or few services. In the following sections we discuss the variables that influence decisions concerning switching of entire banking portfolio.

Likelihood of Switching Bank for a Particular Service:

Next, we consider the issue about the likelihood of switching one service as it affects the likelihood of changing entire banking portfolio. A high likelihood of switching a service may open up the possibility of the customer considering switch of entire banking portfolio. On the other hand, a low likelihood of switching a service may eliminate the subsequent possibility of the customer considering switch of entire banking portfolio. Thus the hypothesis:

H₃: The likelihood of switching to another bank for a particular service will be positively related to the likelihood of switching entire banking portfolio to another bank.

Further, two customers with an equal likelihood of switching to another bank for a particular service may not react the same way when it comes to switching the entire banking portfolio. This may be due to the fact that changing the entire banking portfolio may mean different degree of inconvenience to them either on account of differences in their financial portfolios, lifestyles or both. In this context, we bring in two more constructs to explain bank switching for entire set of banking services. These are "dependence" that deals with the nature of financial portfolio of a customer and "inertia" that captures a customer's lifestyle.

Customer Dependence:

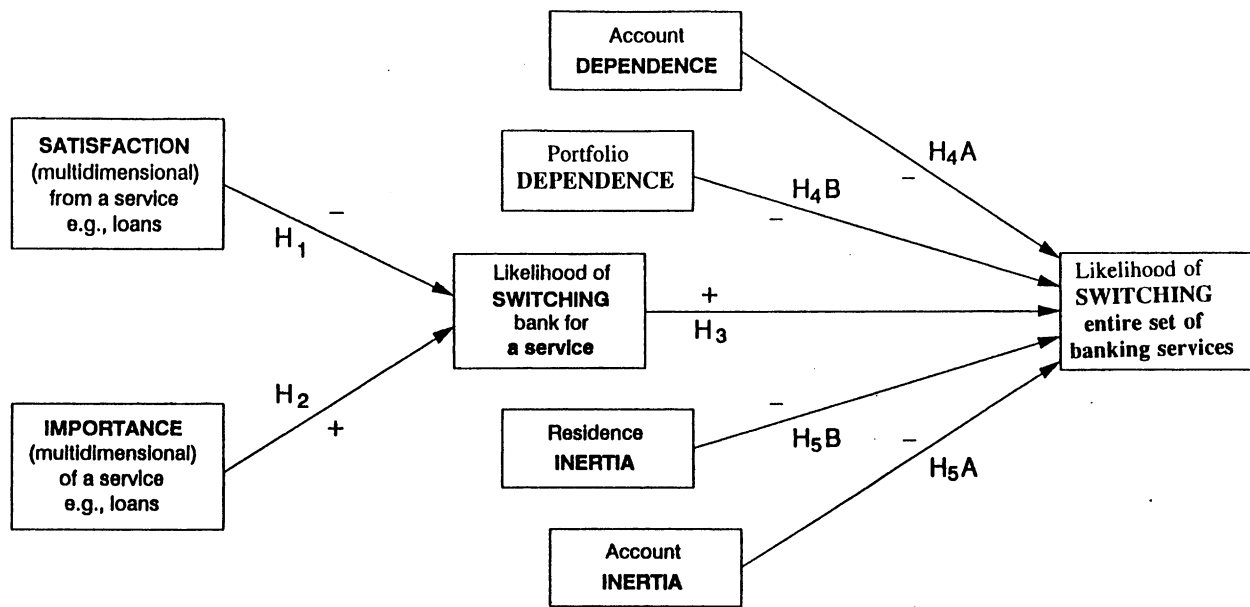
When considering switching of the entire set of banking services to another bank on account of dissatisfaction with a particular service, a customer not only takes into account the importance of that service; s/he is also likely to consider two other related issues. These are: i) switching implications on other arrangements, e.g., bill payments or salary credits, and ii) number of services used at that bank as compared to total number of services used at all banks. Thus the issue of switching entire set of banking services from one bank to another bank is closely tied to a customer's dependence on that bank.

Two measures of dependence would be: i) account dependence - the absolute number of services used by a customer at a bank and ii) portfolio dependence - proportion based on the number of services used by a customer at a bank divided by the total number of services used by that customer at all banks. Using these two measures of dependence, it is hypothesized that:

H_{4A}: The number of services used by a customer at a bank would be negatively related to the likelihood of switching entire set of banking services to another bank.

The rationale for this is that switching a smaller number, e.g., four services is going to be easier than switching a large number, e.g., eight services. This is due to the time, inconvenience, paper work and penalties involved in closing a large number of services at a financial institution.

H_{4B}: The ratio of services used at a bank to the services used at all banks by a customer would be negatively related to the likelihood of switching entire set of banking services to another bank.



A Conceptual Model of Bank Switching Behavior
FIGURE 1

The rationale is that switching of half the financial portfolio is more difficult than switching of one-fourth of the portfolio. This is again due to the time, inconvenience, paperwork and penalties involved in moving a large part of a portfolio located at one bank to a new bank.

Customer Inertia:

Many banking institutions focus on a customer segment described as Established Business Customers or EBCs (Hood and Walters 1985). These authors define EBCs as "Individuals who have lived in the bank's market area for a number of years, have a knowledge of financial matters and are well into their careers and lifestyles." In Hood and Walters research, most EBCs were found to be loyal to their banks - 64 percent had been with their bank eight or more years, 84 percent had not changed banks within the last three years, and 72 percent were not using another bank or savings banks for bank services.

These authors conclude from their findings that once a bank attracts EBCs, they were likely to remain loyal to the bank. The very profile of the EBCs suggests that this may, to a large extent, be due to their demographics. These are likely to be people with strong community ties both in terms of work and family, and changing banks for these individuals would mean an uprooting, a disturbance of their lifestyles. In a way, these individuals are likely to have some kind of inertia and would rather put up with minor complaints they may have with their banks rather than think of changing banks. As against EBCs, customers who are not well

established into the community are more likely to consider switching, their inertia or resistance being low. We thus introduce the concept of "inertia". Two measures of inertia are: i) account inertia - the number of years the customer maintained an account at the bank and ii) residence inertia - the number of years the bank customer has lived in that geographical area. A larger number of years on both these measures, would indicate high inertia. In turn, inertia is likely to be negatively related to the bank switching. Thus the hypotheses:

H_{5A}: The number of years of a customer's residence in the local area would be negatively related to the likelihood of switching the entire set of banking services to another bank.

H_{5B}: The number of years a customer has maintained an account at a bank would be negatively related to the likelihood of switching the entire set of banking services to another bank.

The conceptual model summarizing the seven hypotheses is given in Figure-1. Details of a research study testing this conceptual model and the hypotheses and the results will be presented at the conference. This research addresses an important yet relatively neglected topic in the area of bank marketing. The findings would contribute to the discipline by providing a better understanding of consumer switching behavior of banking services. Some of the results could be extended to services marketing in general and may be of interest to both academicians and practitioners.

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FRANCHISING AND GLOBAL SERVICES MARKETING

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Abstract

In the past decade, the field of services marketing has been attracting considerable academic attention. This is consistent with the growing services orientation of the U.S. economy and the marketing challenges created by the changing environmental conditions, such as deregulation, in service industries.

Basically, services marketing is distinguished from product marketing by the fact that the 'product' in the case of service industries is intangible, incapable of being stored, almost impossible to standardize, and its production and consumption are largely inseparable. These and other differences are considered to be the main factors which distinguish services marketing from product marketing. However, one area of particular concern is the distribution of services -- how to get the service to the customer efficiently and effectively.

Franchising as an Entry Strategy for Service Marketing

Distribution channels can involve three different kinds of participants -- service firms, intermediaries, and customers. The participants are in a buying and selling relationship with the 'up' and 'down' channel participants. The existence of power, conflict, and cooperation behavior patterns in a channel of distribution result from the extent of dependence of each member on other channel members.

Franchising business services

operation is one example of the use of the intermediaries in the marketing channel strategy. The franchising of business services is the third fastest growing segment of franchising. Reasons for this growth include: (1) the increase in automation has increased the demand for specialized skills, (2) the tax system has become more and more complex through the years, resulting in a growth in accounting-type services, and (3) the increasing desire of Americans to become entrepreneurs (Garry 1987).

Examples of the franchising of business services include job placement agencies, printing and copying, financial services, legal services, and computer consultants.

There are several strategies that can be used to make the marketing of services more convenient. Service marketers can adapt to demands for conveniences by introducing new services or revising old services. For example, the banking industry has responded to consumer's needs by opening more branch offices, extending hours, and installing automatic teller machines.

Channels of distribution have also been altered to meet consumers' growing need for convenience. Insurance companies now offer insurance through agents. "Another major change which further illustrates the shift to mass merchandising of services is the distribution of services by large, goods-oriented marketers" (Johnson 1970). For example, many department stores have beauty salons within their stores, and Sears even has an insurance outlet in some of their major stores.

Although services cannot be protected through patents, Nicoulaud advises that some form of protection can be achieved through: "1) the right choice of method of entry and penetration into foreign markets; 2) the development of a strong and differentiated organizational image linked to, 3) post purchase communication," (Nicoulaud 1989, p. 58).

Because speed is essential in entering and penetrating overseas markets, Nicoulaud recommends franchising as particularly well suited to the situation.

Advantages and Drawbacks of Franchising

Cross and Walker (1987) call service marketing and franchising a practical business marriage. Indeed, franchising offers advantages to both the franchisee and franchiser. The service franchisee receives extensive assistance from the franchiser in several forms: 1) an established concept, 2) a recognizable brand name and/or credible image, and 3) tested and proven business methods. These combine to reduce the risk of doing business in the overseas market.

For the franchiser, franchising is often a viable alternative to a company-owned chain. Franchisee fees are a source of funds that can be used for both cash flow and horizontal expansion. In addition, the franchiser retains a certain amount of control over operations by establishing standard systems and procedure control operations.

Franchising meets the challenges of service marketing in several ways. First, services are discretionary; many purchased services can be either performed by the consumer or

postponed. Accordingly, convenience is critical in the marketing of services. Franchising offers multiple locations and, thus, increases convenience. Services are heterogeneous and, therefore, nonstandardized, which makes quality control difficult. Franchising allows standardized systems and procedure to protect the quality of services (Cross and Walker 1987).

One strategy suggested for dealing with intangibility is to relate the service to something tangible. The Rock of Gibraltar is used by one insurance company to associate an image of reliability with its service. A franchise system follows the same approach with its logos, spokespeople, and standardized facilities (Cross and Walker 1987). McDonald's golden arches are found worldwide, even appearing recently in Moscow.

Franchising can be used to overcome inefficiencies, and to increase production and product quality. Reasons for the success of franchising include the following: a uniform quality of service in the franchise firms, local service outlets are identified as members of a larger group, and the use of large scale advertising and other mass promotion activities. U.S. examples of successful franchises include McDonald's and Holiday Inn hotels.

Specifically, the U.S. McDonald's fast-food chain offers an outstanding example of an effort to expand distribution nationally and internationally, while at the same time continuing to offer consistent quality. Levitt (1972) describes in detail how McDonald's has achieved this feat of quality control by utilizing a series of finely tuned standardized procedures for doing every activity by the franchisees -- even detailed steps to be followed for producing consistent quality

french fries. On the other hand, Sasser and Arbeit (1976) criticized this approach as being impractical because, although it may profit in the short run by using manufacturing techniques, it will also suffer the same drawbacks as manufacturing. More specifically, the authors contend that standardization of tasks will eventually contribute to job dissatisfaction and deterioration of employee performance. Since unskilled workers are usually employed in many service environments, the authors further contend that turnover will be high. Also, of those employees who do stay, many will be promoted, removing them from the area in which they are most needed (e.g., high customer contact positions).

There are several potential problems associated with using intermediaries that need to be addressed in the interests of improving services marketing. First, franchising itself presents several problems, as discussed previously. Second, using intermediaries as an access device can cause further difficulties. For example, an intermediary may not provide as much access as the service user would like. Some research studies demonstrate that channel leadership style and climate are key elements influencing channel members' morale and willingness to participate in collective activities (Schul, Pride, and Little 1983; Schul, Little, and Pride 1985). Furthermore, to avoid such problems associated with using intermediaries, a services marketing manager could bypass an intermediary through effective use of high-technology innovations, such as direct mail and telemarketing. Through these technologies, service providers can reach customers directly and minimize the problems of dealing with and controlling the intermediaries in the service distribution process.

The need for the multiple segments approach is developed from the firm's need and desire to utilize excess capacity. However, multisegment strategies need not be associated with multisite strategies. In order to successfully develop and implement the multisegment planning strategies, the demand of the identified segments need not be identical (i.e., segments must be different). One case in point has to do with the internationalization of services. There is a tendency to view such strategies as purely multisite. For this view to be accurate, it must be clear that the consumers' demands are identical in both the domestic and international markets. In some cases, such as fast food chains, this is feasible (Bateson 1989).

The adoption of multisite retailing as an international products/services marketing strategy has had less success. For example, McDonald's has found it difficult to persuade consumers in Great Britain to clear their tables after eating. The problem arises when the involved companies realize that they are actually dealing with different segments due to distinct cultural norms. The problems of managing multiple sites are also aggravated by the spatial distance between the home office and the branch site, and by managers who may themselves have different cultural backgrounds (Bateson 1989).

Conclusion

Franchising is fast becoming the most practiced method of distributing services and achieving the corporate goals of market expansion. According to one report, in 1981 new outlets were opening at the rate of 47 per day (Harris 1982). However, it was also

reported that many failed due to the unwillingness of the franchisees to spend sixty to eighty hours per week to make the businesses succeed. The franchise system is also plagued with occurrences of franchisers often not delivering on their promises (Harris 1982). Even though the distribution method of franchising has had some success in controlling the quality of service through the use of standardized procedures, many problems still exist.

The special channel distribution strategies' considerations of marketing services internationally need to include government influences, the convenience driven needs of consumers, and the unique criteria of service (i.e., intangibility, inseparability, perishability, and heterogeneity). However, services marketing opportunities are expanding domestically and globally. Through careful planning of distribution marketing strategy, multinational firms can reap benefits from expanding foreign services market. Franchising can be adapted to U.S. firms as a valuable strategy to penetrate overseas markets.

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INNOVATION MANAGEMENT, MARKET ORIENTATION AND
PERFORMANCE IN THE CONSUMER SERVICE SECTOR :
AN EMPIRICAL RESEARCH

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Abstract

The purpose of this study is to look at the management of innovation in consumer service firms and more precisely to define the possible relationships between the degree of refinement in innovation process, the marketing competence of the organization and the financial performance of a new service.

Following a presentation of various concepts, an empirical study will complete the investigation of research hypotheses. In a sample of 52 French organizations taken from four major service industries, a non-parametric analysis of results shows that the analytical marketing reflection of the firm has to be encouraged at the expense of its operational setting and that the refinement level of the development process has a positive impact on the performance of new consumer service activities.

Review of publications

The objective of this study is to partly fill a gap by presenting an empirical analysis of the possible relationships between the marketing competence of the organization, the degree of refinement in innovation process management and the financial performance of new service activities. This analysis is relatively innovative since, as far as we know, there has been no previous study about relations between financial performances and innovation policies in the service sector. Indeed, research has mainly concentrated on qualitative criteria, above all the quality of service (Zeithaml et al. 1988, Brown et al. 1990, Gronroos 1990).

Conceptual structure

A conceptual structure of innovation management in consumer service firms is necessary for the sample study. Let us recall some essential points :

- traditional methods of innovation management are sufficiently comprehensive and general so as to be applied to service activities (Wind 1982, Lovelock 1984, Meyers 1984, Urban et al. 1987) ;
- observed differences between industrial development processes and consumer service activities development are mainly due to structural reasons more than to managerial causes : corporation practices and marketing concerns in the service sector are indeed less developed than in the industrial sector (George and Barksdale 1974, Donnelly et al. 1985, Zeithaml et al. 1985, Langeard and Eiglier 1990) ;
- when marketing competences are present in the firm, the level of the service development process is better than in the case of weaker abilities (Shostack 1984, Martin and Horne 1990) ;
- observed performance in the issuing of new consumer services are a function of the degree of refinement in innovation development process (Belleflamme et al. 1986, Langeard et al. 1986, Jallat 1992).

Definition and operationalization of variables

The key dimension of this study, the degree of refinement in innovation process management, will be measured using two criteria which allow us to organize our hypotheses :

- V1 : number of steps in the firm's development process among those used by Booz et al. (1981) (idea generation, idea screening, concept testing, commercial evaluation, service conception, service testing, marketing-mix testing, test marketing, commercialization).

As a first approach, this criterion makes intersectorial comparisons simpler and it is easier to measure the associations between variables.

The limitations of this criterion lie in the somewhat artificial formalization of the process and the numerical computation of the processes considered. One must remember, nevertheless, that statistical treatment supports a qualitative analysis previously oriented towards contents and methods (Jallat 1992).

- V2 : effective dissociation between the phase of test operationalization (grouping the four intermediary steps of service conception, service testing, mix testing and test marketing) and that of commercialization taking the last step of the process into account.

This criterion (Langeard et al. 1986) is by nature more qualitative and defined "ex-post", and consequently more complex to measure than the former and is partly left to the researcher's discretion.

The marketing abilities of the firm will be measured along four dimensions :

- V3 : nature and contents of the strategic thinking prior to innovation development,

- V4 : functional integration of marketing in the structure responsible for the new service development,

- V5 : number of persons active in marketing related activities/total manpower of the firm,

- V6 : marketing investments/total turnover.

The firm's marketing competence dissociates the analytical method and the operational setting taking into consideration Lambin's (1986) conclusions on this subject.

The first two elements are designed to measure the strategic orientation and analytical reflection of the firm (strategic marketing). The last indicators are designed to assess the efforts of the firm to bring this global reflection into reality (operational marketing).

The four variables used have been suggested by George and Barksdale (1974) or Zeithaml et al. (1985) on the service sector, their methodology being very close to ours.

The performance of the new service will be measured in the last financial year using financial data collected from the firms themselves or at Commercial Court proceedings. Three indicators are retained :

- V7 : Growth rate of business turnover,

- V8 : Company market share,

- V9 : Net results of the company.

Accuracy of the performance criteria has been presented in existing literature (Woo, Willard 1983, Capon et al. 1990 ...).

Besides, such measures offer the advantage of being collected more easily than some specific sectorial indicators for which it is not possible to disregard the firm studied.

Moreover and taking into account the overall objectives of the hypothesis, general and standardized measures seem to be better adapted to research goals.

On the contrary, those criteria take into consideration neither the competitive environment characteristics nor the degree of market maturity : using them is, in this respect, an "abuse" slightly attenuated by the qualitative analysis that has previously been done.

Table 1 below presents the nature and features of the criteria used to measure the variables under study.

TABLE 1
NATURE AND FEATURES OF THE MEASUREMENT CRITERIA USED

variable number	name of the variable	level of measurement
(I)	REFINEMENT PROCESS DEGREE	
V 1	Number of steps completed by the firm	Interval
V 2	Dissociation of testing and commercialization phases	Nominal
(II)	MARKETING COMPETENCES OF THE FIRM	
(1)	<u>Strategic Orientation and Analytical Reflection</u>	
V 3	Contents of the preliminary strategic reflection	Interval
V 4	Nature of the functional marketing integration	Ordinal
(2)	<u>Operational setting completion</u>	
V 5	Marketing staff/total manpower Ratio	Interval
V 6	Marketing investment/turnover Ratio	Interval
(III)	FINANCIAL PERFORMANCE OF THE FIRM	
V 7	Growth rate of business turnover	Interval
V 8	Company market share	Interval
V 9	Net Results of the company	Interval

Research Hypotheses

Starting from the conceptual structure developed and reviewing the publications listed above, we now propose to test the following hypotheses :

The marketing ability of the firm bears positively on the degree of refinement in the service development process.

H1.1 : Whatever the service sector under consideration, the stronger the marketing competence, the greater the number of steps normally completed.

H1.2 : Whatever the service sector under consideration, the phases of test operationalization and commercialization will be more frequently dissociated in the process when marketing competence is strong.

By "dissociation of the phases" we mean estimation of project potential and associated risks at a given moment .

This assessment determines the completion of the process and makes up a "link" between the two phases considered (Langeard et al. 1986).

The process will be considered from a dynamic point of view in order to judge whether the elementary operations as determined for all the steps are chronologically completed (preliminary operations being accomplished before the others are started up).

The degree of refinement in the development process bears positively on new service performance.

H2.1 : Whatever the service sector under consideration, the greater the number of steps completed in the development process, the higher the performance of the new service.

H2.2 : When the phases of test operationalization and commercialization are actually dissociated, the performance of the new service will be higher.

Approach

We undertook causal research by personal interviews, taking data from a sample of 52 French service industries spread over four important activity sectors, as follows :

- "One star" hotels : 15 interviews,
- Speciality restaurants : 12 interviews,
- Retail credit cards : 12 interviews,
- Capital life insurance : 13 interviews.

The people interviewed were either marketing or general managers. A semi-directed interview guide was drawn up and pre-tested with five managers, in order to fully benefit from the advantages of personal interviews (Green and Tull 1974).

Analysis Program

Non-parametric statistical methods were applied to data collected so as to emphasize relevant relationships within the four activity sectors described above : even if these were little used in similar studies (Capon et al. 1990), these methods have proved to be well-adapted to the specificities of the current research.

Since the analyses were carried out on four small samples (fewer than 30 observations per sector), parametric tests necessitate, as a general rule, the observation of certain hypotheses (normal distribution, similarity of variances ...) and even more so where manpower is low. In these cases, hypotheses become extremely difficult and sometimes impossible to check (Conover 1980).

Contrary to the above, non-parametric tests offer the considerable advantage of making no hypothesis on distribution while, in most cases, preserving a capacity which is comparable to that of classic tests. What is more, they can also be applied to nominal and ordinal data.

Bearing in mind the respective nature of the variables in Table 1, two association measures were selected in order to test out the hypotheses :
1°) Spearman's coefficient of rank correlation,
2°) U Test of Mann-Whitney.

We used the SPSS system and some remarks have shown themselves indispensable for utilization of the results obtained (Norusis 1988) :

- The program carries out automatically any adjustments made necessary by tied results on exact measures (read in the table) whatever the method used.

- The level of significance supplied by the program is based on a unilateral test for the Spearman coefficient, on a bilateral test for the U test. After transformation, the corresponding confidence threshold is 0.10 whatever the method used.

To conclude, Table 2 shows the analysis program, hypothesis by hypothesis; it takes into account the different levels of measurement of the variables under study. The variable numbers refer to those presented in Table 1.

TABLE 2
COMPUTER ANALYSIS PLAN OF THE RESEARCH

Hypotheses	Spearman	Mann-Whitney
H1.1 H1.2	V1/V3 to V6	V2/V3 to V6
H2.1 H2.2	V1/V7 to V9	V2/V7 to V9

Quantitative analysis and results of the study

This section turns to the testing of hypotheses and consequently to the links between the relevant variables used in this study.

One must keep in mind that two covarying variables are not necessarily in a causality relation.

With the help of existing literature and with the quantitative analysis we have completed, causality relations will be stated and hypotheses confirmed each time a significance level and a sufficient linkage is reached ($p < .10$).

Using the elements presented in the previous section, the following relationship will be successively analyzed :

- 1°) Level of process making,
- 2°) Dissociation between steps.

The method used to validate the research hypothesis will be specific to each dimension since the measured associations and the significance levels are particular to the different sectors studied.

Taking into account the research objectives, the generalization of the tested hypotheses in all the activities of consumer related services will probably be possible for only some dimensions.

The synthesis of non-parametric tests in four representative sectors will make this generalization possible, given the qualitative analysis previously completed (Jallat 1992).

Level of process refinement

Two hypotheses of the research are to be presented and tested. This will be followed by the results themselves.

H1.1 : Whatever the service sector under consideration, the stronger the marketing abilities of the firm, the greater the number of steps.

In Table 3, the Spearman rank coefficient correlation and the significance level (Sign.) of the admitted associations are presented for all sectors.

TABLE 3
MARKETING ABILITIES/NUMBER OF STEPS ASSOCIATION

	Hotel	Restaurant	Commere	Insurance
	Nber of steps	Nber of steps	Nber of steps	Nber of steps
Stra. refl. (Sign.)	.812 .000	.725 .004	.887 .000	.848 .000
Mkt. Integr (Sign.)	.827 .000	.739 .003	.450 .071	.707 .003
Mkt. Eff. (Sign.)	.703 .002	.107 .370	.408 .094	.625 .011
Mkt. Inv. (Sign.)	.623 .007	.380 .112	.674 .008	.405 .085

The link between the contents of the strategic reflection previously led inside the firm and the number of steps in the process is largely confirmed for all sectors : the significance levels obtained are particularly demonstrative ($p < .001$, restaurants excluded). Similarly, the link between the marketing integration in the management of the project or task force responsible for innovation process and the number of steps in the process is also confirmed. One can state that the strategic orientation and the analytical reflection have a favourable impact on the refinement process in the new service customer-related activities.

Concerning the criteria of operational setting, conclusions are more difficult to draw : the link between marketing staff and the number of the process steps is confirmed with the exception of speciality restaurants.

In the restaurant business, a very good example of a fragmented sector, the firms often only have one person responsible for marketing, whatever the size of the staff.

Similarly, marketing expenses are minimal ; they are, roughly, a fixed minimal amount unrelated to the turnover of the firm. Considering the nature of the sector, these indicators give a poor idea of the operational marketing orientation in the organization under study.

Finally and for the same reasons, the relation between a given proportion of the firm's marketing investments and the number of process steps is rejected only in the restaurant trade.

In conclusion, if we take into consideration the variations between different sectors, intra-sectorial features are more determining than a generalization to all consumer services activities as a whole.

Generally speaking, the operational setting is correlated in a less significant way to the refinement degree in the process development.

H2.1 : Whatever the sector under consideration, the more steps usually included in the development process, the greater the new sector's performance.

In Table 4 the Spearman's coefficients and the levels obtained are presented.

TABLE 4
LINK BETWEEN NIMBER OF STEPS /NEW SERVICE PERFORMANCE

	Hotel	Restaurant	Commerce	Insurance
	Nber of steps	Nber of steps	Nber of steps	Nber of steps
Growth (Sign.)	.772 .000	.707 .005	.879 .000	-.177 .281
Market share (Sign.)	.862 .000	.493 .052	.738 .003	.838 .000
Results (Sign.)	.708 .002	.647 .012	.840 .000	.824 .000

The association between the number of steps and the firm's turnover growth rate is largely confirmed, except for the insurance sector.

The capitalization life insurance sector, which has come to maturity, has grown more significantly by transfer than by creation of net savings. Market shares of that "extended" market have been purchased either by new participants or by existing competitors.

Consequently, the basic year does not put this criterion forward since the leaders, already with a largely dominating position, have more difficulties today to double an important turnover whereas the challengers with a more limited size can register a higher growth rate.

This statement does not apply to the other three sectors, the activities being effectively more recent than the capitalization life insurance sector.

Concerning the association between the number of steps in the process and the market share, this is stated throughout.

Finally, the link between the number of steps in the process and the net results of the firm is significant for all sectors : Eiglier and Langeard (1987) or Jallat and Lacoste (1991) have underlined the accuracy of the criterion compared to others when measuring the performance of consumer service firms.

One can assert generally that the degree of refinement in the development process bears positively on the performance of a new consumer service activity.

Dissociation between steps

Taking into account their dichotomic nominal nature, statistical tests will be modified although bound by the same hypotheses as the number of process steps. The hypotheses are presented again before the results.

H1.2 : Whatever the service sector under consideration, the phases of test operationalization and commercialization will be more frequently dissociated in the process when the marketing abilities of the firm are strong.

For every association measure, the table below presents the Mann Whitney U coefficient and its associated significance level.

TABLE 5
ASSOCIATION MARKTING COMPETENCE/DISSOCIATION OF THE PHASES OF TEST AND COMMERCIALISATION

	Hotel	Restaurant	Commerce	Insurance
	Dissociation	Dissociation	Dissociation	Dissociation
Stra.Réfl. (Sign.)	4.0 .002	0.0 .001	1.0 .003	4.5 .006
Mkt. Intégr. (Sign.)	8.5 .007	8.5 .042	8.5 .056	8.0 .021
Mkt. Eff. (Sign.)	8.0 .010	17.5 .468	8.0 .061	4.0 .007
Mkt. Inv. (Sign.)	24.0 .321	10.0 .098	4.0 .014	11.0 .075

Sector by sector and criterion by criterion, the conclusions of these tests are, absolutely identical to those of the first hypothesis and allow an refinement in the survey : generally, the strategic orientation and the analytic steps of the firm have a favorable impact on the elaboration level of the development process in its global organization and its internal construction as well.

On the contrary and more significantly than before, operational intra-sector features are more important than the hypothesis generalization to the entire "service" sector.

In particular, the significance level of the association measurement between the amount of marketing investment made in the hotel business and the effective dissociation of the steps in the process does not allow any confirmation of the hypotheses.

Generally speaking, the efforts of operational setting of the firm have no impact on the dissociation of test and commercialization.

H2.2 : When the test operationalization and commercialization phases are effectively separated, new service performance is upgraded.

A statistic Mann-Whitney test, similar to the previous one, has been conducted concerning the association measures below.

TABLE 6
ASSOCIATION DISTINCTION BETWEEN TEST AND COMMERCIALISATION PHASES/PERFORMANCE OF THE NEW SERVICE

	Hotel	Restaurant	Commerce	Insurance
	Dissociation	Dissociation	Dissociation	Dissociation
Growth (Sign.)	7.0 .007	13.0 .212	2.0 .006	15.0 .196
Mkt. Share (Sign.)	10.0 .018	6.0 .028	2.0 .006	0.0 .001
Results (Sign.)	14.0 .052	14.0 .261	1.0 .004	2.0 .003

The association between the number of steps and the turnover growth rate is confirmed for the hotel and the retail credit cards sectors.

The comments made about the insurance sector can be applied to this part of the survey.

In the restaurant sector, one can question the validity of the data obtained or the relevance of an ex-post formalization in a field where an "entrepreneurial approach to innovation" dominates : the association between the selected items is confirmed only for the market share.

As for the association between phases and market share, it is confirmed in all sectors.

Finally, the association between the same dimension and the net results of the firm is significant for hotel, distribution and insurance sectors.

One can conclude that the dissociation between the phases of test and commercialization in the process is not always a criterion of efficiency and performance for new consumer service activities.

Conclusion

This research emphasizes a certain number of important elements :

The firm's strategic orientation and analytical reflection have a positive impact not only on the level of refinement in the global organization of the process but also on the dissociation between its component phases.

This degree of refinement in the process also has a positive impact on performance of new consumer service activities but the dissociation between test and commercialization does not always constitute an efficiency and performance index for new products.

The operational setting is correlated in a less significant way with the degree of refinement in the process and, generally speaking, the efforts of the firm have no impact on the dissociation between the test and commercialization phases in the process.

Of course, this research would merit extension to other service sectors, if only to convince practitioners that analytical marketing reflection and higher refinement of development process have to be encouraged.

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MEASURING LOYALTY IN TRAVEL SERVICES: A MULTI-DIMENSIONAL APPROACH.

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Abstract

A multi-dimensional measure of loyalty, with a psychological commitment instrument (PCI) and purchase behavior, is used to segment three different travel services. The use of cluster analysis with this conceptualization created distinct loyalty segments in each of the three travel services sampled. Convergent and nomological comparisons of the service loyalty clusters and the related constructs of satisfaction, involvement and perceived differences in service quality substantiated the theoretical consistency and sensitivity of this measure and generated distinct attitudinal segments within the three different travel services.

Introduction

The magnitude and economic significance of the travel industry has been corroborated by scholars and practitioners alike. As befits the diversity of the world's single largest service industry, numerous market segmentation approaches are reported in the travel research literature. Variables used to segment travel markets have included traveler geographic origins (e.g. Etzel and Woodside 1982), demographics (e.g. Shoemaker 1989), psychographics (e.g. Schewe and Calantone 1978), occasions or types of trips (e.g. Crask 1981), benefits experienced or desired when traveling (e.g. Woodside and Jacobs 1985), usage or user status (e.g. Knutson 1988), and attitudes (e.g. Snepenger 1987). One method of segmentation which has received little attention in travel services involves the use of customer service loyalty. Investigation of the construct appears warranted given the industry's preoccupation with frequent travel programs and loyal patronage.

The intent of this article is to empirically investigate the effectiveness of loyalty's measurement, with an attitudinal commitment scale and purchase behavior, in segmenting three different travel service markets. It is hypothesized that this multi-dimensional approach will successfully differentiate levels of traveler attachment to a service and provide theoretically consistent, yet distinct loyalty segments when compared across several related attitudinal constructs.

Consumer loyalty has long been a topic of interest in the areas of consumer behavior, sociology and marketing. The history of the subject in the business context extends back to Copeland's 1923 study of a phenomenon he labeled "brand insistence". Most researchers agree with the "composite" perspective that loyalty must be examined using behavioral and attitudinal perspectives. This view was first expressed by Day (1969) and further defined by Jacoby (1971). With this dual perspective in mind, a loyal travel consumer would repeatedly purchase or use a particular travel service and possess a positive attitudinal disposition toward that service provider (e.g. United Airlines, Hilton Hotels). As a form of market segmentation, Assael (1987) asserts that use of these attitudinal and behavioral components provides a powerful definition of brand loyalty, with each variable cross-validating the nature of the customer's purchase relationship.

The importance of repeat behavior (e.g. Jarvis and Mayo 1986) and its effectiveness as a variable for differentiating tourists (e.g. McQueen and Miller 1985) has been documented in the context of travel services. While the behavioral measures of loyalty are generally accepted, several researchers (e.g. Pritchard, Howard and Havitz 1992) argue that further theoretical refinement of the attitudinal component is especially needed. Day (1969) notes the strong theoretical tie between commitment and the attitudinal component of loyalty. Assael (1987, p. 76) asserted that, "the cognitive definition of brand loyalty means that loyalty represents commitment." Several researchers delimit commitment to a purely cognitive dimension (e.g. Beatty and Kahle 1988). Previous psychological research provided the basis for this delimitation by defining commitment in terms of decisions that fix or bind an individual to a behavior (Kiesler 1971).

Operationalizing Loyalty

Several studies have attempted to operationalize the attitudinal dimension of brand loyalty with commitment measures (e.g. Beatty, Kahle and Homer 1988). The epistemological base and methodological sophistication of these measures leave something to be desired (Jacoby and Chesnut 1978). In answer to some of these problems Pritchard and Havitz (1992) developed and validated the Psychological Commitment Instrument (PCI), and this scale will be used to operationalize attitudinal loyalty in this study.

Using earlier theory on commitment (Crosby and Taylor 1983; Kiesler 1971) the PCI focused on preference stability and resistance to change. The three-dimensional, thirteen-item PCI was developed using multiple samples and a rigorous, iterative, item-reduction sequence proposed by Churchill (1979) and demonstrated by Parasuraman, Zeithaml and Berry (1988). The first factor of the PCI, symbolic consistency, is purported to measure the overall reluctance to change important associations with a travel service. Crosby and Taylor (1983) noted that associations to a person's values and self-images provide an added incentive to maintain consistency and resist change. The desire to appear consistent publicly (Cialdini 1984) has considerable influence over many human actions. Cialdini and De Nicholas (1989) found that individuals try to manage their public images indirectly through connections for purposes of self-presentation. Assael (1987, p. 49) argued that in many cases purchasing or repurchasing is based on symbolic rather than utilitarian value. This form of patronage is termed symbolic purchasing, as it indicates that the product is purchased not for what it is, but for what it means as a subjective symbol (Hirschman and Holbrook 1982).

The second factor of the PCI was titled volition. The items in this factor all related to components of free choice and control in one's preference for a service. Heider (1958) and Kiesler (1971) argued that perceptions of free choice and self-responsibility are important to any theory of commitment. Brickman (1987) asserted that choice influences the internal organization of an action's meaning and so the possibilities for commitment. The restriction of a consumer's choice in terms of brands available was a factor

in several previous loyalty studies (Burfor, Enis and Paul 1971; Jarvis and Wilcox 1976).

The third factor of the PCI, complexity, assessed the number of reasons or ideas that the consumer might have about the travel service. Cognitive complexity is said to determine the ease with which an attitude or preference can be changed (e.g. Miller and Tesser 1986). Kiesler (1977, p. 65) postulated that highly committed people are resistant to change because change would be potentially disruptive to one's organization of these cognitions. Johnson (1973) and Buchanan (1985) discussed reluctance to change in terms of psychological cost, as change incurs a cognitive reordering or rethinking. Robertson (1976) posited that low-commitment behavior was characterized by a relatively simple cognitive structure. In this context, changing one's preference (in response to conflicting information) required relatively minor restructuring.

In addition to the above three attitudinal dimensions, a proportion of purchase measure (Cunningham 1956) was used to assess the behavioral component of traveler service loyalty. This measure has some advantages as it considers service specific patronage in the light of overall behavior in the service category (Pritchard et al. 1992).

Validating Loyalty's Segmentation

The method of operationalizing travel service loyalty in this study incorporates the concomitant measurement of loyal attitudes and behavior. The effectiveness of this segmentation approach was determined first by examining whether the loyalty groupings were distinct for each of the conceptual dimensions (symbolic consistency, complexity, volition, proportion of purchase). In addition, the validity of these loyalty segments was investigated by multiple comparisons with the related attitudinal constructs.

Assael's (1987, p. 76) model posited two potential indicators for loyalty, with a consumer's high involvement and perceptions of significant differences between brands deemed as preconditions to the development of brand loyalty. Beatty et al. (1988) found evidence to support involvements positive relationship with commitment (attitudinal loyalty). Similarly, McConnell (1968) suggested that when large interbrand differences in quality are perceived within a product category, there is a tendency for consumers to be more brand loyal. Perceptions of service quality are seen as most appropriate for defining differences between brands, as they are evaluative in nature, and perceived as "global judgements, or attitude, relating to superiority of a service" (Parasuraman et al. 1988, p. 16).

As with involvement and perceived differences in service quality, the third construct comparison has received considerable attention in the consumer behavior literature with several researchers corroborating the positive association between satisfaction and loyalty. Newman and Werbel's (1973) study found that loyalty correlated strongly with the consumer's perceived satisfaction with the old brand. Summarizing loyalty research to date, Hawkins et al. (1989) concluded that loyal consumers express greater levels of satisfaction than less loyal and non-loyal consumers.

Consistent with theory, levels of loyalty should be positively related with the three previously discussed attitudinal constructs. Therefore, it is hypothesized that highly loyal travel service consumers' should: (a) exhibit high levels of satisfaction with that service, (b) demonstrate high levels of involvement, and (c) perceive greater differences in service

quality between the 'brand' in question and other service providers.

Methods

In order to investigate the generalizability of this segmentation approach, multiple samples were drawn from a range of travel services. Parasuraman et al. (1988) used a similar second stage sampling approach in verifying their scale. Gunn's (1988, p. 68) model of the tourist system was used to differentiate the travel service industry into three discrete segments: (a) transportation, (b) accommodation, and (c) attractions. Purposive samples representing each of the three travel service categories were drawn from (1) United Airline patrons (n=151), (2) Hilton Hotel guests (n=141), and (3) Tokatee Golf Course patrons (n=138). While United Airlines and Hilton Hotel are easily distinguished as distinct service category examples, Tokatee Golf Course, Oregon (a top 25 U.S. public golf course) was deemed an appropriate example of an attraction service by virtue of its large proportion (approximately 85%) of out-of-state or overnight travel patrons.

Data collection (N=430) used on-site intercept at the three different travel service agencies. Screening questions determined whether participants had used the service before and verified that they did not reside locally. Patrons were again asked to complete self-administered questionnaires which included the measure of travel service loyalty and adapted scales of involvement (Laurent and Kapferer 1985), service quality (Parasuraman et al. 1988) and satisfaction (Oliver 1980) in 7 point Likert scale response formats.

Travel loyalty segments were formed for the three service samples with cluster analysis. The method of cluster analysis used in this study was the complete linkage method, also called furtherest-neighbor method. The grouping rule for this procedure specifies that any new candidate for addition to a cluster must be within a certain level of nearness to all members of that existing cluster (Borgen and Barnett 1987). This method is perceived to be one of the better procedures as it provides relatively compact, hyperspherical clusters composed of highly similar cases.

The three samples were each subjected to this form of cluster analysis, and grouped respondents on the basis of four factors (1) symbolic consistency, (2) volition, (3) complexity and (4) proportion of purchase. Loyalty groupings (clusters) were compared against the traveler's attitudes of involvement, perceived differences in service quality and satisfaction. MANOVA, using a main effects design, and ANOVA models were used to examine these relationships. Comparisons with the demographic variables of age, income, marital status, and education were also undertaken to investigate whether these loyalty clusters could be further profiled.

Results

Factor analytic work for each of the three travel service samples supported the previously theorized three dimensional factor structure of the PCI. The factor scores for the three attitudinal dimensions, derived from these factor analyses, were used for clustering as factor scores (weighted linear combinations) are more reliable than single variables

(Lorr 1983, p.140). Each sample's three factor scores and behavioral measure were calculated and submitted to a complete linkage cluster analysis, using squared Euclidean distance measure. An examination of the dendrogram, a tree-diagram of the rescaled distances where clusters combine, provided a graphic breakdown of the cluster solution. A significant jump in the rescaled distance value showed the number of clusters which best fit the data.

The cluster analysis results suggested that four cluster solutions were most appropriate for both the airline ($n_1 = 30$; $n_2 = 66$; $n_3 = 39$; $n_4 = 13$) and golf ($n_1 = 54$; $n_2 = 16$; $n_3 = 44$; $n_4 = 24$) samples, while three clusters were identified from the dendrogram as the most appropriate grouping solution for the hotel sample ($n_1 = 28$; $n_2 = 87$; $n_3 = 26$). The cluster comparisons for the airline and hotel samples are shown in Tables 1 and 2. Discussion of the golf course sample's cluster comparisons is limited to text only, as brevity negated tabling the results.

TABLE 1
COMPARISONS FOR AIRLINE LOYALTY'S FOUR CLUSTER SOLUTION (n=151)

Dependent Variable	Clusters				F	Signif (P ≤)
	1 (n=30)	2 (n=66)	3 (n=39)	4 (n=13)		
<u>Satisfaction</u> (means)	29.0	30.7	36.7	29.8	13.88	.001
<u>Global Loyalty</u> (means)	3.3	3.4	5.5	3.0	19.34	.001
<u>Loyalty</u> (MANOVA)	<u>Value</u> .0779	<u>Hyp. DF</u> 12.00	<u>Error DF</u> 346.88	<u>Wilks</u> 46.94		.001
<u>Univariate F's</u> (means)						
Symbolic Con.	19.2	18.4	30.5	18.5	37.18	.001
Volition	12.8	21.0	24.6	13.3	77.47	.001
Complexity	11.6	14.4	15.8	9.8	12.67	.001
Prop. Purch.	.87	.67	.89	.32	31.21	.001
<u>Involvement</u> (MANOVA)	<u>Value</u> .7592	<u>Hyp. DF</u> 15.00	<u>Error DF</u> 384.12	<u>Wilks</u> 2.68		.001
<u>Univariate F's</u> (means)						
Importance	11.7	11.8	14.4	12.3	4.94	.01
Risk Prob.	9.8	9.0	8.9	9.8	.58	NS
Risk Cons.	14.1	14.0	14.5	16.0	.98	NS
Pleasure	11.0	10.5	14.3	11.5	7.84	.001
Sign	8.2	7.3	11.4	7.3	7.43	.001
<u>Service Quality</u> (MANOVA)	<u>Value</u> .6531	<u>Hyp. DF</u> 15.00	<u>Error DF</u> 386.88	<u>Wilks</u> 4.30		.001
<u>Univariate F's</u> (means)						
Tangibles	17.0	17.7	20.6	17.0	12.11	.001
Reliability	15.1	16.3	20.3	16.0	15.81	.001
Responsive	16.2	16.4	20.4	16.9	15.16	.001
Assurance	12.2	12.8	15.4	13.0	13.35	.001
Empathy	21.2	21.8	27.1	22.1	18.15	.001

Reliability analyses for the PCI document satisfactory levels of internal consistency for each of the airline, hotel and golf course service samples, with alpha coefficients of .86, .87,

and .82 respectively. Internal consistency for the adapted multi-dimensional measures of involvement (Laurent and Kapferer 1985) and perceived differences in service quality (Parasuraman et al. 1988) and the unidimensional measure of satisfaction (Oliver 1980) evidenced strong overall alpha coefficients of .92, .80 and .86 respectively.

The initial multivariate analysis examined whether the cluster groupings were distinct on the attitudinal (PCI) and behavioral indicators of service loyalty. All three sample cluster solutions show significant differences between each loyalty grouping (Airline sample: $F = 46.94$; $P < .001$; Hotel sample: $F = 41.44$; $P < .001$; Golf sample: $F = 42.61$; $P < .001$). Further univariate analyses substantiated that the clustering procedure had indeed maximized differences between and similarities within each group for all four loyalty factors.

TABLE 2
COMPARISONS FOR HOTEL LOYALTY'S THREE CLUSTER SOLUTION (n=141)

Dependent Variable	Clusters			F	Signif (P ≤)	
	1 (n=28)	2 (n=87)	3 (n=26)			
<u>Satisfaction</u> (means)	29.3	36.3	35.3	17.25	.001	
<u>Global Loyalty</u> (means)	2.68	4.65	2.84	22.03	.001	
<u>Loyalty</u> (MANOVA)	<u>Value</u> .2030	<u>Hyp. DF</u> 8.00	<u>Error DF</u> 272.00	<u>Wilks</u> 41.44		.001
<u>Univariate F's</u> (means)						
Symbolic Con.	19.4	27.5	17.2	27.47	.001	
Volition	9.3	24.1	21.6	115.74	.001	
Complexity	11.8	16.5	10.3	38.30	.001	
Prop. Purch.	.17	.42	.40	10.61	.001	
<u>Involvement</u> (MANOVA)	<u>Value</u> .6755	<u>Hyp. DF</u> 10.00	<u>Error DF</u> 270.00	<u>Wilks</u> 5.84		.001
<u>Univariate F's</u> (means)						
Importance	12.4	15.6	13.0	8.91	.001	
Risk Prob.	10.3	8.7	10.1	2.97	NS	
Risk Cons.	16.3	16.3	16.3	.00	NS	
Pleasure	12.2	16.5	13.7	14.10	.001	
Sign	11.1	13.6	9.8	8.22	.001	
<u>Service Quality</u> (MANOVA)	<u>Value</u> .7922	<u>Hyp. DF</u> 10.00	<u>Error DF</u> 270.00	<u>Wilks</u> 3.33		.001
<u>Univariate F's</u> (means)						
Tangibles	16.8	19.8	17.1	9.35	.001	
Reliability	16.0	19.5	16.9	10.18	.001	
Responsive	16.8	19.7	17.0	10.13	.001	
Assurance	12.7	14.9	13.0	10.90	.001	
Empathy	22.2	26.6	23.3	15.67	.001	

Additional evidence of cluster convergent validity for the three service samples is noted in the significant group differences on a global loyalty item (Airline sample: $F = 19.34$; $P < .001$; Hotel sample: $F = 22.03$; $P < .001$; Golf sample: $F = 34.97$; $P < .001$). Closer examination of those

clusters with the highest mean global loyalty values (5.5, 4.65, 6.56 respectively) in each sample reveals corresponding high mean values for the PCI dimensions and the behavioral measure.

As was the case in the loyalty MANOVA, a main effects design (which restricts interaction analyses) tested group differences for involvement and perceived differences in service quality. Consistent with the prior hypothesized relationships, the varying levels of loyalty evident in sample clusters were significantly related to levels of traveler involvement (Airline sample: $F = 2.68$: $P < .001$; Hotel sample: $F = 5.84$: $P < .001$; Golf sample: $F = 2.33$: $P < .01$). Follow-up univariate analyses indicate the significant contributions of the importance, pleasure and sign dimensions of involvement toward discriminating clusters. Similarly, loyal travel clusters differed significantly when compared on their perceptions of differences in service quality (Airline sample: $F = 4.30$: $P < .001$; Hotel sample: $F = 3.33$: $P < .001$; Golf sample: $F = 3.17$: $P < .001$). Dimensional mean values from the five univariate analyses show greater perceived differences in service quality for the highly loyal cluster (i.e. Airline sample: cluster 3; Hotel sample: cluster 2; Golf sample: cluster 2).

Loyalty cluster comparison, using ANOVA, on the last attitudinal construct of satisfaction, also corroborated the hypothesized positive relationship. Loyalty cluster membership was significantly related to the traveler's sense of satisfaction with the travel service (Airline sample: $F = 13.88$: $P < .001$; Hotel sample: $F = 17.25$: $P < .001$; Golf sample: $F = 10.13$: $P < .001$). Again, the greater the level of loyalty demonstrated in the cluster grouping the higher the mean satisfaction with the service. Demographic variables (age, gender, marital status, income, education level) yielded little understanding of the loyalty segments. However, tentative findings on Age (Hotel sample: $F = 7.63$: $P < .01$; Golf sample: $F = 2.70$: $P < .05$) indicate that older travelers tend to be more loyal.

Summary and Discussion

The question "Can levels of service loyalty (using the PCI and purchase behavior) meaningfully segment travelers?" was the essential focus this study. Though the question is applied in nature the results required theoretical validation. The relationship between the loyalty clusters and several different psychological measures proved theoretically consistent. The groups that had been created by cluster analysis, for each of the respective samples, were compared across five sets of variables: (1) the four operational components of loyalty's measurement, (2) a global loyalty measure, (3) satisfaction, (4) involvement, and (5) perceived differences in service quality. All of these attitudinal and behavioral variables when compared across loyalty clusters provided evidence that this form of segmentation did in fact create distinct, theoretically consistent groupings. These findings were repeatedly confirmed in each of the three services, substantiating the measures effectiveness and sensitivity, and demonstrating a degree of generalizability which encourages investigation of this loyalty measure in other service settings

Previous work in loyalty segmentation has attested to attitudinal differences between groups (e.g. Day 1969). Though the results indicate that loyalty segmentation produces attitudinally and behaviorally distinct groups, these travel service segments could not be differentiated by demographic variables. The mixed or weak results on

loyalty's relationship with demographic variables is consistent with previous assertions and requires further investigation.

Clustering produced dimensional typologies which could well provide further insights into the nature of loyalty. Two-dimensional, quadrant models (e.g. Jarvis and Mayo 1986) are intuitively attractive to the marketer as they provide a simple yet powerful overview of different loyalty segments, and invite behavioral and attitudinal relevant marketing and communication strategies (e.g. Sheth and Frazier 1982). The application of these models has been somewhat hesitant as prior segment assignment (i.e. median splits) and theoretical assumptions have typically been somewhat arbitrary and simplistic. Certainly, the PCI with its strong theoretical base overcomes some of these problems and provides a rich description of traveler attitudes. Further description of loyalty typologies and their attitudinal profiles for involvement, perceived differences in service quality and satisfaction provide the marketer with a strategic understanding of each segment. As travel incentive programs become increasingly difficult to maintain, the understanding of factors which encourage loyal consumption becomes increasingly attractive.

Though beyond the scope of this study, another recommendation for research further examines travel service loyalty's validity. The causal relationships among the variables used in this study is yet to be investigated. In addition to loyalty's validation, aspects of Assael's (1987) consumer behavior model could be empirically verified; examining whether simultaneous measurement of involvement and perceived differences between brands does indeed lead to loyalty. Another important consideration is the temporal nature of commitment and loyalty. While repeat behavior measures and screening questions ensured that travelers had used the service provider at least once prior to completing the survey, a host of concomitant research questions about the validity of the scale over time (e.g., test-retest, construct reliability and structure) call for longitudinal analysis and comparison.

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MODELLING SITE LOCATION DECISIONS IN TOURISM by Luiz Moutinho and Bruce Curry
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Abstract

This paper focuses on two different approaches that can be applied to site location analysis and selection in tourism: spreadsheet models, and the Analytic Hierarchy Process (AHP). Rule Based Expert Systems are also discussed. The LOCAT model (a spreadsheet-based algebraic approach) attempts to measure the total attractiveness index of a location by calculating the impact of its components (degree of accessibility, total catchment population, level of tourist product uniqueness and probability of tourist patronisation). The Analytic Hierarchy Process provides a general structure capable of representing a wide range of decision problems. It is especially effective when dealing within complex multivariate decisions and with variables which are difficult to quantify.

Introduction

This paper examines alternative approaches to modelling site location analysis and selection in tourism. Quantitative and analytical methods for this type of problem are well known. For example, formal optimisation methods, regression based forecasting models, often with a 'gravitational' flavour have been well documented (Gearing, Swart and Var, 1976; Smith, 1989). The methods examined here, however, belong to a more recent paradigm, arising from more recent developments in computer technology. Spreadsheet based models are introduced in the form of the LOCAT model, and the paper examines the Analytic Hierarchy Process, a general purpose decision support model due to Saaty (1980). Rule based Expert Systems are also discussed.

For present purposes it is convenient to classify tourism related site selection decisions as being either 'macro' or 'micro'. The former could alternatively be characterised as 'tourism planning', where it is presumed that there is a planning authority charged with the responsibility of balancing a range of conflicting economic objectives for a region or country. 'Micro' decisions, by contrast relate to specific projects, where the optimum location is to be chosen for a tourist related operation, eg a theme park. In terms of this taxonomy, macro decisions are more focussed towards general economic welfare, whereas micro decisions relate to the objective of a particular company or organisation. Thus the decision may require the choice of a site to maximise turnover or profitability. As an alternative, the objective may be to maximise the attractiveness of a site to the tourist consumer. Yet another way of describing micro decisions would be to say that the objective function is consumer oriented, with either sales or a subjective measure of attractiveness ultimately being traceable back to the consumer.

Site Analysis

An inappropriate location decision can sound the death knell for service companies such as travel agencies and other companies operating in the hospitality sector. A number of hotel and restaurant chains have devised mathematical models to assist in decision-making, but these are very often no more than simple adaptations of more sophisticated retail models (Akehurst 1981). Indeed, probably the most sophisticated in their location decision making are the multiple retailers who make two distinct, but interdependent location decisions: 1) the selection of a trading area and 2) the selection of a particular site within the trading area (Buttle 1989).

Any retail location strategy needs to be an integral element of the overall business plan. Four basic methods of retail location analysis can be considered in the context of specified management evaluation criteria. Judgemental methods rely on direct management involvement. Surveys can be considered methods of enumeration for both the demand and the supply

side of the location question. Time-series analysis is being used increasingly in sales forecasting. Causal methods, such as regression and spatial interaction-based simulation modelling are also widely used. Combining complementary methods may improve accuracy and understanding (Beaumont 1987).

The characteristics or criteria for site selection and evaluation vary according to the type of tourism project under consideration. The concept of tourism project referred to here entails a broad range of investments in superstructural assets related to the tourism and hospitality industry. These range from resort development to the geographical extension of a hotel chain and from the creation of new retail outlets pertaining to a network of travel agencies to the launch of new regional theme/amusement parks. The first step in the site analysis must, therefore, be to identify the criteria that are crucial to the project being considered. Tourism project site criteria or characteristics can be divided into three categories: (1) market-related site criteria; (2) criteria related to the physical characteristics of sites; and (3) other criteria.

More scientific approaches, such as the analogue and gravitational procedures, are directed at quantitative analysis of sales potential. Simkin, Doyle and Saunders (1985) identified six different approaches to retail site selection in the literature. These six different techniques include the following approaches: 1) subjective checklists - or the "look and judge" approach; 2) analogues; 3) central place theory; 4) spatial interaction models; 5) behavioural considerations; and 6) complex mathematical methodologies.

The original spatial interaction models were the first of the mathematically supported techniques developed. Reilly's (1931) "law of retail gravitation" attempted to delimit trading areas. The intervening opportunities model (Cordey-Hayes 1968) is the derivation of gravitational retail interaction from probabilistic theory, and originally featured in journey-to-work studies. The model indicates the proportion of shoppers proceeding beyond the cumulative number of opportunities intervening before the ultimate shopping destination. Huff (1963), Lakshmanan and Hansen (1965) pioneered sophisticated spatial interaction models. The Multiplicative Competitive Interaction Model has figured in MULTILOC by Achabal, Gorr and Mahajan (1982), and in Ghosh and Craig's (1983) model developed to evaluate multiple locations simultaneously, considering competition and profitability over time.

Location evaluation studies have adopted multi-variate data analysis techniques, frequently in the form of regression and Automated Interaction Detection Formulae. The inclusion of behavioural studies in retail store location work has increased over the last two decades. The literature concerning behaviour, habits, preferences, decision-making, perception, images, and diffusion of ideas is growing. Many such studies relate to retailing and store location (Ring 1979; Timmermans 1982). Intrinsic to retail location assessment is the study and delimitation of the trading area. Published material, despite not completely solving the difficulty of objectively measuring size, is extensive.

While varying degrees of empirical success have been reported for many models, an important limitation common to all is the absence of underlying theory to explain their predictions of consumer patronage behaviour. Accordingly, probabilistic models of spatial demand have gained the greatest acceptance as methods for the study of retail patronage. The common theoretical basis of this class of models is the assumption that individuals select among alternatives probabilistically, in relation to the utilities offered by each choice alternative. Huff (1964) first employed a probabilistic model of spatial demand for studying the patronage of retail outlets. He specified the utility of a retail outlet as a function of two components: attractiveness of the outlet and accessibility to the consumer. Mathematically the model is stated as:

$$P_{ij} = \frac{U_{ij}}{\sum_{k=1}^n U_{ik}} \quad (1)$$

where:

P_{ij} = probability that consumer i will patronise outlet j of n possible outlets, and

U_{ij} = overall utility of outlet j for consumer i .

The scale value model predicts patronage probability based only on the proximity component and marginal scale values for each outlet. The scale values (SV_j) represent a composite measure of each outlet's attractiveness, thus providing the least complex outlet-specific model possible (Black et al 1985).

$$P_{ij} = \frac{\lambda A_{ij} * SV_j}{\sum_{k=1}^n (\lambda A_{ik} * SV_k)} \quad (2)$$

where:

A_{ij} = measure of spatial separation of proximity between consumer i and outlet j , $j = 1, 2, 3, \dots, n$.

λ = parameter reflecting consumer patronage sensitivity due to spatial separation between outlet and consumer.

SV_j = scale values representing a composite measure of each outlet's attractiveness.

The ability of variables relating to distance and population to explain the property of attraction was used by Crampon (1966) to develop what could basically be referred to as a "tourist gravitational model". The model was based on the concept that the number of visitors from particular origins to a specific destination area is a function of several variables, the most significant of which are the size of the population in the origin area and the distance between the origin and destination areas. Crampon's basic gravity model is:

$$V_{od} = b_1 (P_o) (T_{od})^{b_2} \quad (3)$$

Where:

V_{od} = the number of visitors from a given market area or origin o , visiting a given destination d .

P_o = the population of the origin o .

T_{od} = the travel distance between the origin o and the destination d .

b_1 = a constant

b_2 = represents the slope of the exponential curve, a negative value indicating that distance has a dampening effect on the number of visitors from a given origin market area.

A more general form of spatial choice model is the Multiplicate Competitive Interaction (MCI) Model proposed by Nakamishi and Cooper (1974). The procedure uses consumer choice functions obtained from revealed preference and direct utility estimation methods. The MCI approach has

been used by Achabal, Gorr and Mahajan (1982) to develop their MULTILOC model. The store-choice models provide the basis for estimating the market share of a new store. These estimates are translated into revenue and profit estimated the market share of a new store. These estimates are translated into revenue and profit estimates by considering consumer expenditure patterns, store margins and fixed costs. By systematically varying the new locations one can find the particular locational configuration that optimises corporate objectives.

Whilst most early models considered the selection of only a single site, Achabal, Gorr and Mahajan (1982) presented a model for selecting multiple locations for a retail chain. In locating multiple stores, it is important to consider not only the profitability of different locations but also how the performance of individual locations is affected by cannibalisation of sales by other stores belonging to the same chain. The consequence is that the sequential selection of an individual optimum location may not result in the optimal network of multiple stores. In other words, the optimal location of n stores is not necessarily a subset of the optimal $n+1$ stores. Therefore, one could not use the single-store location model repeatedly to arrive at the best multiple-locational strategy. The MULTILOC model allows one to evaluate the cumulative effect multiple locations have on the company's profits after accommodating for cannibalisation (Craig, Ghosh and McLafferty 1984). This multiple-location model is perceived as being better applied in static environments (Iugene 1984).

The approach is based on the used of an objective function of maximising total demand, or market share in the case of more than one chain. Achabal, Gorr and Mahahan in their MULTILOC model maximised the difference between total revenue and fixed cost by assuming revenue proportioned to total consumer expenditure at each store, and then used as MCI model to predict allocations. Ghosh and McLafferty (1982) extended this model by using a multicriteria framework to deal with uncertainty about a competitor's future actions. Hence, it is important to examine the changes in the patronage pattern that would occur with the entry of new outlets into the competitive market. For those reasons, models of retail store location should incorporate the relative effects of other shopping alternatives on the spatial distribution of demand. Current retail-location models, such as MULTILOC attempt to determine these effects by using the multiplicative competitive interactive model (MCI) to predict consumer patronage patterns.

Achabal et al (1982) developed this multiplicative store location (MULTILOC) model using a random search procedure combined with an interchange heuristic to identify optimal or near-optimal sets of locations. The model extends the multiplicative competitive interactive model to the multistore location problem. MULTILOC is applicable to both new and existing markets. It allows the tourism manager to locate multiple outlets while simultaneously evaluating the effect of competition on a group of potential tourism outlet locations. When used in conjunction with field analysis, MULTILOC can assist tourism managers in: (1) estimating the impact of new tourism outlets on existing unit's market share; (2) identifying the important attributes that affect business success; and (3) evaluating the likely change in sales initiated by remodelling activities. Lilien and Rao (1979) have developed a model based on the "S-curve" analytical procedure, which defines percent of market share with respect to the number of outlets to be located in a particular area. Other locational considerations are transportation needs and "critical massing" requirements (Noteware 1980).

Using Computer Models For Location Decisions

The various modelling approaches can be grouped into 3 main clusters. They may be compared by means of various criteria. According to one such criterion models may be compared according to the kind of information they contain. Thus at one extreme are models which operate on numeric information, with models dealing with qualitative knowledge at

the opposite end of the spectrum. A second important criterion concerns the degree of 'intelligence' contained in a model. The use of such intelligent models for site location decisions has been examined by Curry and Moutinho (1991), who have used rule based Expert System (ES) techniques to develop a number of working examples.

The various model types are considered in turn.

1. Conventional Numeric Models

What the authors term the 'conventional' approach to computer modelling in this context is essentially a numeric or arithmetic approach. It involves dealing with quantitative variables, which are linked together through algebraic functions. Within this conventional approach are included both models which carry out formal optimisation procedures and those which are more descriptive in nature. An immediate problem to be faced with the conventional approach is that the relevant variables may not be directly measurable. With variables such as environmental impact there is a strong subjective element. One possible route to take is to allow the user to operate a subjective ranking scale. Even if the problems of measuring individual variables are not too serious, however, there is still the problem of modelling the weightings of variables in the decision maker's objective function. This is even more subjective a process.

Numeric models may alternatively be described as formula based models. The category includes both 'weighting and rating' models and gravity models. The former approach involves applying subjective weighting scales to non-numeric variables and also specifying an objective function with numeric weighting factors. See for example Moutinho and Paton (1991, whose LOCAT model is examined in detail below.) Subject to complexity and data volume requirements both approaches can be implemented through the medium of spreadsheets. Indeed, the interactive nature, ease of use, and graphics tools of a spreadsheet are ideally suited to this purpose.

2. Rule-based models

These start from the premise, substantiated by previous work in the field (Beaumont 1988; Breheny 1988; Wrigley 1988), that there are seven main factors relevant to site location decisions. The relevant factors are: population of the surrounding area, spending power of this population, overall average spending on the product, quality of transport links to site, average distance from site to population, competition, and average distance from competitors to population. The relationship between these factors are expressed as a set of IF...THEN rules. Given that each factor may be rated as HIGH, MEDIUM or LOW, the model prompts the user to form, by selecting from menus, rules as to which combination(s) of factor values go to make the site of high, medium, or low attractiveness. The ordered sets of values relating to each rule are held in separate data files - when a site is assessed, the values are substituted into rules to see whether there is a match. Rules are typically of the form:-

If POP is HIGH
and SPEND is HIGH
and COMP is LOW
then ATTRACTIVENESS is HIGH.

Rule based models almost certainly require specialised software such as Expert System 'shells' unless the rules are few in number and are not part of a complex nested structure. Their main advantage is that they both contain intelligence and deal with qualitative knowledge. Their intelligence is contained in the 'inference engine' which uses the 'knowledge base' or 'rule base' to formulate conclusions. Rules are a form of knowledge representation which is both easily understood and also facilitates the provision of explanations of how conclusions have been attained. This is an important feature which both makes a model easier to use and at the same time supports its conclusions.

Also to be noted at this point is the possibility of a hybrid approach, for example combining the theoretical power of the gravity model with the user-oriented advantages of a rule based system. In particular Curry and Moutinho (1991) have used as a starting point the version of the gravity model derived by Penny and Broom (1988) and put into practice by the Tesco retailing chain. In its original form the model uses an exponential formulation to combine the various determinants of store turnover and distance decay effects.

3. Quasi Intelligent Models

One of the main stumbling blocks for all of the above variants is the derivation of the basic knowledge encapsulated in a model, regardless of whether the model operates with any degree of intelligence. One way around this is to allow the user or decision makers to be responsible for major inputs into the model. The result would be that the model does not so much provide prescription so much as a vehicle through which users may explore their own knowledge (See Curry and Moutinho, 1992).

Taking this approach to its extreme we arrive at modelling devices which operate almost entirely as a means of representing knowledge. The most important of these is the Analytic Hierarchy Process due to Saaty (1980). The AHP is interesting for two reasons. In the first place it is aimed to operate with little or no expertise or knowledge of its own. Instead it provides a framework for representation of the actual decision maker's knowledge, which is then re-structured and diverted specifically towards the decision at hand. In this respect the description 'Quasi Expert System' is appropriate.

Secondly, the AHP can represent all facets of a decision in a single tree. Both decision variables, within the decision maker's control, and decision objectives are incorporated. A particular advantage is that subjective assessments may be included in addition to variables which are capable of direct measurement. This is particularly important for the objectives relating to a decision, which even if they are quantifiable are still likely to need balancing against each other in a multivariate objective function.

Practical Applications of the Computer Models.

(a) The Locat Model

In market terms, it is essential that a site attraction has a location with a large immediate and accessible catchment population and that the tourist product appeals to the dominant segments of the market (e.g. families with children, specific socio-economic groups, etc.) Nevertheless these are examples of specific tourism sites that do not have a large and accessible population. This attractiveness index of the site can be determined by applying the following equation:

$$A_{ij} = b_1 [(L_{js}) + b_2 (P_{oj}) + b_3 (SV_{js})] + (P_{ij}) \quad (4)$$

where:

$$P_{ij} = \frac{U_{ij}}{n} \quad (5)$$

$$\sum_{k=1} U_{ik}$$

$$k=1$$

where:

A_{ij} = total attractiveness index of site location j.
 L_{js} = degree of accessibility to site location j by relevant target segments.

P_{oj} = total catchment population for site location j.

SV_{js} = scale values representing the level of tourist product uniqueness of site location j as perceived by the relevant target segment s.

- b1,b2,b3 = impact measurement coefficients.
- Pij = probability that tourist i will patronise site location j of n possible alternatives.
- Uik = overall utility of site location j for tourist i.

The beta coefficients shown in the example represent different input values reflecting the impact of three predictor variables (accessibility, catchment population and perceived tourist product uniqueness) on the criterion variable (total attractiveness of the site location). The beta values can be derived from either quantitative information (through the use of multiple regression analysis) or qualitative information (through the use of subjective probabilities as expressed by tourism decision-makers).

(b) An AHP Model

To illustrate how the AHP may be used to handle site location decisions in Tourism consider the following simple model. The model is based on the discussion above concerning site characteristics. A decision is needed regarding two alternative locations for a service based operation, e.g. a theme park. The locations are simply labelled A and B. Each location may be described in terms of 3 main characteristics, the latter 2 of which are here to be considered qualitative or subjective. For this illustration it is assumed that construction costs are identical for each planned location.

The assumed characteristics are:

- (i) Potential Number of Visitors
- (ii) Attractiveness of Site To Visitors
- (iii) Environmental Damage

The model is shown in the form of an AHP tree in Figure 1 below. Trees are invariably displayed in inverted form in order to emphasise the goal node. In this case the goal is defined as 'Choose the best location'. The assumption here is that the model represents the perspective of a particular company. The level of the tree immediately below the goal node represents the three defining characteristics of each location and the leaf nodes comprise the actual competing locations.

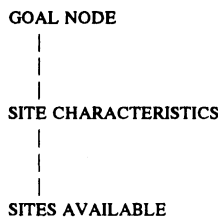


Figure 1 A Simple AHP Model for Location

To make progress with the model the decision maker needs to evaluate the relative importance of the locational characteristics and also to consider each location in terms of each characteristic. Both of these evaluations may be numeric or qualitative where appropriate. Also, a valuable feature of the AHP is that the decision maker is required only to input pairwise comparisons rather than simultaneous judgments of a number of factors. Thus for example a pairwise comparison is required to indicate the relative importance vis a vis the goal node of construction costs and environmental damage. This comparison will be expressed verbally in sentences such as

'Projected Revenues are SLIGHTLY MORE IMPORTANT than Environmental Damage'

Or

These statements of relative impact are converted to numeric weights between zero and one. The decision maker however needs only to think in verbal or qualitative terms. The essential feature of the AHP is that it 'synthesises' the pairwise evaluations into a vector of relative weights for an entire level of the tree. If, to take the most simple case, each of the 3 locational characteristics is regarded as equally important each pairwise

weight will be 1/2 and each element in the overall weights vector will be 1/3. Similar weighting calculations are carried out for the leaf nodes, dealing with the 3 characteristics of each location. The fact that the same procedure is carried out at each level of the tree allows the weights to be combined or synthesised. The result is that each location, more generally each leaf node, can be evaluated with respect to the goal node. If all locational characteristics have equal weights and the locations possessed the same characteristics then the resulting synthesis would apply equal weights of 0.5 to each. A more interesting case is shown in Figure 2 below, the weights for which imply that locations A and B have relative weights of 0.564 and 0.436.

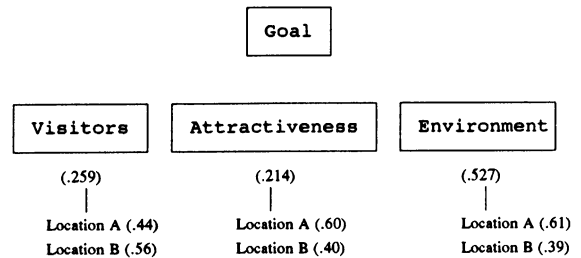


Figure 2: A Sample Set of Weights

Of course the model is only as good as its actual implementation within a computer program. The AHP may be put into practice by using Expert Choice (Dyer et. al. 1988), which carries out the underlying computations but also presents a user-friendly interface through which information can be input. 'What if' experiments, an essential feature of any decision support model, may also be carried out by varying input assumptions. The AHP models presented here are illustrative in nature. As noted above, the AHP model is general enough to be able to incorporate whichever variables are considered relevant to a decision, structured as appropriate. Additional decision variables may be added without difficulty. Alternatively, the perspective of the model could be altered so that it is focussed on tourism planners. The layer below the goal node could represent a set of planning objectives. Planners would supply relative weights for each objective and would assess the impact of site characteristics on each, all through the method of pairwise comparisons. (See Curry and Moutinho 1992).

Conclusion and Managerial Implications

The main conclusions to be drawn from this paper relate to the choice of an appropriate analytical technique, which in turn depends crucially on computer implementation. In very general terms, the Analytic Hierarchy Process has a great deal of potential as a decision support tool. It imposes no rigid formal structure on the analysis and hence can be applied to a wide range of problems without forcing a problem into an unsuitable framework. As well as this flexibility, the AHP has the advantage of being able to incorporate subjective assessment, both of values of variables and of the relative importance of decision variables in an objective function.

These latter advantages are particularly valuable in tourism planning or macro decisions, where it is difficult to apply formal optimisation and other analytical techniques. Our earlier discussion shows how the AHP is capable of bypassing the problems, allowing full consideration of intangible factors such as the environment and cultural heritage. The tourism planning process requires some form of optimisation, and it is difficult to see how formal methods such as linear and mathematical programming can be so effective. Also, it does not exclude the use of other forms of analysis, such as multiplier analysis of local economic impact. It is also possible to apply the AHP to examine specific micro location problems, but it has fewer relative advantages compared with more traditional approaches. For micro decisions it is easier to measure the relevant variables and there are well established structures such as the gravity model within which to operate.

One of the interesting issues involved, both from the point of view of practical applications and from the standpoint of computerised decision support, concerns the availability of parameter estimates. In traditional or regression based approaches these arise from statistical analysis. However, more recent advances in computerisation mean that this need no longer be the case. For example, the spreadsheet based LOCAT model operates on parameters and assumptions supplied by the user or decision maker. The philosophy on which spreadsheet modelling is based is one of experimentation to show the impact on decision variables of changes in underlying assumptions. The LOCAT model does not require a formal statistical underpinning, although this does not preclude the use of statistically based estimates in spreadsheet models in general.

When evaluating the effectiveness of the models introduced here, the overriding factors to be taken into account should be user friendliness and the credibility of advice provided. The qualitative gravity approach scores most highly on both of these counts. The analytic hierarchy process (AHP) is capable of incorporating the complicated elements of a site location problems without imposing on the user heavy requirements of mathematical or statistical knowledge. The rule based approach helps in the provision of explanations of advice and a consultation dialogue with the user. Using rules helps in bringing out the essential plausible gravitational flavour without the user being confronted by and possibly discouraged by algebraic equations. The main advantage of pure numeric based models is that they are easier to implement. A site location expert system is most appropriate when managers are able and willing to develop a complex nested rule-based structure. If this is not the case, other conventional methods might prove to be more useful.

One important consideration is the cost and time available for the selection process. Tourism companies that are growing rapidly, and/or changing their marketing strategies, will not find procedures that necessitate elaborate models to be cost-effective. Large hotel, restaurant and travel agency chains dealing in several markets have a competitive advantage because of their experience and their data about sales performance. They can build elaborate models in order to make more efficient decisions - decisions that not only affect the choice of site but also help to refine the marketing mix. The size and complexity of the site evaluation model is simply another kind of business decision. The best site location model is the one that is cost-effective in the tourism industry.

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PERCEPTION OF KEY MANAGEMENT CONTRIBUTION FACTORS TO THE FUTURE DEVELOPMENT OF THE HOTEL INDUSTRY: A COMPARATIVE ANALYSIS OF BRITISH/IRISH & SPANISH SAMPLES

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INTRODUCTION

For Spain the importance of tourism both national and international, does not hold any doubts for those versed in the subject. A few general figures suffice to illustrate this. In 1991 a total of 53.5 million people visited Spain, a slightly higher number than the 52 million which did in 1990, and slightly less than the 52 million of the previous year, this meant a revenue of 19,004 million dollars in 1991, 18,593 million dollars in 1990 and 16,174 million dollars in 1989. Tourism achieved a participation in the Gross Domestic Product of 8.74% in 1989. In the last few years 85% of tourists have been from Portugal, followed by West Germany with 13% and the U.K. with 12%, as the major contributors (Secretaria General de Turismo, 1991). This data should be considered with some caution because not all the people that cross the frontier can be considered as tourists, other data such as that which is provided in the input output tables of the Tourist Economy reveal the importance too of the development of the Spanish tourist market (Vid IET 1989 and Alcaide, 1984). However, in the last few years the growth and development of the industry have come into a time of crisis (Figuerola, 1991). These circumstances have been, among others, the driving force behind our study of the attitudes of hotels to their development. Tourism, in the United Kingdom has consistently grown since 1985. There has been in recent years, namely 1990, 18 million overseas tourists in the UK spending around £7.5 bn. The top five countries that visitors come from and the percentage of total visitors represented by that country are the United States of America (USA) (16%), France (13%), West Germany (12%) The Irish Republic (8%) and the Netherlands (5%) (Key Note, Market Review 1991). The similar expenditure by Britons in this time period was around £400m. Of this money 26% was spent in either (un)licensed hotel/motels or guest houses; the figures exclude spending on business trips. Domestic tourism has been the beneficiary of the Gulf War and its repercussions as well as the collapse of the International Leisure Group. The sector is therefore one worthy of investigation not only for its levels of expenditure but also for the management challenge confronting hoteliers by such a dynamic business environment. In terms of employment in hotels and catering between 1971 and 1987 there was a rise at more than twice the rate of employment in service industries as a whole (Robinson and Wallace 1983). More up-to-date indicators (Baty and Templeton) have shown a 26% increase in tourism-related employment compared with 15.8% in all service industries. Unlike Spain the United Kingdom does not have a national minimum wage with the government declining to enforce a social charter for workers. More recently Wood (1992) has highlighted the increased part-time employment, casualisation of work and the increased participation of women and young people. Such fragmentation of the workforce, the authors feel, make it difficult to operate and maintain consistent and effective programmes in training, marketing and general management skills.

Research Objectives

The main objectives of the study were derived from specific concerns shown by some national tourist boards related to planning a number of key cooperative actions and incentive programmes directed to the hotel industry in order to improve the total tourist product, encourage the growth of the sector and synchronise annual demand patterns. The main objectives of the investigation were in common with the other pieces of research that were being carried out in other areas in Europe such as

Portugal, England, Wales, Scotland and Ireland (Evans, McDonagh and Moutinho 1991, 1992, McDonagh, Moutinho, Evans & Titerington 1992) as well as in Canada (Deng, Ryan and Moutinho 1991 a), b) 1992 a), b)).

The main objectives of the study were the following ones:

- to evaluate the role of Tourist Boards and Authorities in the development of the hotel sector.
- To study the attitudes of the hoteliers to training.
- To analyse the level of concern of the hoteliers for the environment.

This piece of research proposes to also draw conclusions on the success and development of the hotel sector. However, it is worthwhile pointing out that although, both the success and development are difficult to define, for the purpose of this study those questioned were asked their opinion on the factors that contribute to the development of their hotel business using as markers the growth of their sales and profit figures.

Research Design & Methodology - British/Irish Sample

The research instrument was developed on the basis of a clear inductive process associated with it. The initial hypothesised constructs used to model the key management contribution factors to the future development of the hotel industry were selected on the basis of a specific request by the British Federation of Small Businesses to study the perceptions and effects of these key managerial issues within the tourism industry in Scotland. The process of refinement and testing of these constructs and the final choice of variables to be included in the questionnaire was based on conducting three group discussions and some in-depth interviews with 35 individuals who pertained to the planned sampling population (i.e., hotel owners and hotel managers). The final selection of variables was considered, at that time, to be the best possible collection of key contribution factors to the future development of the hotel industry. Furthermore, when the initial study was carried out (Moutinho 1988) there were no other academic studies of this nature to draw upon. Following completion of the study in Scotland, it was decided to roll-out the research project into England, Wales and Ireland. Careful consideration was given to the testing of the applicability of the questionnaires in these new geographic respondent populations.

The research instrument was developed on the basis of a structured list of critical variables making the universe of context of the study - Factors contributing to growth and success in the hotel sector. In order to acquire the relevant information from the respondents, the clarification of the concepts relating to the variables to be measured was an essential prerequisite of the pretesting phase. Hence, pilot questionnaires were sent initially to the Research Department of the English, Scottish and Welsh Tourist Boards accompanied with an explanation of the purpose and objectives of the study. The final questionnaire was revised several times to take into account the valuable input information provided by these Boards.

The self administered questionnaire was mailed to named hotel managers in England, Scotland and Wales [600 in number] and to hoteliers throughout Ireland [363 in number]. Of 600 mainland questionnaires sent, the response has been 163 (28%) which is within the modal

response rate of 20% - 40% (Kanuk and Berenson, 1975). Of Irish questionnaires sent, the response has been 83 (23%).

The hotel owner/managers were asked to anonymously complete the questionnaire which included inter alia questions developed from previous research (Moutinho, 1988) that identified the following issues as important contributing factors to the success and growth of hotels:-

1. Tax, other financial help and staff subsidies from governments.
2. Marketing help and support from governments, tourist authorities and other sources.
3. Training help and programmes from government, tourist authorities, or other sources - in a variety of fields such as personnel, finance, marketing, catering and so on.
4. Concerns over a variety of environmentalist considerations such as over-crowding, global protection of the environment, preservation of architecture styles and so on.

For most of the factors, respondents were asked to rate these along 7 point attitude scales. Respondents have been classified according to size of hotel, manager or owner status of respondent, gender of respondent, number of years in the hotel business, type of ownership of hotel (family or part of a Group) - and according to profit and sales revenue positions (now, 3 years ago and projected position over the next 3 years). Of the 246 respondents, 69% were the hotel owner and 24% were the hotel manager, and 7% were either both of these, or were in the 'other' classification. Related to this, 80% of hotels responding were family businesses, 12% were part of an hotel group (with 8% being either both, or in some other form of ownership). Of the respondents, 72% were male and 28% female and 55% overall, had been in the hotel business for more than 10 years. Furthermore, 40% of the hotels were in the 1 to 15 room category, 34% were hotels with 16 to 30 rooms, 11% were in the category 31 to 50 rooms and 15% had more than 50 rooms.

Spanish Sample

The research was carried out by mailing the questionnaire together with a stamp addressed envelope to enhance the response (two hundred and fifty two) questionnaires were sent, between March and April of 1991, together with a letter which requested collaboration and explained the objectives of the research. The hotels of the sample were selected at random from the "Guia de Hoteles de España", after sending out the questionnaires, the questionnaire was sent out again the following month to all those who had not replied. Of the 252 questionnaires sent, the response was 89 of which 83 were correctly completed, which is a response rate of 32%, and according to Kanuk and Berenson (1975), an acceptable response rate (the typical range is between 20 and 40%). Considering that there were 4,200 hotels in the guide, the sample had a representativity value of +/-10.8% for $p=q=0.5$.

Of the 83 people questioned in the survey only 6% were owners the rest were managers directors or assistant directors. (Eighty Seven percent) were men and 13% women, and 75% of those questioned had more than 10 years of experience in the sector. In short, the sample was one in which experience in the sector and its qualification allowed us to assume a good degree of confidence in understanding the reality of the tourist industry. In relation to the type of hotels in the sample, 29% were family run, 47% belonged to a chain or group and 24% in other categories. With respect to the size, 42% had less than 100 rooms and 58% more than 100 rooms. Table 1 shows a comparison of research designs used for both the British/Irish and Spanish samples.

Analysis of Results

The results obtained from the investigation were structured in four sections relating to the expectations of the growth and development of the sector, the factors which contribute to the development of the hotel sector, the needs for training and the concern for the environment.

Estimated Forecasts About the Development of the Sector - British/Irish Sample

Respondents were asked how they saw general development of the hotel sector in their region in the 1990s: - 86% saw some level of expansion. This ranges from just 60% of the Welsh hotels seeing expansion in their country to 100% of those in the Midlands and 93% of those in Ireland. Also, 48% of respondents to the question on profitability reported a moderate or substantial current profit (only 30% claimed moderate/substantial profits three years ago).

Spanish Sample

In relation to the evolution of the sector, close to half of the respondents were of the opinion that in Spain in 1990 a moderate decline took place in the hotel industry. On the other hand, 27% of the respondents maintained that the hotel industry expanded moderately during this period. In summary, it can be said that the perspectives on the development of the hotel industry are rather pessimistic, although there is not any generalised opinion in one direction or the other given that the average in a scale from one to five is 2.62 and this is equivalent to a "moderate decline" or "no change" situation. Turkel (1991) has stressed that basic questions relating to maintaining profits; ensuring the profit and less statement is not overloaded by managerial staff; that poor performance is left unrelated to poor marketing or management skills and not undertaking sufficient priority research in food and beverage trends all are contributors to decline in overall revenue.

Table 1: Comparison of Research Designs - British/Irish and Spanish Samples

	British/Irish Sample	Spanish Sample
Method of Contact	Self-administered questionnaire by mail	Self-administered questionnaire envelope by mail with stamped address
Sampling Frame	Latest Directory of Hotels	Latest Directory of Hotels
Sampling Approach	Probability Random Sample	Probability random sample
Sampling Units	Hotels managers/owners	Hotel managers/owners
Total Questionnaires sent	600 + 363 = 963	252
Response Rate	28% + 23%	32%
Achieved sample	163 + 83	83
Follow-up questionnaire	No	Yes
Profile of respondents		
- Hotel Managers	24%	94%
- Hotel Owners	69%	6%
- Family Business	80%	29%
- Hotel Group	12%	47%
- Male	72%	87%
- Female	28%	13%
- Hotel Business experience > 10 years	55%	75%

General Contributors to Development

For the 'attitude' scales covering the various factors contributing to their development, Table 2 summarises the main findings of this study. Table 2 below shows the percentage scores for the British and Irish as well as the Spanish samples. For the purposes of this study the authors considered responses for the scaling points 6 and 7 along the very important scale polar. The importance of training as a general contributor to hotel development is considered later in this paper. The top factor in the British Isles that was cited as very important was moral

support from family members (70%); by contrast in Spain co-operative promotional campaigns with other hotels was given the highest percentage score in relative importance (58%). That while most factors were considered importance in both Spain and the British Isles it is immediately apparent from Table 2 that the factors labelled risk sharing in capital investments scoring 18% and 23% for respective samples, and the creation of voluntary buying groups, scoring 39% and 20% respectively, are factors which elicit indifference from hoteliers. Whilst there is general agreement with regard to the importance of marketing support provided by tourist boards and government and better communications with tourist boards in the findings, Spain certainly values the use of co-operate marketing research more than do hoteliers in the British Isles.

Table 2: General Contributors to Hotel Development

% Scaling '6' or '7'

Along the 7-point Attitude Scales

(The 'Very Important' Scale Polar)

	British /Irish	Spanish
Tax Exemptions provided by the Government	57%	42%
Marketing Support provided by Tourist Boards & Government	55%	55%
Financial support provided by the Government	42%	47%
Risk Sharing in Investment by Government Agencies	23%	18%
Better Communications with Tourist Boards	60%	53%
Staff Subsidies provided by Government Agencies	33%	48%
Coop buying via Voluntary Buying Groups	20%	39%
Coop Marketing Research with Other Hotels	23%	52%
Coop Promotion Campaigns with other Hotels	31%	58%
Coop Promotion Campaigns of any other type	28%	53%
Moral Support From Family Members	70%	52%

Training

It is not surprising that the authors questioned respondents about their training perceptions. The skills and adaptability of the workforce have come to be viewed as one of the major determinants of competition, both at interfirm and international levels as discussed by Cassels 1985 and Chandler 1987. As Keep (1987, 1989) notes of the concept of human resource management. If HRM is to have any validity then it might be reasonable to expect employers to treat employees as assets and to invest in their training and development. To do so is a basic requirement for success. Clearly it is not just an issue in the British Isles; Baum (1992) has highlighted the growing challenge to European Tourism that human resource issues will present towards the end of the decade. Table 3 shows the basic analysis of responses to those aspects of training that were presented to respondents. This suggests that whereas Marketing training considered very important, the MOST important is Catering training for the British Isles. The converse holds for Catering training in the Spanish sample with Personnel Training deemed to be the most important followed by both staff and marketing training. The Spanish sample exhibits more emphasis being placed on training in areas that involve greater external connections and relations with the consumer.

Table 3: Perceived Important of Training

% Scaling '6' or '7' Along the 7-Point

Attitude Scales

(The 'Very Important' Scale Polar)

	British & Irish	Spanish
Staff Training	46%	75
Management Training	43%	72
Finance & Accounting		
Training	46%	47
Marketing Training	61%	75
Personnel Training	54%	83
Catering Training	70%	35

Environmental Concerns

As can be seen in Table 4, the hotel managers included in the British/Irish sample showed a good degree of concern towards the preservation of cultural heritage, the preservation of architectural styles, over building of tourist super structures and the amount of preservation of local landscapes. Fifty percent of the respondents considered important the implementation of a policy of conservation at a global level. The least important environmental concern (41% of the respondents) was related to the degree of overcrowding in the area. The Spanish sample exhibit a higher desire to see conservation at a global level as being important for their organisations 75% in Spain versus 50% in the British Isles with more concern being displayed again in most areas considered with the exception of avoiding overcrowding or overbuilding.

Table 4: Environmental Concern

	British/Irish	% 'Strongly Agreeing' with the Statement Regions							Spain
		1	2	3	4	5	6	7	
Cultural Heritage of the Region must be preserved	65	83	61	59	62	74	80	54	79
Architectural Styles must be conserved	67	75	56	65	68	70	73	66	71
'No' Control over Building in the Area (Strongly Disagreeing)	65	67	61	71	51	81	73	61	56
Local Landscapes must be preserved	65	58	61	71	62	63	80	63	75
Over crowding must be avoided	41	33	38	47	49	41	67	35	36
Conservation at a global level is important for your hotel	50	42	36	65	41	56	68	54	75

Key:

Regions-

1 = Scotland, 2 = North East/North West, 3 = Midlands, 4 = South & South East, 5 = South West, 6 = Wales & 7 = Ireland

Factor Analysis

The procedure used for analysing the data consisted of the application of factor analysis (varimax rotation) with Kaiser normalisation. This was done to gain a clear understanding of the underlying structure of the variables under study. As shown in Table 5, five reasonably pure factors were extracted. Overall, the vast majority of the research items loaded significantly (a factor loading of at least 0.45) on one of the five factors.

Factor 1 (Concern for Marketing Environment)

Consists of three key variables which provide interesting insights due to their aggregate solution. The orientation towards global protection and conservation of the environment appears associated with the manifested

need for marketing support as well as with the profit position of the hotel achieved during the last three years of operation. A speculation could be made around these findings which seems to indicate that although hotel managers recognise the existence of a direct relationship between overall profitability and the allocation of financial resources to the hotel marketing budget, they are also somewhat concerned with the implementation of a balanced and sustainable marketing policy in terms of integrating in it an ecological orientation related to the global protection and conservation of the environment.

Table 5: Results of Varimax Rotated Principal Components Analysis for Success & Growth in the Hotel Sector (British & Irish Sample)

Variable Description	Factor 1 Concern for Marketing Environment	Factor 2 Training subsidies and environmental concerns	Factor 3 Operational Training	Factor 4 Cooperative Management	Factor 5 Quality Seeking	Communality
1. Marketing Support	.48167	.15920	-.05078	.08889	.06851	.79078
2. Human Resources & staff subsidies	-.37184	*.50345	.01315	.19368	.10307	.47200
3. Cooperative Purchasing	-.26373	.23854	-.16677	*.60745	-.20635	.63048
4. Cooperative Marketing Research	-.24862	.12261	-.08789	*.82737	-.9480	.76863
5. Cooperative Promotional campaigns with other hotels	-.21805	.01365	.00373	*.89048	.00832	.81222
6. Cooperative Promotional campaigns of any other type	-.21777	-.00830	.02788	*.83796	.03373	.75668
7. Staff training	-.38483	*.82185	-.11481	-.02101	.01202	.75562
8. Management training	-.41648	*.68737	-.08189	.007402	.02026	.78171
9. Training in Finance & Accounting	.17604	-.07489	*.96573	-.03183	-.03323	.94957
10. Training in Marketing	.12518	-.02853	*.97257	-.03177	-.01314	.95563
11. Training in Personnel	.14119	-.03746	*.92566	-.07341	-.00025	.88752
12. Training in Catering	-.09659	.27910	-.10251	-.05970	*.67451	.58641
13. Preservation of Cultural Heritage	-.28561	*.54650	-.04398	.08961	.05787	.53501
14. Styles of Architecture & Conservation of Buildings	-.39015	*.46046	-.03439	.28290	-.04168	.66130
15. Excessive Building	-.39331	*.81001	.01767	.01490	-.12869	.72497
16. Preservation of Local Landscapes	-.26113	*.69499	.03029	.04136	.01596	.65531
17. Overcrowding	.05884	-.26741	.05683	-.15765	*.64547	.58192
18. Global Protection & Conservation of the Environment	*.71736	-.10277	-.01803	.03088	-.08372	.63502
19. Profit Position of the Hotel Last Three Years of Operation	*.65288	.19252	.02586	.01892	-.09221	.67359

Items shown in Table are those with factor loadings ≥ 0.45

TRANSFORMATION MATRIX

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Factor 1	.73384	-.41067	-.11736	-.21559	-.00758
Factor 2	.55448	.54567	-.25716	-.39748	-.07805
Factor 3	.00348	.01394	-.71699	-.04853	.15022
Factor 4	-.02019	.69289	.22454	-.53953	-.06619
Factor 5	.16941	.13033	-.52298	-.35686	.32172

Table 5: Eigenvalues and Percent of Variance Explained from Factor Solution (British & Irish Sample)

Factor Extracted	Eigenvalue	Percentage of Variance	Cumulative Percent of Variance
1	5.20964	10.8	10.8
2	4.95122	10.3	21.1
3	3.25954	6.8	27.9
4	2.82568	5.9	33.8
5	1.53158	3.2	34.4

Factor 2 (Training Subsidies and Environmental Concerns)

Is the most dominant factor extracted from the data set and it includes seven strongly related variables. The three most important building blocks of this factor relate to i) the expected provision of specific subsidies which would help hotel managers face up to the rising labour costs and the effective allocation of human resources; ii) the provision of subsidies for staff and management training which could substantially affect the delivery of higher quality hotel services through the improvement of staff and management skills; and iii) the availability of a new programme of subsidies related to local environmental concerns shared by the tourism authorities and the hotel managers (for example to be allocated in the development of mutual efforts related to the preservation of the cultural heritage, styles of architecture and conservation of historic buildings specific subsidies which could act as an incentive not to engage in excessive building as well as to encourage the preservation of local landscapes).

Factor 3 (Operational Training)

Is comprised of three variables, all related to operational training in three key managerial functions: finance and accounting, marketing and human resources management. The agglomeration of these three variables in one factor and their very high loadings reaffirm the level of importance attached to management training by hotel managers when seeking to improve their organisations' overall performance in terms of future success and growth.

Factor 4 (Cooperative Management)

Indicates another clear-cut cluster of four variables, all related to the development of cooperative arrangements within the sector. Besides the area of cooperative purchasing, in which several hotel organisations have been already actively involved, an analysis of the factor loadings seems to indicate a willingness to engage in new cooperation efforts in the areas of marketing research and promotion.

Factor 5 (Quality Seeking)

Consists of only two variables - training in catering and concern towards overcrowding - and, although not directly related, they both seem to show a critical need felt by the respondents in relation to the improvement of the overall quality of the tourist product.

Factor Analysis (Spanish Sample)

The Correlation Matrix

In the factor analysis the first step is to calculate the correlation matrix whose variables must be highly correlated so that the factor analysis is valid. It is also convenient to contrast by means of some indicators the degree of association that exists between the variables:

- the correlation matrix determinant.** This is an indicator of the degree of intercorrelations. This indicator must be low in value to indicate that there are variables with high intercorrelations - but its value cannot be zero.
- Barlett's spherical test.** This test is used to test the hypothesis that the correlational matrix is an identity matrix. This matrix has ones in the main diagonal and zeros in the rest. So that the hypothesis is not rejected, the use of a factor model must be reconsidered. In our case the statistical value is quite high, 0.83409, and the degree of significance associated, small so it seems improbable that the matrix is identity.
- The Kaiser-Meyer-Olkin index.** This index compares the size of the correlation coefficients observed, with the sizes of the partial correlation coefficients. If the KMO value is 0.80, it is good and in our case the index is 0.8035. We consider that it is possible to proceed with confidence in carrying out the analysis.
- The anti-image correlation.** The negative of the partial correlation coefficient is called the anti-image correlation. If in the anti-image correlation coefficient there is a high number of high coefficient values, the application of factor analysis should be reconsidered. Our data contain only 10.02% of the elements outside the diagonal of the anti-image matrix with values greater than 0.09.

Analysis of the Main Components

To determine the number of factors to use to explain the results the criterion recommended by Kaiser (1960) was used "conserving only those main components whose values are greater than one". In our case,

as can be seen from Table 6, the first four factors have eigenvalues greater than one and together account for 75.3% of the variance.

Table 6: Eigenvalues & Percent of Variance Explained from Factor Solution (Spanish Sample)

Variable	Factor	Eigenvalue	PCI of Var	CUM PCI
F01	1	5.52439	42.5	42.5
F02	2	2.13834	16.4	58.9
F03	3	1.10418	8.5	67.4
F04	4	1.02333	7.9	75.3
F05	5	0.71687	5.5	80.8
F06	6	0.59015	4.5	85.4
F07	7	0.50048	3.8	89.2
F08	8	0.38970	3.0	92.2
F09	9	0.25804	2.0	94.2
F10	10	0.25198	1.9	96.1
F11	11	0.21671	1.7	97.8
F12	12	0.19200	1.5	99.3
F13	13	0.09385	0.7	100.0

To aid in the interpretation on orthogonal varimax rotation was carried out which did not affect the accuracy of the adjustment of the factor solution. The rotated factor matrix can be seen in Table 7.

Determination of the Factors

The first factor accounts for 42.5% of the total variance and is composed of the following variables and factors values:

- F03 - 0.88 - Financial backing of the state governing bodies.
- F02 - 0.84 - Human resources and aid from the government.
- F03 - 0.77 - Commercial backing by the administration.
- F04 - 0.75 - Fiscal exemptions from the administration.

This factor could be called: **Administration backing**

The second factor amounts for 16.4% of the variance and is composed of the following variables and factor values:

- F08 - 0.84 - Joint investment projects with other hotels.
- F09 - 0.83 - Joint promotional campaigns.
- F10 - 0.74 - Joint promotional campaigns of any type.
- F07 - 0.73 - To become a member of a buying group.

This factor could be called: **Joint activities amongst the groups in the sector**. The third factor amounts for 8.5% of the variance and is composed of the following variables and factor values:

Table 7: Varimax Rotated Principal Components Analysis for Success & Growth in the Hotel Sector

	Factor 1 Administration Backing	Factor 2 Cooperative Management	Factor 3 Human Resource Training	Factor 4 Family Backing	Communality
1. Tax Exemptions	*0.75589	0.14405	0.06750	0.20712	0.63957
2. Marketing Support	*0.80614	0.09525	0.21280	0.07252	0.70947
3. Financial Support	*0.88895	0.11234	0.09390	-0.06737	0.81620
4. Shared Risk Investments	*0.77225	0.28309	-0.04868	-0.12225	0.69382
5. Better Relations	0.45780	*0.44797	0.24726	0.33772	0.58545
6. Human Resources	*0.84529	0.06493	0.24584	-0.00553	0.77920
7. Cooperative Purchasing	0.12505	*0.73842	-0.01292	-0.11242	0.57370
8. Cooperative Marketing Research	0.21904	*0.84257	0.22465	0.01603	0.80863
9. Cooperative Promotion Hotels	0.17165	*0.83763	0.28117	0.14354	0.83075
10. Cooperative Promotion - Other	0.05723	*0.74646	0.31080	0.20573	0.69939
11. Moral Support	0.00563	0.06736	0.03538	*0.95296	0.91396
12. Staff Training	0.27461	0.22406	*0.84887	0.11056	0.88166
13. Management Training	0.10799	0.31376	*0.87806	-0.02385	0.88166

TRANSFORMATION MATRIX

	Factor 1	Factor 2	Factor 3	Factor 4
Factor 1	0.68411	0.58710	0.41226	0.13175
Factor 2	-0.72464	0.60078	0.29370	0.16644
Factor 3	-0.02474	-0.46464	0.46132	0.75943
Factor 4	0.07932	0.28015	-0.72867	0.61989

- F13 - 0.87 - Training courses.
- F12 - 0.84 - Management courses.

This factor would represent all that is related to: **Human resource training**. The fourth factor accounts for 7.9% of the variance and is composed of the following variables and factor values:

- F11 - 0.95% - Moral support of family members.

This factor could be named family backing and in it would be reflected collectively the 29% of the sample whose business was of a family type and as a result it can be appropriately named:

Family backing.

This result contrast with the work carried out by Hotelling (1933: 417-441), it being that the first component that is extracted, is that which best summarises the information contained in the original data matrix. That is to say, it is that which contributes best in explaining the total variation. The second main component is that which best summarises remaining information, it accounts for the major part of the remaining residual variance is independent of the first. The sequence can continue extracting factors until the total variance is accounted for.

From the information obtained which corresponded to the measures and typical deviations as measures of propositions, it was observed that special consideration is merited by the business representatives of the hotel sector to the "commercial backing" given by the state and local governing bodies, as well as to the "joint promotional campaigns" and above all to "management training".

The application of the analysis to the main components, to reduce the number of variables to four factors or main components enabled us to underline the key components perceived as:

- The backing of the administration.
- Joint activities amongst the components of the sector
- Human resource training.
- Family backing - small size firms and the shareholder component

This brings us to recommend what we have shown as a principle with respect to the supply of the tourist product and the dynamic comparative advantages with respect to its strategic use on three levels:

- a) the collaboration of the administration in the development of the sector.
- b) the adaptation of group image, politics, communication, commercialisation and market analysis on a global form.
- c) the professional qualification of human resources.

When comparing the five-factor solution extracted for the British/Irish sample with the four-factor solution derived for the Spanish sample, we can detect two common important factors resulting in both analyses: cooperative management and tourism administration support. In relation to cooperative management, there are three key variables that seem to substantiate this approach: cooperative purchasing, cooperative promotional campaigns with other hotels and cooperative promotional campaigns for any other type (e.g., with other tourism development partners). With regard to seeking tourism administration support, a common key variable in both samples relates to human resources and staff subsidies.

Staff and management training variables are loaded in one factor for the Spanish sample whereas the same variables are bundled together with

environmental concern variables as well as human resource subsidies in one factor in the case of the British/Irish sample. Different types of training required (except for catering) are loaded in a factor labelled "operational training" (British/Irish sample) contrasting with the low loadings for the Spanish study. Also, it is interesting to note that, despite their high importance ratings, the environmental concern variables were not able to load in any resulting factor extracted for the Spanish sample.

Research Limitations

The contrasting differences between the hotel industries in the United Kingdom and Ireland (small hotels and bed and breakfasts) and Spain (large hotels) are visible when comparing the profile of respondents of both samples. Hotel managers are predominant in the Spanish sample as compared to hotel owners in the British/Irish sample. Also, family businesses dominate the British/Irish sample, whereas hotels belonging to an organisational group are represented by a high proportion of Spanish respondents. These structural differences in the make-up of the respective hotel industries may cause an important limitation in the interpretation of the findings since hotel owners might be more concerned about certain management contribution factors than hotel managers and vice-versa. Furthermore, when comparing underlying attitudes between countries, one should take into consideration the influence of cultural factors that might predispose respondents in a specific direction. For instance, the British/Irish hoteliers seem to hold stronger beliefs that tax exemptions are important. Would this be because taxes may just be so high in Britain and Ireland that they carry more weight?

Although we are fully aware of these research limitations, we felt that the undertaking of a comparative study between European countries was quite important and relevant in the light of the appearance of the Single Market and the pursuit of a unified Common Market tourism policy, including the new allowed mobility of hotel managers and workers from other countries within the Community. Clearly, the findings of the study could help European hotel managers understand the relative importance of the tourism policy factors analysed in this research study. The case for the selection of Spain to be included in this study relies on the high contribution made by the tourism sector to the gross domestic product as well as on the academic institutional contacts that the authors previously had in this country.

Conclusions

The main conclusions that can be drawn from this piece of research on the hotel industry can be structured in the following points.

The Spanish hoteliers questioned have a slightly pessimistic view about the development of the hotel industry, although this cannot be said for all of them. These responses linked with the evolution of slightly negative profits in the last three years allow us to rate the situation in the sector as one of stagnancy rather than one of development or decline. Nevertheless the expectations of sales evolution in the next three years is more optimistic in relation to the sales evolution in the last three years.

Hoteliers in England, Scotland and Wales appear to be especially interested in staff and personnel training and one better links with the tourist boards - as well as perceiving marketing support and training to be important to their success. This study goes some way to reinforcing the findings of previous work (Moutinho, 1988) which suggested that an effective training programme well tailored to the needs of managers and staff of small businesses in the tourism field could be critical factors in contributing to the future growth of that sector.

Also, tax exemptions or a system of financial incentives operating within the framework of a tourism policy is evidence of a commitment to tourism growth and will recognise and evaluate the opportunity cost of grant and loan financing (Bodlender and Ward, 1989). Perhaps local hoteliers can be offered preferential rates of benefit especially if they are dominant in the economy employing large numbers. Tourist boards could play a major role in helping hoteliers by 'pump-priming' projects through cash grants and thus stimulating commercial funds and by giving or obtaining expert advice and training for hoteliers (Wanhill, 1989).

The case for effective training programmes and the suggestion in recent work (Evans et al. 1991) that there may exist a cultural difference in the regard supports the case proposed for a comprehensive European Community (EC) policy on tourism (Akerheim et al. 1990). This study further supports the argument (Wolf 1989; Keep 1989) that one of the major challenges facing the hotel industry relates to human resources, specifically the improvement of its image to attract new employees through the provision of good pay, career progress and continuous training which ensures excellence as a corporate value (Atkinson et al 1987). Excellence in this case might involve operating and training staff to promote the concept of sustainable development.

With regard to the Spanish study, training is considered to the most important aspect in the future development of the hotel. This factor is followed in close proximity by the rest of the questions that arose which include factors related to the backing in various aspects of the local administrative bodies and the actions related to marketing. The former are more important for hotels of smaller size and of the family type, whilst the factors related to marketing are more important for hotels of larger size and for those which belong to hotel groups or chains. In fact, almost all the factors are considered to be important, however, when the respondents were asked to place them in order of importance, the most important turned out to be the fiscal exemptions and incentives provided by the state governing bodies and the promotional campaigns with other hotels.

In relation to training, a factor considered important by the respondents, all the areas of training suggested were considered quite important, although catering was considered a little less important. In decreasing order the areas of greater importance were: personnel, marketing, finance-accountancy and catering. The public or private training institutions have ahead of them a sizeable gap to fill and without doubt are taking steps in this direction.

With respect to the concern about questions on the environment, the hoteliers manifest a great concern for the majority of the questions suggested in the questionnaire. In this way there is total agreement on the conservation of cultural heritage, particular buildings and the local countryside, as well as in the global protection of the environment. This shown concern for the environment can be correlated with the current and growing importance for the consumer of environmental protection and what has beginning to be called ecotourism (Elliot-Spirak, 1990). But it is hoped that this concern can be converted into sound environmental management practice culminating in hoteliers undertaking Eco-Audits as proposed by Prothero and McDonagh (forthcoming 1993) and communicating their strategies to their consumers by means of Eco-Label.

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References are available from the authors

MARKETING CHANNELS

DISTRIBUTION CHANNEL SYSTEMS OF RESORT HOTELS IN TURKEY

İbrahim Birkan

Introduction

The positive influence of tourism on the Turkish economy has forced a need for improved marketing strategies to meet the increased and changing demand of international visitors. Today's tourists no longer represent a large homogeneous market. Instead, tourism is becoming increasingly specialized as tourist's interests divide, some becoming more discriminating in their destinations and more value conscious of travel considerations such as comfort and service. As the tourist's behavior and tests change, so must the destinations, and marketing strategies of hotels and resort hotels be changed and updated to meet those needs. It is the main objective of this study to investigate and delineate the nature, structure and characteristics of distribution channel systems of tourism service providers, more specifically resort hotels, in Turkey. In this study along with resort hotels other members of distribution channels have been examined and directly or indirectly critical points of Turkish Tourism were underlined.

Study of the Channel System

In tourism industry just like other service industries there is no physical transportation and distribution of services provided for customers. However, the hospitality and travel industry instead of a physical distribution system include several intermediaries within the distribution channels. This situation is especially very significant in distribution channel systems of resort hotels when they are mostly marketed at the international level (Middleton 1989, p.185).

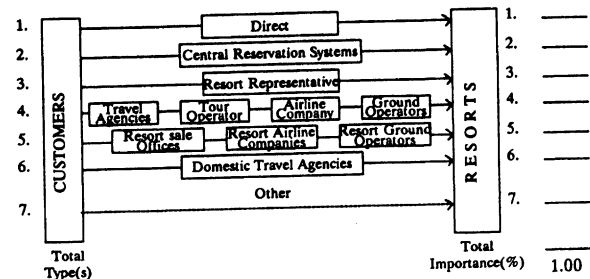
In this study as we analyse the distribution channels of resort hotels in Turkey we felt that it would be beneficial to underline the main differences between manufacturing industry and service industry, and identify the hotel industry's unique characteristics of intangibility, non-standardization, and inseparability. Here a special effort is made to point out and explain the additional P's in the marketing mix of resort industry (Morrison 1989).

The main scope is to analyse the distribution channels of resort hotels in Turkey. In order to accomplish this goal a broader view has been adopted and resort hotels and other intermediaries in distribution channels and their interrelationship have been investigated. A special focus is given on movement toward the approach of vertical marketing systems, in that resort hotels, tour operators, travel agencies, etc. have been reviewed (Kaven 1974). It is also noticed that even though there is an increasing demand for travel and holiday needs in overseas, people who book through tour operators are extremely budget minded and it is very likely that the most economical travel packages will come from vertical marketing systems in international tourism industry.

Resort hotels are the last member of distribution channel system and also the cost and risk of building a resort particularly in another country have been found higher. On the other hand, it is found that resort hotels do not receive a high percentage of tour package prices. It is very noticeable that under normal conditions independent resort hotel investments in Turkey are not very profitable, nevertheless, the sharp improvement in increasing bed capacity in Turkey was obtained during the last ten years mainly due to large scale of incentives provided by the Turkish government. Therefore, it would be very legitimate to say that investments on tourism in Turkey have been highly sensitive to the incentives given by the government.

A mail back questionnaire was specifically designed to examine different types of distribution channels used by resort hotels and their marketing strategies. The questionnaire also included a section on types of hotels, locations, marketing department related issues and types of markets. The study used a systematic random sampling procedure to ensure the representativeness of hotels in the country.

Considering seven possible distribution channel systems commonly used by resort hotels in Turkey, hotel owners or managers were asked to choose the ones that best describe and fit their marketing channel systems and also indicate percentage importance of each distribution channel. These channel systems have been at the figure illustrated below.



Conclusion

Of the 722 survey questionnaires mailed to the addresses obtained from the Turkish Hotel Association and other tourism organizations, 188 were returned at a response rate of 26 percent. It is hoped that findings of this study would be of help to tourism suppliers in their future marketing and planning efforts.

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TOTAL QUALITY MANAGEMENT IN INTERNATIONAL DISTRIBUTION CHANNELS

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Abstract

This paper focuses on Total Quality Management (TQM) in international distribution channels. Total Quality Management has recently received much attention both in management theory and practice. For producers of goods and services that are not in direct contact with their final consumers, a critical quality question is how the quality can be secured throughout the distribution channel. TQM in distribution channels cannot be limited to activities within the boundaries of each company, but needs to be extended to include all companies in the channel. We argue in the paper that channel organization partly determines the possibility of implementing TQM. A model is developed and empirically explored in the context of international distribution of Norwegian farmed salmon.

Introduction

Researchers have pointed out that consumers are becoming more demanding with respect to quality (Steenkamp 1989). In management theory and practice this has resulted in an increased amount of interest in Total Quality Management (TQM). To achieve top quality, it is not sufficient only to evaluate the product or service itself, but quality concerns all different functions and operations. Many companies view Total Quality Management as a key management area, and an important competitive advantage.

In the literature, Total Quality Management has been discussed and analyzed from a single company point of view. Quality is then related to all the activities the firm is engaged in. In order to obtain consumer satisfaction, quality needs to be secured in all areas. Many companies, however, are not in direct contact with their final consumers. They are dependent upon other companies in order to distribute their products to the final consumers. It makes little sense for a company to secure top quality if other companies in the distribution channel are not able to maintain the same quality. For producers who are dependent upon intermediaries, a critical quality question is how the quality can be secured throughout the distribution channel. For many companies Total Quality Management cannot be limited to activities within its own boundaries, but needs to be extended to include other companies in the distribution channel.

This paper will explore the role of TQM in international distribution channels. TQM in international distribution channels is above all important when product quality can change in the distribution process from the producer to the final consumer. This holds in particular for perishable goods. The fact that the quality can change throughout the distribution channel, is not only a problem in situations where the product 'looses' quality, and ends up being an inferior product (e.g. fruits and vegetables), but it is also possible that different actors in the channel perceive quality differently, and therefore may be concerned with different quality considerations. Such differences may also change the quality of the product.

The primary objective of this paper is to develop a theoretical model for analyzing TQM in international distribution channels. Our model will be analyzed using data from international distribution channels for Norwegian farmed salmon. Special attention is paid to the role of Norwegian exporters as bridging agents between the producers (fish farmers) and importers in different international markets. The model will explore how Norwegian exporters ensure quality both downstream to suppliers and upstream to customers.

Total Quality Management

Researchers both in marketing and organization theory have lately paid much attention to quality. However, the marketing and organization

literature are primarily concerned with two different aspects of quality. In marketing, key research areas are how quality is perceived by the consumer, and different methods for measuring perceived quality. Researchers within this tradition have thus focused on how consumers evaluate quality (Steenkamp 1989: 58). In the organization and management literature, focus has primarily been on how quality can be an integrated part of a firm's strategy, and consequences of a quality strategy for management practice. However, from a managerial point of view, it is important to link how consumers evaluate quality to the development of a quality strategy within a firm. A specific quality strategy should be founded on a sound knowledge of how consumers evaluate quality. In our theoretical discussion, we will focus on how these two streams of quality literature can be linked in the setting of international distribution channels.

Along with the success of many Japanese firms, both researchers and management practitioners came to view quality as a major strategic variable for market success. This was followed by a managerial shift from an inspection-oriented, manufacturing-focused approach toward a defect-prevention and company-focused strategy on quality (Lonard & Sasser 1982). Quality, in this respect concerns not only those involved in manufacturing, but all different functions and operations, including top management are responsible for quality. When deciding on a specific strategy, an organization should view its quality approach as an integrated part of strategy formulation. This, in turn, will define quality implications for design, manufacturing, marketing and service, and will even have implications for a company's relationships to customers and suppliers (Scholtes & Hacquebord 1988a). For a company, quality management concerns careful attention to any quality implication of every decision made in the organization.

Total Quality Management has often been described as a new philosophy or a new perspective in management thinking (Stensaasen 1988). Based on lessons from Japanese firms, the literature on quality management focuses on how companies continually can work on quality improvements. Scholtes & Hacquebord (1988a, 1988b) use the concept quality transformation to underline that most Western companies need to transform its management and strategy thinking in order to upgrade the role and importance of quality as a competitive factor.

The Total Quality Management literature lacks a theoretical foundation. Most books and articles describe what a company should do in order to be a quality oriented company. The literature focuses on prescribing managerial directions and guidelines for successful implementation of TQM. However, these prescriptions are not based on a stated theoretical foundation, and few studies are reported giving any empirical support for the models recommended.

Despite this lack of a theoretical framework, there seems to be a consensus of what constitutes TQM, and what are the critical factors for an organization to be aware of for successful implementation of TQM. Total Quality Management is above all directed to continuous quality improvements. Quality considerations should be an integrated part of a firm's strategy, and quality should be treated as an overriding matter of concern for all processes, functions and operations in an organization. By continuously working on improving all processes, functions and operations, the quality of a company's products and services will also improve. The key to improving the quality of products and services is the acknowledgement that quality improvements can be achieved anywhere in the organization, and all members of the organization are responsible for active participation in the quality improvement process (Stensaasen 1988).

This attitude toward quality requires that organizational members share a common view of quality, that is, at least some degree of convergent perceptions of quality across organizational members is necessary to start the quality improvement process. Further, improvements in product

quality can be obtained by (1) continuous quality assurance of systems and procedures and (2) creating a quality culture; a culture that addresses the strategic importance of quality and quality improvements.

How can these issues be related to distribution channels? As pointed at above, it is important that quality starts with the consumer. The consumers' evaluation of quality should guide the channel actors' work for quality improvements. To start the TQM process, at least some degree of congruency among channel members as to a common quality standard is required. This quality standard needs to be linked to customers' evaluation of quality. Further, in order to obtain quality improvements, there is a need for channel members to implement quality assurance of systems and procedures in the channel, as well as creating a culture in the channel highlighting the importance of continuous quality improvements.

For a distribution channel to implement Total Quality Management some degree of convergent perceptions of quality among channel members is necessary. It is reasonable that highly discrepant perceptions of quality will limit the channel's ability to cope with TQM, as no common view of quality exists. Continuous quality improvements can then be achieved by (1) implementing a quality assurance system for channel activities, and (2) creating a quality culture among channel members.

So far, we have described TQM and linked TQM to distribution channels. However, we have not taken into account and related specific inter-organizational characteristics of distribution channels to the TQM process. Which channel characteristics will facilitate or hamper the TQM process? These issues will be addressed in the following section.

Organization for Quality in Distribution Channels

Which inter-organizational linkages can be used between successive firms in a channel of distribution to secure quality throughout the entire channel? Since Total Quality Management in distribution channels concerns all actors from the producer to the final consumer, a critical question becomes how should the channel be organized in order to facilitate the implementation of TQM. It is the central hypothesis of this paper that the price mechanism alone is not sufficient as a coordinating device for implementing TQM in distribution channels. In order to successfully implement TQM, the actors need to establish some kind of inter-organizational linkages or overlap of boundaries.

In the distribution channel literature, market based channels and vertically integrated channels are considered two polar alternatives. Between the two of these, many intermediary forms exist, in which principles of market governance are combined with principles of organizational governance (Arndt 1979, Imai & Itami 1984). In this paper this will be referred to as overlapping boundaries. We assume that the overlap of boundaries or what kind of inter-organizational linkages the actors establish determine the possibility of implementing TQM in the channel. If we, for example, compare a vertically integrated distribution channel with a channel with very loose linkages between the actors, it is likely that the structure in the vertically integrated channel facilitates the implementation of TQM. In channels consisting of independent actors, there is no overall structure to frame in considerations that relates to several actors. Each independent actor will mainly pay attention to his/her own activities, and not the entire channel.

In standard channel textbooks (c.f., Stern & El-Ansary 1988), vertical coordination is achieved through establishing a specific structure, i.e. governance structure between buyer and seller. The basic premise behind this perspective is the transaction cost argument (Williamson 1985). According to transaction cost economics, the transaction is the basic unit of analysis, and the degree of specificity of the product exchanged is the principal variable for understanding the emergence of different governance structures. Specificity refers to what extent the product is tailored to a specific buyer. It is assumed that high degree of specificity is followed by specific investments for example in production technology or human capital. The governance structures may range from market to

internal organization, with bilateral governance being the intermediary form.

Transactions that are highly specific and followed by specific investments need a more complex inter-organizational structure than standard transactions which do not require specific investments. Such specificities, if handled only by vertical markets between the successive stages in the distribution channel will incur large transaction costs, and it is assumed that the actors can economize on these costs by establishing a specific governance structure, or overlap of boundaries between the different levels in the channel.

The same kind of reasoning can be applied to quality. In a distribution channel where the actors commit themselves to a uniform quality standard or profile will add some specificity to the product. With respect to quality, the channel and its products will be differentiated from other channels. In order to build and maintain a uniform quality standard, it is not unlikely that the actors will have to make investments, for example related to quality assurance. Such investments cannot necessarily be transferred to another channel. Following transaction cost economics, such specificities can be handled by overlapping boundaries between the channel levels.

Based on this argument, it is reasonable to assume that the existence of overlapping boundaries will ease the TQM process. How the channel is organized, will impact the possibility of a successful implementation of TQM. We argue that the ability for a loosely coupled channel to implement TQM is limited, as no coordinating devices exist to possess quality considerations

Implementation of Total Quality Management in distribution channels thus requires some overlap of boundaries between channel members. Overlapping boundaries, or governance structure have in empirical studies of distribution channels been operationalized in terms of formalization and centralization of channel activities (John and Reve 1982, Reve and Stern 1986, John 1984, Dwyer and Oh 1988). Formalization and centralization are the most commonly used mechanisms for achieving vertical coordination.

In this section we have argued that the TQM process in distribution channels is dependent upon the overall structure or overlap of boundaries in the channel. In the model section, we will in more detail link the concept of overlapping boundaries to Total Quality Management.

Model

The objective of this section is to develop a theory based model for empirical study of Total Quality Management in international distribution channels. Total Quality Management can be considered an overall approach to doing business. As discussed in the previous sections, TQM in an organization or a distribution channel, can be obtained by implementing a quality assurance system and creating a quality culture. With respect to distribution channels, quality assurance system and quality culture, taken together capture the extent to which channel actors are developing a uniform quality strategy for the entire channel.

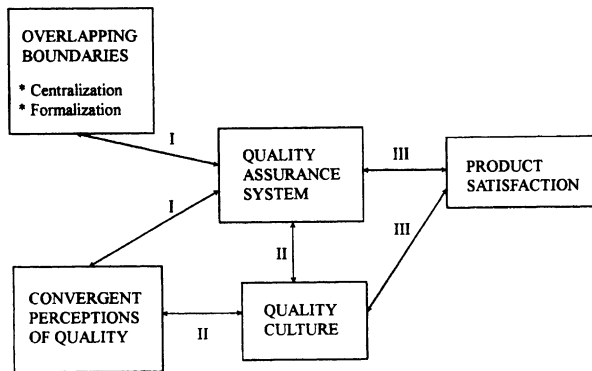
In distribution channels, TQM cannot be limited to activities within each single company, but requires that all actors from the producer to the final outlet coordinate their activities. Overlapping boundaries, as a concept, is a measure of how the actors coordinate different distributive tasks. A wide range of coordinating devices will probably facilitate and enhance the implementation of TQM. Further, we assume that implementation of TQM also requires some degree of congruency of quality perceptions among channel actors. Without a minimum of convergent perceptions of quality, vertical cooperation and coordination of quality cannot be implemented, and the channel cannot take on the systematic qualities of acting as a uniform entity.

Overlapping boundaries will be operationalized and measured by the variables (1) centralization and (2) formalization. Convergent perceptions of quality measure to what extent the actors share a common view of

quality. Quality assurance system refers to formal standards for quality assurance and inspection. Quality culture relates to the actors' efforts to create a culture in the channel which highlights the importance of quality. The dependent variable in the study will be product satisfaction. A rating of product satisfaction can be viewed as a key indicator of the distribution channel's ability to handle quality.

The variables presented, can be interrelated as shown in the following model, exhibited in Figure 1.

FIGURE 1
MODEL



Before presenting the linkages in the model, we will shortly define and describe each variable:

Centralization refers to the extent to which power to make and implement interfirm decisions is concentrated at one of the two interacting organizations (Reve and Stern 1986:76). **Formalization** is the extent to which channel activities are governed by rules, fixed policies, and standard operating procedures (Reve and Stern 1986:76).

Convergent perceptions of quality were measured between vertical levels when asked to evaluate a number of dimensions of product quality. Channels which evaluated product quality uniformly were said to have highly convergent perceptions of quality. Channels with highly discrepant perceptions on these dimensions were said to have a low score on convergent perceptions of quality.

Quality assurance system refers to the scope and extent of formal standards for quality assurance and inspection. The variable was measured by what extent rules, fixed policies and standards for quality handling are defined and implemented for each level in the channel.

Quality culture was measured as the actors' attitude of creating a culture or climate in the channel which underscores quality as strategically important for creating competitive advantage for the entire channel. Quality culture captures the channel actors' attention to continuous quality improvements.

Product satisfaction refers to buyer's evaluation of perceived satisfaction with regard to quality. The consumer is the final judge of quality (Kotler 1984). In studies of international distribution channels it is difficult to obtain a quality judgement by the final consumers. Instead an evaluation of buyer's product satisfaction was used an indicator of perceived quality. Product satisfaction was measured by asking each buyer to evaluate the product received with regard to degree of satisfaction on a number of product quality dimensions.

There are three major sets of linkages in our model. The first set of linkages suggest an empirical association between overlapping boundaries (as measured by centralization and formalization), convergent perceptions of quality and quality assurance system. These linkages explore the empirical associations between (1) the degree of coordinating mechanisms in the channel and (2) the convergence of quality perceptions, and formal

working standards for quality assurance and inspection. First, we expect the degree of centralization and formalization to be positively associated with quality assurance system, and secondly, we expect highly convergent perceptions of quality also to be positively associated with quality assurance system.

The second set of linkages suggest an empirical association between convergent perceptions of quality, quality assurance system, and quality culture. These linkages explore the role of convergent perceptions of quality and quality assurance system as founding factors for creating a quality culture. We assume that quality culture needs to be founded on a uniform view of quality and some degree of formal rules and standards for quality assurance and inspection. Both variables are thus expected to be positively associated with quality culture.

The third set of linkages specify the 'performance effects' of quality assurance system and quality culture. Since both quality assurance system and quality culture are means of maintaining and improving quality, we expect these variables to have a positive effect on product satisfaction.

Since we are in an early stage of research with respect to Total Quality Management in international distribution channels, we will not develop specific hypotheses related to the linkages in the model. We will only show the relevance of the model by presenting some tentative empirical results. Before doing so we will shortly describe the empirical setting and the data collection procedure.

Empirical Setting and Data

The empirical setting for testing the model advanced, was international distribution channels for Norwegian salmon. Norwegian salmon is farmed all along the coast, trucked or shipped by air, and sold fresh in several international markets. Given its high quality, most of the fresh salmon ends up in gourmet restaurants in the big metropolises, but gradually the salmon is also penetrating consumer markets.

The distribution channels for farmed salmon typically consist of three vertical levels: (1) fish farmer, (2) exporter, and (3) importer; not counting the final retail and consumer levels. Population data for virtually all salmon exporters in the southern part of Norway were gathered from the Norwegian Export Council for Fresh Fish. The total number of exporters in this region was 36. 33 exporters were personally interviewed by the research staff, which gives a response rate of 92%. The exporters answered a structured questionnaire which had two parts: (1) backward vertical relations to their largest supplier, and (2) forward vertical relations to their largest customer in one of the four international markets -- United States, United Kingdom, Germany or France. Thus, 33 unique distribution channels were identified in the first phase of data collection.

The second phase of data collection was to interview the fish farmers. Of the 33 fish farmers named in phase 1, only 24 were finally visited and interviewed, resulting in 22 usable questionnaires, giving a 67% response rate. The third phase was to interview the importers. Of the 33 importers named in phase 1, only 23 were contacted for interviews, due to travel budget limitations for international data collection. 17 importers provided usable questionnaires, which gives a response rate of 52% (74%). The final importer sample consisted of 7 U.S. firms, 3 U.K. firms, 4 German firms, and 3 French firms.

The final sample consisted of 33 exporters, 22 fish farmers and 17 importers. The primary unit of analysis in the study is the relationship between exporters and fish farmers (dyad 1). In analyzing the relationship, we will primarily be using data from exporters, and only to a minor degree include data from fish farmers. In addition the relationship between exporters and importers (dyad 2) will be used as a point of reference.

The research instrument used in all three phases of data collection was a structured questionnaire administered by personal interviews with the head or market executive in each organization visited. The importer questionnaire was translated from Norwegian into English, German and French by trained translators, and all interviews were done in the national language of the country. The format of the questionnaires was five points Likert type rating scales over multiple items of channel relations and product quality.

Based on the exporter data, scales for the variables centralization, formalization, quality assurance system and quality culture were constructed and tested using coefficient alpha (Nunnally 1978) as a measure of internal consistency reliability for each scale.

For the variables convergent perceptions of quality and product satisfaction the scales were constructed in a slightly different way. In order to construct convergent perceptions of quality for dyad 1, the following two steps were used. First, we calculated the absolute differences of each exporter's importance ratings of 13 product quality dimensions versus each fish farmer's importance ratings of the same 13 quality dimensions. Secondly, the variable was constructed as the difference between the above mentioned value and the largest possible difference. High values indicate convergent perceptions of quality, while low values indicate discrepant perceptions of quality. The same procedure was used for dyad 2, using data from exporters and importers. The number of respondents used in analyzing dyad 1 will thus be 22, and dyad 2 17.

Product satisfaction was measured as the buyers' evaluation of the salmon they received from the seller, using data from exporters and importers for the two respective channel dyads. The product was evaluated over 14 quality dimensions which are commonly applied in the industry.

The final scales for all variables are summarized in Table 1. The table provides information on number of items and scale reliabilities (coefficient alpha), and sample items for each scale are included.

Results

The model specified three sets of linkages for empirical investigation. The model was tested by correlation analyses. As pointed at above, the relationship between exporters and fish farmers (dyad 1) is the primary unit of analysis. These results are presented in Table 2. In addition, the model was tested based on data describing the exporter - importer relationship (dyad 2). These results are presented in Table 3.

The first set of linkages proposed first a positive association between overlapping boundaries and quality assurance system, and secondly a positive association between convergent perceptions of quality and quality assurance system. From Table 2, we note that both centralization and formalization show a strong positive correlation with quality assurance system. Convergent perceptions of quality is also positively correlated with quality assurance system. Turning to dyad 2, only formalization is

TABLE 1
SUMMARY OF MEASURES

CONSTRUCT	DYAD 1		DYAD 2		Sample item (Response scale)
	No. of items	Coefficient alpha	No. of items	Coefficient alpha	
Convergent perceptions of quality	13		13		How important is it to control for each of the following quality characteristics? a) Freshness b) Meat color c) Fat content etc. (unimportant - extremely important).
Centralization	5	.80	5	.57	The fish farmer determines the sizes of the salmon to be delivered to the exporter (very poor description - very good description) (R).
Formalization	3	.67	2	.60	Together with the fish farmer we have estimated how much salmon should be delivered and the times of delivery (very poor description - very good description).
Quality assurance system	6	.71	4	.69	Together with the fish farmer we have decided on fixed procedures for handling the salmon during the slaughtering and packing process (very poor description - very good description).
Quality culture	6	.79	5	.82	The fish farmer has very good knowledge about quality considerations (very poor description - very good description).
Product satisfaction	14		14		Using the last shipment as a point of reference, how pleased were you with the quality of the salmon from the fish farmer? a) Freshness b) Meat color c) Fat content etc. (very poor - excellent).

(R) designates reverse-coding

significantly positively correlated with quality assurance system (Table 3). For convergent perceptions of quality, we found a negative, but not significant, correlation with quality assurance system.

The second set of linkages proposed that both convergent perceptions of quality and quality assurance system were positively associated with quality culture. The correlation analysis for dyad 1, show a significantly positive association between quality assurance system and quality culture. Convergent perceptions of quality is also positively, but not significantly, associated with quality culture. From the analysis pertaining to dyad 2, we were not able to find any association between convergent perceptions of quality, quality assurance system and quality culture.

The third set of linkages predicted that both quality assurance system and quality culture were positively associated with product satisfaction. For dyad 1, quality culture shows a strong positive association with product

satisfaction. This result is however, not replicated in dyad 2. Further, no association is empirically found between quality assurance system and product satisfaction.

In sum, our results support our prediction that there is a positive association between the degree of overlapping boundaries (as measured by centralization and formalization) between buyer and seller and quality assurance system in the channel. Further, we found for dyad 1 some support for a positive linkage between quality assurance system and quality culture. However, somewhat surprisingly, only the results from dyad 1 supported our prediction that convergent perceptions of quality were positively related to quality assurance system, while we did not find that convergent perceptions of quality were related to quality culture. Finally, our results rendered partial support for a positive link between quality culture and product satisfaction, while no empirical association was found between quality assurance system and product satisfaction.

TABLE 2
CORRELATION MATRIX - DYAD 1

	Mean	SD	Convergent perceptions of quality	Centralization	Formalization	Quality assurance system	Quality culture
Convergent perceptions of quality	41.70	4.91					
Centralization	2.85	.69	.11				
Formalization	2.97	.88	.05	.54***			
Quality assurance system	2.80	.67	.30*	.56***	.45**		
Quality culture	4.04	.66	.25	.18	.12	.33*	
Product satisfaction	63.84	6.36	.11	.09	.23	.07	.58***

N=22

* p < .10

** p < .05

*** p < .01

TABLE 3
CORRELATION MATRIX - DYAD 2

	Mean	SD	Convergent perceptions of quality	Centralization	Formalization	Quality assurance system	Quality culture
Convergent perceptions of quality	41.36	4.47					
Centralization	2.39	.70	.29				
Formalization	2.74	.90	-.05	-.01			
Quality assurance system	3.01	.70	-.21	.04	.56***		
Quality culture	3.99	.62	.07	-.14	-.19	-.23	
Product satisfaction	49.79	9.76	.27	.30	-.38*	-.13	-.01

N=17

* p < .10

** p < .05

*** p < .01

Concluding Remarks

In this paper we have addressed the issue of Total Quality Management in international distribution channels. We have argued that for companies not dealing with their final consumers, TQM cannot be limited to activities within each single firm. To secure product quality, all channel members need to coordinate their activities in such a way that the channel is acting as a single unit. Based on the TQM literature and inter-organizational theory, we proposed that the possibility to implement TQM in distribution channels is dependent upon overlapping boundaries (centralization and formalization) and the degree of convergent perceptions of quality. Further, we argued that TQM in distribution channels can be related to quality assurance of channel systems and procedures, and creating a quality culture among channel members.

The empirical results pertaining both to dyad 1 and dyad 2 support our proposition that there is a positive association between overlapping boundaries and quality assurance system. This finding confirms that in channels with loose linkages between channel members, it will be difficult to implement TQM as no overall structure to take care of quality considerations exists. Overlapping boundaries or coordinating mechanisms already implemented, will enhance the TQM process.

With regard to product satisfaction, we found for dyad 1, that quality culture showed a positive association with product satisfaction, while no association was found between quality assurance system and product satisfaction. This finding underlines that the culture in the channel has an impact on product quality. The TQM literature points to the importance of the culture in the organization as a critical factor for quality transformation (Scholtes & Hacquebord 1988a). Our study render credence for the importance of culture as a prime mechanism for achieving quality improvements. One way of creating a quality culture may be through the development of formal standards for quality assurance. A possible explanation for the fact that we did not find any association between quality assurance system and product satisfaction, may be that the implementation of a quality assurance system is a time consuming process, and that it takes time before any result can be observed. It is possible that quality assurance system has not been operating during the required time period, and that there is a time lag in the effect of quality assurance system on product satisfaction.

Overlapping boundaries have in this study been measured by the variables centralization and formalization. Centralization and formalization of channel activities are considered the most common means for achieving channel coordination. However, a growing body of literature points to the fact that effective coordination in distributions channels can be achieved by developing relationships between buyer and seller (c.f. Heide & John 1992). Such relationships are characterized by personal ties and relational norms (Macaulay 1963, Macneil 1980, Bradach & Eccles 1989). This perspective is often named relational exchange theory, or relational contract theory. In future studies of TQM in distribution channels, overlapping boundaries should also capture elements of 'relationalism'. Developing close relationships between channel members may contribute to quality transformation, and further enrich our understanding of quality culture.

As more and more industries are becoming international, the importance of Total Quality Management in international distribution channels are growing. We have addressed the need for a better theoretical understanding of TQM. This study is one of the first empirical studies of TQM in distribution channels. Our results suggest that the TQM process cannot be dissolved from the inter-organizational characteristics of the channel. However, more research, both theoretical and empirical is needed in order to enhance our understanding of how distribution channels can take strategically advantage of continuous quality improvements.

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INDUSTRIAL NETWORKS AS GOVERNANCE STRUCTURES:
A FRAMEWORK INTEGRATING
CHANNELS, LOGISTICS AND PRICING

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Abstract

As functional, spatial, and temporal interdependencies between companies are increasing, traditional command and control approaches between organizations are being challenged (Bowersox and Cooper 1991). Against this background, when organizing channel, logistics, and pricing activities, managers are faced with some fundamental questions, such as: (1) what is the level of interdependence between channel members? (2) how strong are channel relationships? and (3) are channel decisions made on the basis of pure economic analysis, or are there other forces (e.g. long term relations, level of trust etc.) affecting channel behavior? Two disciplinary orientations that can provide useful insights into the structure and performance of marketing channels and logistics are social network theory and institutional economics.

Social network theory provides a useful framework for analyzing the nature of relationships and the level of interdependence between channel members. Institutional economics, particularly transaction cost analysis, with its analysis of relational contracting (Williamson 1979) provides a better understanding of governance structures within channels.

The objective of integrating social network theory and transaction cost analysis (TCA) is to explain "patterns" that exist in channel networks rather than analyzing single transactions. Contrary to many traditional TCA studies, the unit of analysis is the channel network rather than the individual transaction. The integration framework presented in the paper emphasizes interdependencies and long term relations between the buyers and sellers in channel networks. Hence, the efficiency (lowering total cost) of the channel as a "system" is the perspective adopted. In this view, channel networks are regarded as new forms of governance structures that have emerged in modern marketing practice.

A set of hypotheses relating bond strength, channel separation, logistics, and pricing are developed and presented. The integration framework has identified four major concepts as capturing most of the existing pattern of relationships in channel networks.

Interdependence

Central to the channel network paradigm is the concept of interdependence of parties. This interdependence has to be transmitted through the bonds in the network.

Stability

Channel and logistics networks favor stability

as reflected in long lasting relationships. Hence, the prevalent mode can be said to be cooperation rather than competition.

Adaptation

The influence of interdependent channel members on each other is exercised through continuous adaptation of parties to each other.

Flexibility

Channel networks maintain a high level of flexibility with their fluid, highly informal, relationship based structures. Flexibility is also achieved through postponement.

Conclusion

Integrating channels, logistics, and pricing enables the diagnosis and analysis of interaction points. These interaction points are called in this paper bonds. The strength of the bond appears to be a promising dimension on which to develop hypotheses.

Marketing and logistics channels are characterized by highly complex, unstructured, fluid sets of relationships in which personal contact and past experience can play a significant role. Hence, a comprehensive framework integrating both economic and behavioral dimensions of interactions is necessary. In this paper, development of such a framework was attempted.

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**SECURING MARKETING SUPPORT FROM CHANNEL MEMBERS:
INSIGHTS FROM AN EMPIRICAL STUDY**

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Abstract

How can manufacturers foster middlemen cooperation and marketing support for their products? This paper presents empirical findings from the U.S. automobile channel to help us address this question. We argue that the key is to develop marketing programs that in turn make support financially desirable for middlemen. We explore, in the car industry, how different manufacturer strategies affect dealer profits and reactions, and how these effects vary with dealer characteristics.

Introduction

Manufacturers often seek various types of marketing support from their channel members (Calantone and Gassenheimer 1991). Such support may include aggressive selling of the product, allocating adequate shelf/warehouse space, participation in promotional programs, following manufacturers' pricing suggestions and engaging in extensive local advertising. The distribution literature offers two approaches to help secure such middlemen support: 1) use of influence strategies and power bases (Gaski and Nevin 1985; Frazier and Summers 1984 and 1986; Frazier and Rody 1991), and 2) creating and nurturing a stable manufacturer-middlemen working partnership (Anderson and Narus 1984 and 1990) where "there is mutual recognition and understanding that the success of each firm depends in part on the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer marketplace" (Anderson and Narus 1990 p.42).

In this paper, we take a different but complementary perspective. We direct our attention to financial outcomes rather than the social psychological aspects of channel relationships. We argue that by understanding the effects of their marketing programs on middle-

men profits and reactions, manufacturers can use their own marketing strategies as mechanisms to stimulate the desired support programs from their channel members. However, the varying characteristics and needs of channel members in the distribution network must be recognized so that optimal programs can be developed for the entire channel. For example, there is evidence that middlemen of different size have different attitudinal responses to various manufacturer promotions (Glover 1991).

The objectives of our exploratory study are 1) to examine the effect of manufacturer strategies on dealer profits and strategy responses in the automobile distribution channel, 2) to determine how these effects differ by various dealership characteristics, and 3) based on the analysis of dealer profits, to draw inferences about the kinds of manufacturer programs that elicit desired marketing actions from the dealers. The findings generally indicate that smaller dealers are more vulnerable than larger ones to manufacturers' strategy decisions. On the other hand, however, they have stronger incentives to provide the desirable support to manufacturers' products with their own marketing programs at their levels of distribution.

Literature Review

Marketing channels consist of interdependent organizations where each member's goal achievement is highly dependent on the strategic choices of the others. Because of this interdependency and the disparate goals of channel members, the major theme in the distribution literature has been exploring ways to develop and apply one's power over the others (Frazier and Summers 1984 and 1986; Gaski and Nevin 1985; Hunt and Nevin 1974; Lusch and Brown 1982). Power of a channel member has been defined as one's ability to control the marketing strategy of another channel member (Gaski 1984).

Although coercive and non-coercive influence strategies were found to be somewhat effective in terms of eliciting desired responses from others, they have also been found to vary positively with the level of manifest conflict in the channel (Frazier and Rody 1991 and Gaski and Nevin 1985). Similarly, Calantone and Gassenheimer (1991) observed that use of power was generally not perceived as benign by dealers.

When the relationships between use of influence strategies by a channel member and performance of target members were analyzed, no significant results were obtained (Gaski and Nevin 1985). Similarly Glover (1991) observed that dealers often complained about manufacturers' promotion efforts that showed no concern for dealers' profits, which in turn discouraged their participation in manufacturers' incentive programs.

A related stream of research examined the determinants of working partnerships and studied the relationships among behavioral constructs such as trust, cooperation, conflict, satisfaction, communication, influence attempts and dependence. The main objective of such studies has been to determine how working partnerships in distribution could be managed to be mutually satisfying over time (Anderson and Narus 1990). An interesting insight gained from Anderson and Narus' study (1990) is that firms often have a very coarse understanding of how the outcomes they provide to partner firms compare with the latter's expectations (p. 56).

The preceding review suggests that alternative means are necessary to induce/stimulate the desired support from middlemen since the use of power may possibly create ill-will in the relationship. Furthermore, such means should be sensitive to the outcome expectations of the intermediaries because profit-making is a principal requirement and a strong motivator for businesses (Shipley 1984). The exploratory study of the next section takes a step toward addressing these needs. We suggest that in order to receive marketing support for their products, manufacturers could use their own marketing programs as mechanisms to stimulate the desired support programs

and responses from their channel members. In order to implement such measures successfully, manufacturers must develop an understanding of the implications of their strategies over their channel members' outcomes. Furthermore, it should be recognized that different channel members may respond differently to the marketing strategies of manufacturers. A number of middleman characteristics can influence their vulnerability and their reactions to manufacturers' programs. These characteristics include the size of middlemen's companies, the intensity of competition they face, and the relative contribution of manufacturers' products to middlemen's sales volume.

Empirical Study

We chose the automobile distribution channel as the research setting because in this channel dealers' goal achievement is very dependent on manufacturers' marketing strategies (Frazier 1983). First, a census of 212 new-car dealerships in central North Carolina was identified and each was contacted by phone. Next, the researcher hand delivered questionnaires to each dealer principal. Of the 212 questionnaires 75 were returned. The resulting sample was representative of the entire population of U.S. new-car dealerships with respect to average sales volume per dealership in dollars and units. Similarly, the proportion of domestic versus import car dealerships in the sample paralleled their national profile (for details see Eyuboglu, Didow, and Buja 1992).

In the questionnaire, dealer principals were presented with a series of channel decision scenarios. They were asked to indicate their opinions on how each of these scenarios would affect their profits. These scenarios were developed after a series of prestudy interviews with dealers. They cover possible manufacturer and dealer strategies in five decision areas: new vehicle allocation, pricing, advertising, dealership/salespeople incentives, and management assistance. In each decision area, we first identified two strategies that car manufacturers might implement. They represented the dealers' perception of the most desirable and undesirable manufacturer prac-

tices. Similarly, in each area two dealer strategies were identified that represented possible dealer reactions to manufacturer strategies. For example, in the allocation area, dealers indicated that insufficient allocation was the most undesirable manufacturer practice as far as dealer profits were concerned. The most desirable scenario was when dealers got a sufficient number of vehicles to meet their local demand where they did not need to mark up or down the suggested price. In this fashion, we constructed twenty manufacturer-dealer strategy pairs by combining all 4 possible actions in each area:

(1) *advertising*; whether or not the manufacturer provides extensive national advertising for its product(s) --- the dealer may provide heavy or little trade/local advertising,

(2) *merchandise allocation*; whether or not the manufacturer supplies the desired models in sufficient quantity --- the dealer may or may not sell the product(s) at the suggested price.

(3) *pricing*; whether or not the manufacturer's suggested price is set around what customers are willing to pay for the product --- the dealer may or may not react by providing discounts off this price,

(4) *dealer/salesmen incentives*; whether or not the manufacturer provides extensive incentives to the dealer and its salesmen, e.g., cash bonuses, trips, cash points for merchandise, carry-over allowances, rebates, push money, and discounts --- the dealer may or may not respond by providing additional incentives to its salespersons using own resources e.g., financial incentives, awards and recognition programs for successful salesmen,

(5) *management assistances*; whether or not the manufacturer provides extensive assistances to its channel partners, e.g., training for sales managers, salesmen, and service personnel; sales and service manuals; sales promotion materials; bookkeeping assistance; general business advice from field representatives --- the dealer may or may not get similar assistances from independent consulting companies.

In their evaluations of scenarios, dealer principals used eleven-point scales ranging from -5 to +5 (corresponding to very negative effect

on profits / very positive effect on profits). They were instructed to complete the questions considering their *primary make* (i.e., the make of which the dealership had sold the most units in the previous year). The questionnaire also contained a number of questions on dealership characteristics such as 1) the size of the dealership (sales volume in dollars and units, number of salespersons employed, sales volume generated by the primary make), 2) the name of the primary make (e.g., Ford, Lincoln, Chrysler, Nissan, Volvo etc.) 3) the intensity of intra-brand competition faced by the dealer (number of other dealers selling the same primary make in the trade area), 4) the size of the trade area within which the dealer operates, 5) the number of other makes represented, and 6) the duration of the relationship with the major manufacturer (the manufacturer of the primary make).

Results

In our analysis, we correlated dealer responses to the scenarios with dealership variables. Furthermore, using interdependence theory constructs of fate control and reflexive control, we calculated dealers' vulnerability to their own and their manufacturers' choice of strategies (see Eyuboglu, Didow, and Buja 1992 for the calculation of these variables). The findings and interpretations reported in the next section are based on correlations and t-tests that are statistically significant at or below the 10 percent level.

The following exploratory results should be interpreted with two implicit assumptions in mind. 1) The manufacturer acts first and the dealer in turn reacts with its retail strategy and support functions. 2) Profits guide a dealer's motivation on how to respond to its supplier's marketing programs/decisions.

Advertising

(1) If the manufacturer of the primary make advertises heavily, it appears that the dealers would follow suit and provide heavy local advertising in order to get the customers to their own stores. Smaller dealers or those operating in larger trade areas have stronger incentives to respond to

extensive national advertising with heavy local advertising which is an important support function that manufacturers seek from their middlemen.

(2) If the manufacturer does not provide extensive national advertising, the data indicates that the dealers would still have an incentive to engage in heavy local advertising. Larger dealers with higher dollar sales or dealers which operate in smaller trade areas have less motivation to respond this way compared with others. Therefore, manufacturers can expect dealers with comparatively smaller sales volume and dealers in larger trade areas to be more cooperative.

(3) Dealers selling foreign makes are more sensitive to their local advertising practices. On the average, they seem to expect higher benefits from increased local advertising when compared with dealers selling domestic cars. As the dealer's trade area gets larger, dependence on local advertising increases. That is, such dealers find it more desirable to advertise heavily in their locality, possibly because they compete against a larger number of dealers that carry a variety of makes.

(4) As the overall sales volume of the dealership and the volume generated by the primary make decrease and as the number of salesmen working for the dealership decreases, vulnerability to manufacturer's advertising increases. Possibly due to the availability of less funds, such dealers strongly prefer their manufacturers to carry a larger share of the demand stimulation function.

Merchandise Allocation

(1) When manufacturers provide enough cars to match demand at the retail level, dealers on the average make more profits by charging the suggested price rather than a higher one. Surprisingly, if the allocation is less than demand, charging the suggested versus a higher price does not make a significant difference on dealership profits.

(2) In general, dealers are unable to compensate with their pricing practices for the losses (opportunity costs) they incur through insufficient allocation. This shows that dealers' profits depend to a large extent on obtaining the

desired models in sufficient quantities.

(3) When there is a shortage of cars, larger dealerships, those facing intense intra-brand competition, or those serving bigger trade areas are better able to get away with prices higher than the sticker. However, this practice is usually not favored by manufacturers. Possibly, larger dealers are able to get a bigger share of the cars that manufacturers allocate to each market. Therefore, limited vehicle availability at competing dealers makes price competition unnecessary. Consequently, with their favored allocation, larger dealers may have increased leverage in adjusting the selling price of popular models.

Pricing

(1) Even when the manufacturers are careful in setting their suggested price, dealers, on the average, expect to make more profits by providing discounts off this price. This is true across all types of dealers carrying a variety of makes. This finding seems to reflect the time-honored tendency of the American consumer to haggle with car dealers. Car makers usually pad their sticker prices to limit the margin damage that comes with a later rebate (Business Week 1986). It appears that with such prices, dealers are able to use similar tactics with their customers who have been taught in time by Detroit and dealers to expect discounts (Business Week 1989).

(2) When the suggested price of the major manufacturer is higher than what the market would bear, it seems that larger dealers or more established ones are better able to justify "no discounts" due to their sales and service experience with the primary make. Therefore, manufacturers can expect less support for the sticker price from smaller and/or less established dealers. On the other hand, import car dealers seem to suffer more than their domestic counterparts if they responded to high suggested prices with discounts at the dealership level. Possibly due to their popularity, foreign cars can easily go for such high prices. Thus offering discounts unnecessarily cuts from the otherwise warranted dealer profits.

Dealer/Salesmen Incentives

(1) It appears that all types of dealers have a lot to gain by responding to extensive incentive programs of manufacturers with additional incentives to their salesmen to push the primary make. The desirability of this strategy pair does not change across dealerships of varying characteristics. The desirability of the remaining scenarios, however, is a function of the overall sales volume and volume generated by the primary make. As the dollar sales volume increases, it becomes less detrimental to respond to any level of dealer incentive programs of the manufacturer with no salesmen incentives at the dealership level.

(2) Dealers that represent a larger number of makes and those that sell less of the primary make depend more on manufacturer's incentive programs than those dealers for which the primary make is more weighty. It appears that as the concentration of the primary make decreases, it becomes more preferable for the dealers to let their manufacturers initiate incentives. Possibly in-home incentives do not pay off because their costs are spread over a lower dollar volume. More importantly, a lower commitment to the line probably does not motivate any costly programs to increase sales.

Management Assistance

(1) The results indicate that larger dealers (as reflected by higher number of cars sold, higher number of primary cars sold, larger number of salesmen employed) have more incentives to respond to manufacturers' extensive management assistance with acquiring additional business expertise from outside sources (e.g., independent consulting companies). This is possibly so because larger dealers can allocate funds for such business services and they are more growth oriented than smaller dealers. Also, it seems that dealers operating in larger trade areas benefit more from this strategy than the ones serving smaller markets. One possible explanation is that there is an increased level of inter-brand competition in larger markets which may make retail strategy more complex. Thus in such markets, general business advice received from the manufacturer representatives every few weeks may not

suffice. Dealers may need to receive additional assistance from consulting/research companies. On the other hand, import car dealers find this strategy more advantageous in comparison to those that sell domestic cars.

(2) It seems that dealers who have had longer relationships with their major manufacturers, or those that have already attained larger sales volumes by the primary make, have less to gain from extensive management assistance from both manufacturers and outside firms. Possibly, such dealers have already learned how to effectively run their businesses as opposed to those that are still at the beginning of their learning curves. Also, domestic car dealers expect less harm from limited management assistances, possibly due to their longer existence, familiarity, and knowledge of the U.S. market.

Implications and Future Research

The evidence collected in this study demonstrates that marketing strategies of manufacturers have significant impact on the profits and marketing responses of middlemen organizations. Furthermore, various middlemen characteristics moderate these two effects.

The data support the notion that manufacturers should develop their marketing programs considering the fact that the channel network is not a homogeneous group and different marketing programs will elicit different strategic responses from different middlemen. Depending upon the composition and the characteristics of the member firms, manufacturers should devise their marketing programs such that resultant middlemen reactions help them achieve their marketing goals.

A final comment is that the present findings show some empirical evidence for why car manufacturers have resisted the rise of larger and stronger dealers. Economy of scale would normally give the advantage to large dealers, but in the past car manufacturers have preferred the loyalty of smaller dealers (Business Week 1986). They appear to have stronger incentives to cooperate with manufacturers and support their products because of the

vulnerability of their profits to manufacturers' policies and products. We recommend that manufacturers of other consumer durables compare their smaller versus larger middlemen on this criterion. Accordingly, they should develop incentive packages addressing different needs and opportunities represented by smaller channel members.

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INTERNATIONAL MARKETING MANAGEMENT

GESTALT- AND NETWORK APPROACH - AVENUES TO A NEW PARADIGM OF INTERNATIONALIZATION THEORY?

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Abstract

The article deals with different holistic views of the Theory of Internationalization. Approaches of interest are Dunning's Eclectic Paradigm, the gestalt approach and the network-concept. Dunning's concept offers a wide range of interesting variables but lacks dynamic hypothesis linking dependent and independent variables. The advantages of the gestalt- and network-concepts (i.e. organizations as dynamic entities not as juxtaposition of variables, international environments as significant sets of network relationships, which change over time) could be a more promising move to a middle range theory of internalization.

1. Basic Trends in the Theory of Internationalization

1.1 Change and Substitution in International Trade

The pace of the restructuring of the world economy has increased yet the degree of actual change and the final outcome are difficult to discern. The long term perspectives are overshadowed by abrupt political developments. Managerial and entrepreneurial capability is needed, to cope with current and future frames of competition and cooperation, evolving innovation and technologies, and new concepts of international markets and enterprises.

TABLE 1
INTERNATIONAL DIRECT INVESTMENTS 1975 - 1986

Direct investment in % of export worldwide					
Year	1975	1982	1983	1985	1986
%	30,7	31,0	32,0	33,5	36,1

Source: Bellak/Fischer/Oetl/Schönhofer, 1989

The last three decades have brought a remarkable change in the way internationalization takes place (see table 1). We see a growing substitution of international trade by direct investments.

The discussion of the internationalization of enterprises has shifted towards "global alliances in the triad", "blurring boundaries of organizations" (Fiol, 1989; Hampden-Turner, 1991; Jaikumar, 1991; Pisano, 1990) and the development of innovative concepts by small and middle sized enterprises to expand abroad as a result being involved in multiple relationships at the same time (Benassi, 1991).

1.2 Approaches to the Theory of Internationalization of the Firm

A look at the state of the art in the Theory of Internationalization reveals at least five (see pict. 1) different directions and stages relevant for middle range theoretical concepts (Johanson/Mattsson, 1986; Cavusgil/Li, 1992).

Area "A" deals with approaches concerning the differences and similarities of international markets: national, regional or cultural contexts, consumer behavior, distribution channels and different types of institutional arrangements on a macro level; comparative management and industrial organization studies at the micro level. "B" focuses on competition in different markets and the relationships between markets, oligopolistic competition, global sourcing, effects on economic integration, diffusion and transfer of technology. "C" concerns the issues of centralization vs. decentralization, for example, approaches to control of subsidiaries abroad. Some of these issues are also addressed by area

"E". Typical studies take the headquarter-subsidiary perspective, e.g. the identification of control and delegation issues which confront multinational corporation managers and the development of conceptual models which assist multinational managers in selecting appropriate control systems and in determining the extent of authority which should be provided to subsidiary managers (Baliga/Jaeger, 1984; Doz/Prahalad, 1984; Egelhoff, 1984; Geringer/Frayne, 1990 and Geringer/Hebert, 1989). Other issues include the demands of managing in an international operating environment, which has changed dramatically in the recent years; the new need for integration and coordination of activities; the increasing importance of more nationally differentiated approaches; and the ability to transfer knowledge and expertise from one part of the organization to others worldwide in order to build and sustain competitive advantage (Bartlett/Ghoshal, 1987; Davidson, 1984).

"D" addresses the question of standardization vs. differentiation. Included are issues like the importance of the psychological meaning consumers derive from and ascribe to products. These analysis inform decisions regarding whether or not one ought to standardize or adapt international marketing strategies (Hill/Still, 1984). Area "D" also analyzes content of standardized and specialized multinational advertisements and the connection between product category and the information provided in advertising (Mueller, 1991; Onkvisit/Shaw, 1987).

PICTURE 1
AREAS OF INTERNATIONALIZATION RESEARCH



Source: Johanson/Mattsson, 1986

"E" encompasses the major topics on foreign market entry strategies and expansion in foreign markets. It is a very important international marketing research issue that links marketing, international business, and corporate strategy oriented studies (Johanson/Mattsson, 1986; Dunning, 1988b; Porter, 1990). Fields of interest are strategies of export and countertrade, contractual agreements, licensing and technology transfer, foreign direct investment and joint ventures, strategic alliances, acquisitions and mergers as possible modes of entries. A subdivision of the research agenda is market selection (Akaah/Yaprak, 1988; Erramilli/Rao, 1990; Goodnow, 1985; Papadopoulos, 1988; Scringhaus/Mayer, 1988; Schneider/Müller, 1989). The models and approaches so far developed reach from very pragmatic ones (Goodnow, 1985; Papadopoulos, 1988) to sophisticated instruments which use modern computer technology and data-bases (Schneider/Müller, 1989). A major focus of theory deals with the modes of entry and their development over

time (Beamish/Banks, 1987; Boddewyn, 1983; Christelow, 1987; Geringer/Hebert, 1991; Gommel-Casseres, 1989). Research questions in this area focus on the developmental processes of organizations, networks (Mattsson, 1989) and markets, whether they are slow and incremental or characterized by discrete steps of momentum and change (Johanson/ Wiedersheim-Paul, 1974; Johanson/ Vahlne, 1977; Nordström, 1990; Miller, 1988; Miller, 1989; Benassi, 1991). Criticism is centered on the fact that models of successive internationalization from low level commitment to high level involvement with operations in distant markets are too deterministic and general (Reid, 1983) and the current perspective of time as a strategic issue demands a more direct and rapid mode of entry.

1.3 Evaluation and Criticism

The last thirty years have resulted in a remarkable body of knowledge and the analysis of the literature (Macharzina/Engelhard, 1991) reveals about 43 variables which contribute to descriptions and explanations of international trade, production, and international exchange relations. Looking at the different contributions to the body of theory one sees constructive developments (Macharzina/Engelhard, 1991) such as: an advanced state of research, which has passed the descriptive and anecdotal phase of theory-building, broader explanation of internationalization strategies, different "schools and approaches" and a move towards prediction.

Negative arguments could be made against the theoretical and empirical side of theory development. Theory is restrained by a lack of conceptual integration and a fragmentation of the research endeavors on for example export-behavior, or formation of a joint venture. This lack is accompanied by integrative empirical corroboration, confusion in terminology, problems in methodology, isolation in modelling (i.e. not the internationalization enterprise as a whole is not the research object). Evaluation of research done (Macharzina/Engelhard, 1991) reveals a noncumulative character, concentration on bivariate relationships, data driven methodology, cross-sectional studies, dismissal of strategy-making process and deterministic assumptions.

2. Holistic Concepts, Gestalts and Networks

In regarding the criticism and the narrow and often fragmented perspectives in research and theorizing there is a clear need for a more comprehensive, and holistic view of description and explanation for internationalization. Some concepts which have been developed for this purpose do offer a holistic view and should be evaluated for their future prospects.

2.1 OLI-Paradigma

Dunning's paradigm, also known as the OLI-approach, has received considerable attention in the area "D" and aspires to describe and explain (Dunning, 1988b) nearly every mode of international expansion. His approach is based on the assumption that ownership-specific advantages, internalization incentive advantages, and location-specific advantages (see Dunning 1988a and the key dimensions of the paradigm) are the determinants which explain the way enterprises enter international markets.

To Dunning's credit he gives a very comprehensive view and framework for explanation but recently raised criticism notes some major weaknesses in the concept:

1. The subject of explanation is not stated precisely (Macharzina/Engelhard, 1991). Itaki (Itaki, 1991) in this context even addresses the theoretical redundancy of the "Ownership Advantage"-concept, the inseparability of the ownership-concept from the "location advantage" and the conceptual ambiguity of the "location advantage".
2. These facts also raise serious methodological problems vis-a-vis operationalizing the classes of the different variables, a problem which is strengthened by the lack of hypothesis linking the juxtaposed variables together. Even Dunning's attempt to test his theory in part (Dunning, 1988b) is confounded by serious statistical problems (e.g.,

multicollinearity and different dimensions of the explaining variables, so non-standardized regression coefficients give no meaning.)

3. Dunning's reasoning has a strong bias towards the rational homo-economicus-oriented model of strategy-making behavior (Macharzina/Engelhard, 1991). This model neglects factors such as research findings in the field of export-activities showing that exporters follow a non-rational decision making pattern (Miesenböck, 1987). These critical arguments can be explained towards by fact that the approach does not take into account the process patterns, the explanation of behavioral aspects of newer concepts of internationalization such as strategic families, international alliances, and internationalization via net-working.

2.2 Gestalts of Internationalization

The gestalt-concept has its origin in psychology and can be traced back in the history of science for one hundred years. Its contribution to other sciences are many and it has a strong connection to network-theory (Scott, 1991). Synonyms for gestalt are archetype or pattern. The Gestalt tradition in the field of management science is comparatively young and the applications include the creation of typologies of strategies (Mintzberg, 1978), clustering and classification of enterprise crises, market segmentation, life-style-research and similar areas. Within the concepts of management science the internationalizing enterprise is described as a configuration of contextual, organizational, strategic variables which adhere in a significant manner. This demands that business organizations should be viewed as complex entities (Macharzina/Engelhard, 1991; Colberg, 1989; Nicmeier, 1986; Miles/ Snow, 1978), with configurations or patterns of variables which change over time according to the interaction of environment with organizational structures and behavior. Methodological issues which are connected with empirical work point toward methods of classification, use of cluster-analysis and graph-theory for the purpose of description, explanation and forecast.

Typical general research agendas (Aldenderfer/Blashfield, 1984) include the development of typologies and classifications, the investigation of reference frames for the grouping or clustering of international enterprises, the generation of hypothesis by data-exploration and tests of hypothesis in connection with detected gestalts or archetypes.

Initial research findings based on the gestalt-approach (Schmidt, 1981; more elaborated by Mascarenhas, 1986; and Colberg, 1989) show interesting results and suggest possibilities for further research. Colberg has tested a sample of normative concepts of strategies of internationalization by reviewing their theoretical approaches. Starting with 30 theory-based variables of internationalizing enterprises, he created 5 classifications with different strategic characteristics. A internationalized firm with pattern "A" represents the "Global Niche Strategy"; pattern "B" resembles the "Multinational Strategy"; "C" is partly like "A", but with a stronger continentally centered distribution. Type "D" is fundamentally different from other patterns of international presence. Enterprises of this class concentrate their international production and distribution strategies on certain countries, and primarily producing in only one or two countries abroad. The secondary production facility is often located in a LDC on another continent. Market- and distribution strategies are centered on industrialized countries which offer less risk, no abrupt demand changes, and where consumer expectations towards goods are quite similar. International enterprises of type "E" are exclusively Japanese firms in their early stage of internationalization. Their strategy is quite similar to a "National High Share Strategy", i.e. they have a high market share in their home country and although international activities are not very intensive a remarkably international market share.

In looking at advantages of the research work done by Colberg, we find that two theoretical elements of the gestalt approach have been addressed. The author used meta-analysis to develop a framework for his empirical studies and developed a connection to theory-based strategies of internationalization. The typology could be partially verified by a longitudinal study, but still would offer only a descriptive impression of internationalizing enterprises as gestalts with significantly adhering elements. But due to his choice of the research approach which is based on secondary data analysis, there is no explanation whatsoever of the behavioral aspects of decision-making-processes. More importantly he does not address managements characteristics such as attitudes, motives and goals, and strategic awareness (Hambrick, 1981) of the national and global environments, or organizational features such as culture,

ethnocentrism, decision making processes etc.. The selection of contextual variables emphasizes quantitative measures such as world market share, country-wise distribution of market shares, key figures of subsidiaries country-by-country etc. and is overly focused on the issue of competition. His analysis does not look at the issue of cooperation and net-working as a typical contingency matter.

2.3 The Network-approach and its Possibilities

That "Markets have to be seen as networks" is one of the main tenets of the network approach (Johanson/Mattsson, 1986) and a broader perspective is needed to explain the behavior and results of a given firm (Lorenzoni, 1990; Johanson/Mattsson, 1988). Exchange relations established in a industrial system are composed by firms which engage in production, distribution, use resources and hold positions. Price is just one of the mechanisms of coordinating the interaction between the counterparts. Firms in the network have relationships with customers, distributors, suppliers, mediators etc. Networks evolve as relationships and bonds between partners are established, utilized and disrupted. The dimensions of this dimensions could be technical, planning, knowledge, social, economic and legal based. Relations between network-members can be complementary or competitive. Thus, industrial networks are unbounded and can, via actors, extend without limits. Suitable boundaries for research purposes can be drawn depending on perspectives, intentions and interpretations. Networks are also non-transparent, i.e. they are at least partially subjective, fluid, and can consequently not be understood by outside observers (Forsgren/Pahlberg, 1991).

Looking in a critical manner at the network approach and summarizing the pros and cons reveals both limitations and possibilities of development for connection with other theoretical concepts. Shortcomings and conceptual weaknesses which undermine the explanatory power can be seen, if the approach overemphasizes the matrix or graphic description of relations, stressing a data-driven methodology, which obscures the actual and dynamic behavior of networking of international enterprises. Whether the network approach is only useful for explanatory purposes (Macharzina and Engelhard, 1991) is not persuasive. The "plain" gestalt-approach fails by viewing the environment of internationalization only in terms of "home market conditions", "domestic sales" and "political environment" especially in the case of the exporter (Macharzina and Engelhard, 1991 and their illustration of the gestalt-approach or as done by Colberg in terms of key figures of international sales, figures of distribution or production etc.). The phenomena of internationalization demand a broader frame of reference which are able to follow the subject of explanation in its stages of development over time within a given and changing environment of resources, relationships and actors.

3. Integration of Gestalt- and Network-Concept

In the light of the forgoing arguments it is obvious that the gestalt-approach offers advantages for a holistic description and explanation of internationalizing enterprises (organizational structures, strategy-making and management). But according to contingency theory (Lawrence/Lorsch, 1969; Mintzberg, 1983) which uses a single organization as the unit of analysis, there are also limitations because the organizational action is always environmentally restricted and a general aim of management should be the "best-fit" between organization and environment. The network-concept allows the assumption that the environments of internationalizing firm can partially be created and structured depending on the internal resources and the external conditions of a firm (Weick, 1979; March, 1981). It can be argued that organizations' subsequent actions are based on environments that are affected by current actions, and consequently relationships in networks are strongly process dependent.

Alterations of the gestalt-approach (Wührer, 1992) should extend towards the relevant insights of the network-concept. This can be done by omitting typical but too general descriptions of environmental dimensions such as dynamism, heterogeneity or hostility (Miller/Friesen, 1980; Miller, 1988). In addition international networks should be seen as environmental configurations consisting of different but typical sets or clusters of actors, micro- and macro positions with their formal and informal relationships which could be changed by managerial decision

and action in a sense of cooperative or competitive strategies between firms and people. They develop over time and stretch beyond relationships in only a dyadic way. Such an integration of gestalt- and network-concepts represents a useful middle range theoretical approach to the internationalizing firm, where a number of significant gestalts are typical for entry strategies into the network configurations of international markets.

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MARKETING IN FOUR EAST EUROPEAN COUNTRIES

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Abstract

Sixty-seven managers of U.S. firms in Poland, Hungary, former Czechoslovakia, and former Yugoslavia responded to a mail questionnaire on their evaluation of the business climate in their host country. About 25% were in manufacturing, 25% in sales/marketing; 50% in basic services such as consulting, accounting, engineering, etc. They had neutral to positive feelings toward most factors in marketing except for the availability and ease of market research. The positives were surprising in view of the lack of marketing structure in the former command economies.

Background

As Eastern European nations grow they will have an increasing need and desire for services just as other nations have. Those who enter the market early have a chance to become established and poised to exploit the local market when it enters its true growth phase. At least one now-divided East Europe nation has sponsored efforts to attract foreign providers of basic services to upgrade infrastructure and to attract foreign capital to privatize state industries.

This paper reports on answers, gained through a mail questionnaire, of 67 managers of U.S. firms in four East European nations. 35 responses were from Hungary, 15 from Czechoslovakia, 8 from Poland, and 9 from Yugoslavia.

Results: Business Climate

Some specific results germane to the ability or willingness to do business whether in manufacturing or in services follow:

Stability of government: 45% of the managers' responses were positive; 28% had neutral feelings; 26% indicated some degree of unfavorable feelings.

In regard to the host country's protection of patents and trademarks: 33% thought it was good; 44% neutral; only 23% were negative.

The presence and severity of exchange controls on capital and earnings: 52% said they were favorable or very favorable; 24% were neutral; and 24% thought the restrictions were negative.

Business generally requires adequate and efficient financial institutions. The managers were not complimentary to the four countries on this issue. 18% were positive; 33% neutral; 48% negative. This was a very high negative rating in an absolute sense but also relative to evaluations of other variables.

One factor East Europe studies have found agreement on is the availability of a trained

and disciplined workforce. The surveyed managers of the U.S. firms back up this view. Sixty-one percent reported very favorable (19%) or favorable (42%) views toward labor quality. This was the highest positive response in the survey.

Results: Service

Retailers as a whole were viewed 24% favorably; 37% neutrally; 39% unfavorably. Advertising agencies as a whole were viewed 40% favorably; 28% neutrally; 31% unfavorably. Media and marketing research institutions as a whole were viewed 22% favorably, 39% neutrally; 39% unfavorably. This low favorable and high unfavorable evaluation no doubt is related to the ease (or lack of) in doing market research combined with the expense of data collection. 25% of the managers put responses in the positive area; 13% in the middle; 61% checked the negative end of the scale.

MANOVA analyses suggest that manufacturing and basic service managers do not perceive the business climate more favorably than do those primarily engaged in downstream sales and marketing activities.

Conclusions

Although each state was dominated for about the same period of time by communist regimes, different historical and cultural factors as well as differences in their economies remain. Total data in the study suggest that these differences seem to have influenced the perceptions of managers of U.S. firms doing business there.

The marketing of services and products in East Europe has some strong pros and cons: the market knows it needs certain services and has solicited them so convincing the customer that the service is "good" is not necessarily a major problem; competing against another similar service may be. For non-essential services or those not readily offered by locals, the money simply may not be there right now--a patient parent company is necessary.

Various elements in the marketing process are perceived fairly favorably (even including media availability) but a tool relied on by U.S. marketers--marketing research--is not positively perceived. The difficulty of research combined with the expense involved might make this lack an obstacle to some organizations. Then again, it may open up an opportunity for the marketing genius who can provide the service efficiently, effectively, and less expensively.

MARKETING BUSINESS SERVICES TO DEVELOPING COUNTRIES:
AN EXAMINATION OF ENVIRONMENTAL CHALLENGES TO SERVICE EXPORTS

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Abstract

Business services have been the fastest-growing U.S. exports during the 1970s and 1980s (Cundiff and Hilger 1988). They include numerous professional services such as banking, research, consulting, advertising, engineering, information and maintenance work. The majority of these services are provided by specialized personnel with unique skills. Since there is a good demand for managerial talent and expertise in developing countries (Kolde 1982), these countries become rather attractive markets for various multinational service companies. Unfortunately, some of the characteristics of developing countries create serious challenges for these organizations when it comes to exporting their services.

Initially, there are cultural and environmental factors which preclude the transfer of service export strategy from one country to another. Based on the fact that countries differ in their characteristics relevant to service industries, global marketers need to adjust their strategies to gain competitive advantages in targeted foreign markets. It is necessary for those decision makers to continually monitor the surrounding environment along with the service industry. Over time, international financial systems and trade patterns, commercial policies, technological improvements, and global competition have been some of the examples of global developments and parameters of international marketing in various types of environment (Terpstra 1987). More specifically, disappearing "national" market boundaries, declining number of competitors increasing interdependence among national and regional markets, and growing similarity among customer segments in various parts of the world are some of the recent patterns (Kashani 1992).

Challenges presented in this paper relate to technological infra-structure, protectionism, intellectual competition, and environmental uncertainty. Even though these can be generalized across many countries, one should realize that there might be additional challenges in some developing countries.

Technological Infra-Structure

The degree of technological sophistication in a foreign country is an important factor since it partially determines the need for business services. When the technological infra-structure is getting to the advanced level, there is a gradual need for various professional services such as maintenance, consulting, and training. The challenging task for international companies is to position their services competitively so that their services will be preferred over the services provided by the domestic companies in those countries. This is a difficult assignment since developing countries are fairly protective of their own firms.

Protectionism

Protectionism appears to be one of the major threats to the expansion of international services trade (Cateora 1993). It is important for those developing countries to protect their small business units from outsiders. Whether this is a legitimate reason or just an excuse, the fact still remains that some multinational companies may not even have the opportunity to prove the quality of their business services in those countries. As listed by Cateora (1993), restric-

tions on the rights to conduct business or to have complete ownership of investments or to engage in transborder data flows are just some of the examples of barriers to trade.

Intellectual Competition

Intellectual competition relates to being able to compete with pirated trademarks, processes, and patents (Cateora 1993). Intellectual products such as computer software and technical designs can be easily duplicated in the absence of comprehensive legislation. Unfortunately, most of the developing countries are still in the process of establishing legal guidelines to protect intellectual property. Meanwhile, it becomes a very difficult and costly task for international companies to protect the true identity of their services through continuous upgrading.

Environmental Uncertainty

As stated by Sanderson and Luffman (1988), technical, political, social, and economic environment of foreign settings represent some of the major factors for strategic planning of international marketing efforts. Multinational service companies need to be prepared with appropriate strategies by considering these environmental challenges. Even though certain features of the developing countries result in the development of attractive markets for global service companies (Cundiff and Hilger 1988; Luqmani, Habib, and Kassem 1988), the same characteristics may also generate very serious obstacles for the operations of those companies. Specifically, frequent changes in the composition of competition, reactions of customers, and political power in those developing countries create a rather unstable environment which can increase this environmental uncertainty for multinational companies. It is proposed in this paper that there are several inquiry areas about those countries which should be examined by multinational service companies. Accordingly, the paper indicates the need for having a model in strategy development for services marketing to these markets.

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PROFILE OF TURKEY IN INTERNATIONAL TOURISM MARKET

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Abstract

Tourism is a growing sector in international market. Companies and countries are trying to increase their market share–income in tourism.

Turkey, with its wide resources, is a good example of these countries, who is determined to increase Turkish tourism income.

Examining international tourism market, reveals that the increase in international tourism has been greater than domestic travel.

In international market, USA , Japan and Saudi Arabia residents have the largest share in their spending, while these figures are not the same in Turkey.

Another problem with the tourism sector in Turkey is that number of tourists are not proportional to the income rate per person which may create an image of "paradise of cheap holidays".

On the other hand Turkey does not seem to utilize effective and efficient strategies to come up to it's expectations. Therefore, the clarification of marketing strategies should be done at the beginning of such procedures which will also increase Turkey's income rate in international tourism market .

Introduction

Tourism and travel together is part of global industry which serves many markets, some of which are also international and served by international companies.

Nowadays many companies are trying to take part in the international market, in order to work effectively and efficiently, thus increasing their profit.

Taking part in the international market is an alternative for any company. But for a company in tourism sector to be in the international market, requires either to be international or to have an international or foreign partner.

Tourism as a growing sector is getting more and more attractive, not only for companies but also for countries. A lot of countries are trying to increase their market share, as well as their income in tourism.

Turkey, with its resources, is a good example of those countries, determined to increase their tourism income.

In this paper, we have tried to show the profile of the international tourism market, Turkey's share in that market and Turkey's expectations. Finally, some suggestions are made as to which kind of import strategy has to be built at the beginning of the marketing strategy development.

This study mostly reflects the full details of pattern of international travel which covers the period until 1989 after which the dramatic political changes in Eastern Europe, Germany, Yugoslavia and Iraq–Kuwait Gulf crises and wars have made it impossible to have a healthy evaluation of the travel data.

Development of International Tourism Market

Growth of international tourism activities mostly depend on several variables such as, the level of economic development, globalisation, and communication.

–Interest of tourist for international tourism market is also related to these and other factors.–

International tourism is growing year to year as can be seen in [Table 1](#).

TABLE 1.
THE WORLD'S TRAVEL DEVELOPMENT

Domestic and International			International	
	Number of Passengers (millions)	Growth Rate	Number of Passenger (millions)	Growth Rate
1980	748	-1%	163	+3%
1981	752	+1%	173	+6%
1982	766	+2%	170	-2%
1983	798	+4%	172	+2%
1984	848	+6%	185	+7%
1985	899	+6%	194	+5%
1986	960	+6%	199	+2%
1987	1027	+7%	222	+12%
1988	1081	+5%	243	+10%
1989	1099	+2%	259	+7%

Source: International Civil Aviation Organisation in TPR Associates, 1992, p.4-2.

Domestic and international tourist numbers increased from 748 millions in 1980 to 1099 millions in 1989, and the number of international trips rose from 163 millions in 1980 to 259 millions in 1989. In other words, international tourism growth rate is faster than domestic tourism. In 1980, domestic and international passengers growth rate decreased by -1% compared to previous year. But since 1981 it increased each year. A similar development is observed in international travel in 1982; first a decrease, followed by a continuous increase until 1989.

The increase in international tourism has been greater than domestic travel and ranges between 45-83% in European countries (Table 2). For 1990 departure rates for holidays are in Portugal 45%; in Switzerland 83%, and in other European countries range between 52-80%.

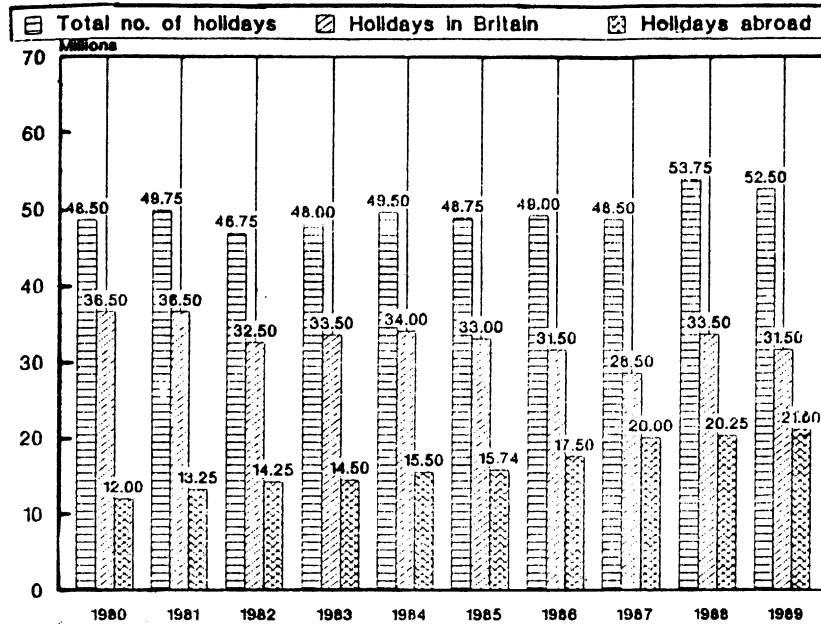
In some special cases, this increase could be shown more clearly. Holiday figures in Britain for the period of 1980-1989 is presented in Figure 1.

TABLE 2
DEPARTURE RATES ON HOLIDAY IN EUROPEAN COUNTRIES

	Year	Departure Rate
Austria	1990	60%
Belgium	1988	56%
Denmark	1990	66%
Finland	1990	70%
France	1990	59%
Greece	1990	52%
Ireland	1990	55%
Italy	1990	57%
Luxembourg	1990	70%
Netherlands	1990	70%
Norway	1990	70%
Portugal	1990	45%
Spain	1990	53%
Sweden	1989	80%
Switzerland	1990	83%
United Kingdom	1990	59%
West Germany	1990	68%

Proportion of the population taking at least one holiday
Sources: TPR Associates, 1992, p.4-2.

**FIGURE 1
HOLIDAY TRIPS BY UK RESIDENTS
DOMESTIC AND FOREIGN HOLIDAYS COMPARED**



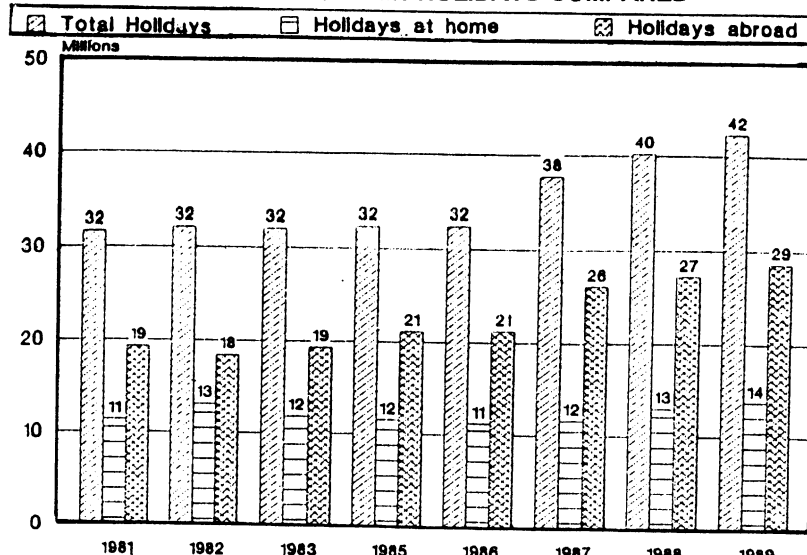
Source : BTA in TPR Associates, 1992, p.fig.4-2.

In Britain total holiday trips increased by 4 millions from 1981 to 1989. In these nine years domestic travel decreased from 38.5 millions to 31.5 millions; however international trips (or holiday abroad) rose up from 12 millions to 21 millions.

In Germany, whose residents consist the largest group of tourists in Turkey, a similar development can be seen

(Figure 2).

**FIGURE 2
HOLIDAY TRIPS BY WEST GERMAN RESIDENTS
DOMESTIC AND FOREIGN HOLIDAYS COMPARED**



Source: Studienkreis für Tourismus, Reiseanalyse in TPR Associates, 1992, p.fig.4-3.

TABLE 3
MONEY SPEND IN COUNTRIES BY TOURISTS AND SHARE OF TURKEY
(1989)

Country	The World*			Turkey		
	Number of Tourist* (million)	Spending(\$)		Number of Tourist (000)	Spending(\$)	
		Total* (billion)	Per Person		Total** (million)	Per Person***
USA	41	35	854	205	153	748
W. Germany	74	24	324	897	480	535
Japan	10	23	2300	32	38	1177
UK	29	15	517	406	227	559
France	29	10	345	284	174	614
Canada	18	9	500	32	24	758
Italy	15	7	467	154	115	747
Netherlands	16	6	375	107	54	506
Austria	13	5	385	157	63	403
Sweden	8	5	625	67	30	452
Switzerland	16	5	313	78	78	1006
Saudi Arabia	1	5*	5000	27	32	1180
Belgium/Luxembourg	9	4	444	48	27	570

*Estimates

Developed by author based on *EIU, 1992, p.15;

**Turkish Ministry of Tourism, 1990, p.46;

***Turkish Ministry of Tourism, 1991, p.95.

In West Germany, total holiday trips increased from 1981 to 1989; yet, there has been relatively little variation from year to year in domestic travel. International trips, on the other hand went up from 19.6 millions in 1981 to 29 millions in 1989.

Profile of Turkey in International Tourism Market

In 1989, 402 million international tourist trips was made worldwide. These 402 million trips involved spending around \$3.7 billions. (EIU Special Report No 2454) Since it is not possible to examine all countries, 13 countries are selected as representing those with minimum spending limit of \$300 per person per trip.

Table 3 shows the number of trips by country origins and their total and per trip spending (in 1989). It would be possible to detect the place of Turkey in international tourism market by studying its visitor profile in a given year.

The amount of money spent by residents of W. Germany, UK, France, Canada, Italy, Netherlands, Austria, Switzerland and Belgium in Turkey, is more than the amount they spent in other countries.

Contrary to this finding, residents of USA, Japan, Sweden, Saudi Arabia have less spending in Turkey than the other countries. Especially USA, Japan and Saudi Arabian residents who are used to spending quite a big amount of money on their holidays, do not seem to maintain this tendency when in Turkey. This figure may point out two facts: they may either come from low socio-economic status or they may not find anything that is worth spending.

Table 4 shows tourist profiles in Turkey. 15 countries are chosen and examined on the basis of \$300 minimum spending limit per person and 50.000 tourist limit per countries, ranked in the order of number of trips.

In this table, the largest group of tourists in Turkey is from Germany and the smallest group is from Sweden.

Comparisons of table 3 and table 4 shows that tourists who spend most on their holidays such as, Saudi Arabians and Japanese do not appear on the list while Americans are in the seventh rank.

Nowadays Turkey has an image of cheap resort holiday, which is not the one Turkey wants to create. Turkey demands, tourism to be of much more benefit to its economy than it is today. So far, Turkey's attempts to utilize sources such as, incentive credits (subsidized) and promotions have remained ineffective due to the lack of marketing research and marketing strategies (Akmel 1992).

TABLE 4
PROFILE OF TO TURKEY (1989)

Country	Number of Tourist*	Spending (\$)	
		Per Person**	Total
W. Germany	896 989	535	479 889 115
UK	405 943	559	226 922 137
France	283 545	614	174 096 630
Greece	277 333	378	104 831 874
Iran	240 972	611	147 233 892
Yugoslavia	217 266	324	70 394 184
USA	204 502	748	152 967 496
Poland	196 376	620	121 753 120
Austria	156 875	403	63 220 625
Italy	154 083	747	115 100 001
Netherlands	106 709	506	53 994 754
Syria	92 860	446	41 415 560
Switzerland	77 945	1006	78 412 670
Finland	69 626	407	28 337 782
Sweden	66 761	452	30 175 972

Developed by author based on *Turkish Ministry of Tourism, 1990,p.46.; **Turkish Ministry of Tourism,1991,p.95.

Conclusion

Turkish tourism needs an effective marketing strategy at the beginning of the procedure of development.

First of all, tourism planning and strategies must be based on marketing research.

Secondly, a target market must be identified according to market segmentation and a marketing strategy needs to be defined consisting of tourism services, prices, distribution systems and promotion activities. This task should be the responsibility of Tourism Ministry. After the ministry's definition of a tourism strategy of Turkey in macro level, tourism institutions could develop their own micro level strategies.

Such a procedure seems to be the most efficient and effective for getting the expected share from international tourism market.

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DEMAND ESTIMATION FOR PASSENGER CARS IN TURKEY

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Abstract

This study aims to forecast yearly sales for both domestic and imported brandnew passenger cars in Turkey by using several different regression models based on longitudinal data over the last thirty years. Having experimented on different econometric regression models including regular and stepwise regression models using both yearly and lag data, study indicates that micro marketing research data provided by market surveys on marketing related variables, including dealership, advertising and promotion, model and type availability, salesforce, distribution and payment policies especially consumer credits, play a more important role than macro variables. Thus, this study creates a new hypothesis by seriously questioning the previous macro studies done in Turkey by academic, business and government authorities.

Introduction

Demand fluctuations in the automobile industry would closely affect the other sectors. Therefore, it is very important that the sales forecasts are done accurately.

Since the automobile sector covers a large area, only "passenger cars" have been included in this research.

Development of the Automobile Industry in the World and in Turkey

Following the mass production started by Henry Ford in 1908 in the U.S.A. the number of automobiles has increased rapidly all over the world and the automobile production has gone up significantly.

U.S.A. ranks the first with respect to the number of automobiles per 1000 persons, whereas Turkey is well below the world average.

Compared to the other countries in the world, Turkey was late in starting the automobile industry. The number of automobiles produced could only reach 167556 in 1990 (T.A.I.A. 1990, p.42) from 2852 in 1968 (T.A.I.A. 1991, p.3). In the year 1987 we had one automobile per 46 persons whereas this number was 7.8 in Yugoslavia, 3.9 in Spain and 2.1 in Germany (T.A.I.A. 1990, p.56). The firms involved in automobile production in Turkey, Tofaş, Renault and Otosan have intensified their marketing efforts in recent years and started producing contemporary models as well as increasing capacity. General Motors started assembly in 1990 in Izmir. Toyota-Sabancı and Peugeot are planning automobile production in Turkey.

(1) Author would like to thank E. Tarcan for his contribution

Sales Forecast in Automobile Industry

Sales forecasting is a multistage process. Once the forecasting problem is defined and operationally determined, forecasting method should be selected.

After determining the method, a model is chosen from among the alternative models. While selecting the method and the model, the nature of the problem and data availability should be considered. Criteria such as comparative advantages of alternative methods and models, time and cost should be kept in mind (Kurtuluş 1977, p.6).

In the following phase, data is collected, organized and selected. To determine the most appropriate independent forecasting variable or variables, one can start either with one variable and increase the number of variables adding the ones which have significant contributions or, with multiple variables and decrease the number of variables by deducting the ones with insignificant contributions.

After determining the variables, the researcher should assess the selected method and model. If the evaluation results are positive, it can be concluded that the selected forecasting method and model can be used then or later.

If the evaluation results are negative, one should go back to the beginning and revise the forecast method, model and/or variables and make the necessary changes.

Methods of Sales Forecast

Methods used in sales forecasting can be differentiated in a number of ways, in different groups. One of the most generally used differentiation techniques classifies these methods into three groups (Kotler 1972, p.193):

- a) Judgmental Sales Forecast Methods
- b) Models Based on Time Series
- c) Causal Methods

Passenger Car Sales Forecast Research in Turkey

Background, Objective, Content and Evaluation

Having studied the available research done in Turkey into automobile sales and demand forecasts, it is rather difficult to evaluate the predictive validity of these studies (Tarcan, 1991, p.34-35).

The objective of this research is to determine the possible problems encountered in forecasting automobile sales and to determine the variables to be used.

It is clear that very little research has been done for forecasting automobile sales in Turkey.

Variables of Research

The sales values refers the sum of both domestically produced and imported cars.

Exports have not been taken into consideration as the demand abroad depends on many complex variables and export figures have been consistently very low. Inclusion of exports would have unnecessarily broadened the scope of the research. Individually imported cars have not been included in the imports figures (see TABLE 1).

TABLE 1
THE NUMBER OF AUTOMOBILES PRODUCED IMPORTED
AND SOLD IN TURKEY BY YEARS (2)

YEAR	DOMESTIC PRODUCTION	DOMESTIC SALES	IMPORTS	TOTAL SALES
1967	1260	1760	11822	13502
1968	2852	2852	16143	18995
1969	3902	3902	9474	13376
1970	3660	3660	7779	11439
1971	12888	11566	4029	15595
1972	29478	30622	4473	35095
1973	46817	46372	7087	53459
1974	59906	59413	9058	68421
1975	67291	66152	13626	29828
1976	69992	62954	19062	82014
1977	58248	52335	8641	65976
1978	54085	49506	13511	63017
1979	43008	42701	12758	55439
1980	31529	27376	4887	32263
1981	25306	20023	4025	24228
1982	31195	29330	2795	32125
1983	42509	39261	3212	42480
1984	54832	51290	8849	60139
1985	60353	55439	12806	60245
1986	82032	77463	6974	84637
1987	107185	102039	5115	107154
1988	120776	113312	4665	117977
1989	118314	110214	6948	117662
1990	162586	158472	64022	222494

(2) Data Source:

Domestic Production Values for 1967-1989: Turkish Automobile Industrialists' Association (T.A.I.A.), *Sanayi Hakkında Genel ve İstatistikî Bilgiler Kataloğu*, 'p.42.; for 1990: T.A.I.A. (1991), 'Aylık İstatistikî Bilgiler Bülteni 1990 Yılı Sonuçları', p.3.

Domestic Automobile Sales Value for the period 1967-1970 sales value is considered as equal to total domestic automobile production, for the period 1971-1990 I.A.A.P.

Import Sales Value for the period 1967-1970, Gönensay, Emre, Orhon, A. and Tanberk, S. (1975), 'Türkiye Otomotiv Sanayii Ürünleri Talep Tahminleri', Boğaziçi Üniversitesi Yayınları, No:75-71/002, p.138.; for the period 1971-1989 I.A.A.P.; for the year 1990 T.A.I.A.

Total Sales is the sum of domestic production sales and import figures.

As income increases the sales of a product will increase or at least it is expected to, but one should not discard the fact that there may not always be a positive relationship between income and sales.

In various countries there is a close relationship between GNP per capita and persons per automobile (U.N.P 1972, p.5).

As the population increases, the demand for a product may be expected to increase, too.

The analysis was begun with two independent variables: GNP per capita and population, as it was thought that they would sufficiently account for sales; but later, when they failed to do so, other variables like petrol prices, length of motorways and number of houses had to be taken into consideration (Gönensay, Orhon and Tanberk 1975, p.53).

In view of the fact that the effects of variables like housing and motorways on sales may lag behind, lag data for these variables were included in the analysis as well (see TABLE 2).

Car prices were not included in this research as a variable since preliminary study showed that there was no accurate data. Also excluded from this research was real interest on savings as its correlation coefficient with sales was insignificant ($r=0.03$).

Data about promotion expenditures were not included in the research since active marketing efforts in the sector in Turkey have only just begun.

Variables which may affect sales, such as consumer expectations about cars and alternative transportation facilities were not included in this research as the variables included were believed to be sufficient for our forecast. Furthermore, their inclusion would have greatly expanded the scope of this study.

Research Model

The regression model was used in this research having 24 observations.

Correlation Analysis with the Independent Variables, GNP per capita and Population

Correlation coefficients obtained as a result of the correlation analysis show that the relation of sales to GNP per capita and population is significant. The t test was carried out with a 0.05 level of significance and 22 degrees of freedom confirms this, significant relationship.

TABLE 2
ANNUAL DATA OF VARIABLES (3)

YEAR	SALES (number)	GNP PER CAPITA (68 Prices TL)	POPULATION (000)	PETROL (68 Prices TL/lt)	NUMBER OF HOUSES	TLM (Km)	LMNCA (Km)	TLM (LAG) (Km)	LMNCA (LAG)	NUMBER OF HOUSES (LAG)
1967	12582	2202.20	32750	11.09	50215	14360	2217	12143	284	40973
1968	18995	3332.10	33925	1.09	62910	16048	1688	14360	2217	50215
1969	13376	3343.00	34442	1.02	62216	17334	1286	16048	1628	62910
1970	11429	3551.00	35321	1.07	71589	19015	1681	17334	1286	61216
1971	15595	3816.00	36215	1.12	72816	20221	1206	19015	1681	71589
1972	35095	3999.00	37132	.92	88221	21057	836	20221	1206	72816
1973	53659	4110.00	38072	.81	96163	22159	1102	21057	836	85231
1974	68671	4306.00	38036	.93	84199	23643	1504	22159	1102	96163
1975	79828	4526.00	40072	1.00	97431	25301	1638	23643	1504	84199
1976	82016	4785.00	40915	.67	102110	26745	1444	25301	1639	97431
1977	65976	4869.00	41768	.92	119409	28800	2055	26745	1444	102110
1978	63017	4906.00	42640	1.09	120615	31632	2832	28800	2655	119409
1979	55459	4786.00	43930	1.84	124297	34062	2430	31632	2932	120615
1980	32263	4638.40	44438	1.88	139207	35670	1608	34062	2430	124297
1981	24228	4713.90	45560	2.20	118778	37053	1383	35670	1605	139207
1982	32125	4807.00	46622	2.39	115986	38332	1279	37053	1393	118778
1983	42480	4844.20	47864	2.36	113453	39458	1126	38332	1279	115986
1984	60139	5006.00	49070	2.38	122580	40906	1348	39458	1126	113453
1985	68245	5132.40	50306	2.47	119205	42152	1346	40906	1342	122580
1986	84437	5455.00	51546	2.30	148597	43594	1442	42152	1346	119205
1987	107154	5677.20	52845	1.69	191329	45002	1408	43594	1442	148597
1988	117977	5738.90	54176	1.83	205485	45408	406	45002	1408	191329
1989	117662	5689.50	55941	1.90	225000	47057	1649	45408	406	205485
1990	222494	6052.10	56969	2.12	245000	49000	1953	47057	1649	225000

WHERE:

GNP Per capita: Gross National Product per capita
TLM: Total length of motorways
LMNCA: Length of motorways newly constructed annually
TLM (1 year lag): Total length of motorways with one year lag
LMNCA (1 year lag): Length of motorways newly constructed annually, with one year lag.
L Number of Houses: Number of new houses constructed annually, with one year lag.

Multiple Regression Analysis with GNP Per Capita and Population

Stepwise selection method was used in determining the variables in the regression analysis (Chatterge and Price 1977, p.201-202). In the first step GNP per capita, whose correlation coefficient with sales was calculated to be 0.81, was included in the analysis. GNP per capita was kept in the analysis due to the as a result of the F test.

The population variable, which was to be included in the equation in the second step, was excluded from the analysis because the F test conclusion with a coefficient of determination (R²) of 0.0215 showed that it was insignificant in accounting for sales.

(3) Data Source:

Turkish Primeministry Statistics Institute (1972). '1971 Yearly' Ankara.
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According to the Analysis:

$$S = -156618.62 + 47.79 G \quad (1)$$

Here: S:Sales Value
G:GNP per capita

The correlation coefficient of the equation (1) was found to be (r)0.81 and the coefficient of determination (R²)=0.66. The F test shows that this model is appropriate for the forecast.

The forecast values were found after applying the model to the GNP per capita data for the years 1967-1990 (see TABLE 2). The difference (errors) between the forecasts values of 1967-1990 and the actual sales figures are also calculated.

When the model was tested, it was seen that the model worked for the years 1987, 1988, 1989 but not for 1990. Therefore new variables were added to our research since the model failed to predict the sales.

At this point the question asked was "What would happen if the Population variable were included", and as a result of the analysis carried out R² rose to 0.67 from 0.66, and this showed that the Population variable should not be included in the model.

Correlation Analysis with New Variables

Correlation coefficients of the new variables with sales were calculated and t test was applied to these coefficients. At the 0.05 significance level, correlations of the variables - GNP per capita, population, number of houses, total length of motorways (TLM), TLM (one year lag) and lag number of houses (LNH) - with sales were found to be significant.

Normally it would be expected that automobile sales to be positively affected as the length of motorways increases. But this was not verified by our data.

Although Length of Motorways Newly Constructed Annually (LMNCA (one year lag)) has decreased compared to the previous years, sales have increased as can be seen in TABLE 2. The improvement and widening of the present motorways are not reflected as an increase in TLM data; and this is the reason why the correlation coefficient of LMNCA (one year lag) is negative.

Stepwise Regression Analysis with New Variables

Nine Variables were added stepwise to the analysis, and as a result, the variables GNP per capita, Population, TLM (one year lag) and LMNCA (one year lag) were included in the analysis and the others were excluded.

The sign of partial regression coefficient of the variable TLM (one year lag) is (negative). However, normally one would expect car sales to increase as the length of motorways increases. Thinking that this situation could be due to multicollinearity, it was therefore analyzed by the Factor Analysis and Variance Inflation Factor (VIF) methods separately (Kurtuluş 1992, p.439-450). The results of the factor analysis showed that the variables GNP per capita, population and TLM (one year lag) were mutually dependent. Therefore, these three variables were reduced to one, and with the addition of LMNCA (one year lag), the analysis was carried out with two variables.

Factor analysis was confirmed by multicollinearity check by the Variance Inflation Factor (VIF) method and the calculations were:

$$VIF_G = 1/1 - 0.94 = 16.6 \quad (2)$$

$$VIF_P = 1/1 - 0.99 = 100 \quad (3)$$

$$VIF_{TLM \text{ (one year lag)}} = 1/1 - 0.99 = 100 \quad (4)$$

$$VIF_{LMNCA \text{ (one year lag)}} = 1/1 - 0.33 = 1.49 \quad (5)$$

Regression Analysis After Reduction of Variables

The results of the regression analysis, where the independent variables: GNP per capita and LMNCA (one year lag), and the dependent variable sales were used, were also tested.

When data were analysed it was seen that the variable LMNCA (one year lag) increases the R^2 value from 0.66 to 0.67. Therefore, one is again left with one variable as in the beginning of the analysis since the contribution of LMNCA (one year lag), in accounting for sales, declines to a very low percentage of 0.01.

It was also determined that the results of the analysis using LMNCA (one year lag) but replacing the GNP per capita variable with the number of houses.

Interpretation of Results

The analyses and the statistical tests indicated that the models did not work for the year 1990.

The firms in the automobile sector have increased their marketing efforts in recent years. These firms have started introducing new and contemporary models into the domestic market and have increased the number of retail outlets and service stations. For example, Tofaf had 271 sales or retail outlets and 198 service stations in 1991 and Renault had 183 primary sales outlets and 91 secondary sales outlets in 1991. The firms already existing in the market and those who are newly entering it have done likewise vis-a-vis the number of sales outlets and service stations and have intensified their promotion efforts. The marketing departments of automobile firms now employ a sales force wellversed in contemporary marketing. Furthermore, in recent years it has become easier for consumers to use credit for automobiles directly or indirectly through banks, and this has also positively affected sales. It is obvious that any research which does not take all these marketing efforts into consideration will have biased conclusions.

This research shows that the forecasts are quite likely to be inaccurate if they were made within the frame proposed by econometricians. Available research in Turkey forecasts automobiles sales and demand in such a frame and therefore fails to be valid and reliable.

Hence it must be remembered that any research into sales forecasts, which does not take marketing efforts into consideration, is bound to fail.

Those who want to forecast automobile sales should instigate studies at micro level rather than macro. Domestic sales should be analyzed in two separate categories as domestically produced cars and imported cars, since the sales of these categories are affected by different factors. Researchers should take into consideration, authorized and secondary sales organizations, the service network, promotion efforts, models, consumer credit facilities, and the capability of the staff employed in the marketing organizations.

A cross-sectional rather than longitudinal research is designed to forecast the car sales in 1993. This model uses all previously stated marketing variables on a micro level. Since the research is still in progress that will be a topic for the future publication.

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AN EXPLORATORY STUDY ON THE MARKETING ACTIVITIES OF TURKISH FIRMS IN THE FORMER USSR MARKET

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Abstract

This exploratory research on 63 Turkish firms that were involved with the former USSR by December 1991 evaluates the marketing aspects of doing business with the ex USSR. Several marketing activities were evaluated in terms of importance as well as the usage levels. The "price" related marketing mix activities were considered most important, which were followed by public relations activities and sales calls. Advertising, trade exhibitions and symposia were among the activities judged the least important. Contrary to what this implies, those marketing activities that were perceived as being very important in this market were not used as much by the Turkish firms.

Introduction

Following Turkey's economic metamorphosis in 1980 and the ensuing export oriented development policy, many firms have adopted a new frame of mind. That is, exporting has become a regular part of daily business event for many of the firms. During the late 1980's, the export level has been somewhat stabilized around the 10-12 billion USD per year. The government has been searching for a new export strategy, while the practitioners have been pushing into "difficult to enter" markets, or trying to improve the added value of the exported items by improving their quality.

In 1984, Turkey signed a countertrade agreement with the USSR involving the purchase of natural gas, while payment would be made with exports of goods and construction services. Implementation of this deal became possible in 1989; and immediately afterwards USSR became the new target market for many Turkish firms.

The structure of the ex-USSR market is quite different from the traditional trade partners of the Turkish firms. So, exporting to USSR not only needed adaptation to new rules of the market, but also it necessitated more proactive involvement and commitment from the Turkish side.

Surprisingly, the 1991-1992 decentralization in USSR brought with it another set of new rules of doing business, where the new rules were mostly developed while doing the business itself. The local and international media were tailoring a big role for Turkey in the Republics of the USSR. The Central Asian Republics began to see Turkey as their big brother.

The empirical study described here (based on the doctoral dissertation of the author) presents the significant findings related to the marketing activities of the Turkish firms' involvement with the USSR. The objectives of the present paper are twofold:

1. To provide information on the Turkish-USSR trade channels system and the related developments,
2. Evaluation of marketing activities in doing business with the USSR.

Turkey's Foreign Trade System and Turkish-USSR Trade

Until 1980, Turkey's development strategy relied on import substitution and the protection of domestic industry. After 1980 the government restricted its economic interventions to macro economic policies and to infrastructure only. Price

controls were abolished. Some subsidies were phased out. Imports were liberalized; all quotas and other non-tariff barriers were removed and tariffs were lowered. A new incentive system was introduced to boost exports and transform the export structure in favour of manufactured goods. These incentives have later been gradually abolished once the exporters gained experience.

Turkish exports increased from 2.9 billion USD in 1980, to 13 billion USD in 1990. Besides, the share of manufactured goods in exports increased from 35% in 1980, to about 80% in 1990. Changes in export policy helped triple the share of exports in GNP. Until leveling off in 1989, exports made a major contribution to growth.

In the development of Turkish exports, trading companies have played a major role. Until 1991 Turkey's trading companies could be divided between those obtaining special incentives as a result of their large export volumes and the rest, which were composed of big-medium-and smaller companies. The larger exporters, classified in the Turkish system as "Foreign Trade Capital Companies" (FTCC) (1) were entitled to additional export subsidies and enjoyed exclusive trading rights with socialist economies. At the beginning of 1990 the exclusive rights granted to Turkey's FTCC's to trade with Eastern Europe were ended.

As shown in the [Table-1](#) below, the Turkish-Soviet trade has increased by more than three times during the past five years. On the other hand, the export to import ratio has been very volatile. It has changed in line with changes in bureaucratic obstacles put forth by the USSR side. The overall development in trade can be taken as a reliable base for future expectations.

TABLE 1
TURKISH SOVIET FOREIGN TRADE:
(thousand USD)

Year	Exports	Imports	Exp/Imp
1987	169,496	306,982	0.55
1988	271,408	442,619	0.61
1989	704,797	596,710	1.18
1990	530,723	1,271,355	0.42
1991	610,607	1,089,856	0.56

Source: State Planning Organization, State Institute of Statistics

The overall effects of the bilateral agreements were not only felt in the trade volume but also in the increasing variety of goods being traded. Whereas only 25 groups of goods were exported to the Soviet Union in 1986, this number increased to 70 in 1990. Besides, because of the bilateral countertrade system, the type of goods added in the lists in one particular period of time might not be included in the next year. So, one key characteristic of Turkish-USSR trade has been its volatility.

Turkish-USSR Trade Channels

At present, Turkish-Soviet trade relations are conducted through four channels besides the classical trade system in open market economies. The first of these is the trade through the "Long Term Frame Agreement" and "1986-1990 Product Exchange Agreement"; followed by annual

protocols and lists of the tradeable goods as tools of implementation. In these lists, product categories are defined in broad terms. Later the parties decide on the type and amount of specific goods to be purchased.

The second channel is related to the 1967 agreement of back payment of Soviet project credits by Turkish export products. Each year a list of exportable commodities is decided by the joint Turkish and Soviet Mixed Economic Commission. This is regarded as "special account" arrangement in the Turkish trade system.

As of September 1989, Turkey owed 393.5 million USD to Eastern European countries for technical assistance and credit on industrial and infrastructure projects. In 1991, 26 million USD worth of goods were exported to the Soviet Union under "Special Account" for repayment of such credits from the Soviet Union. Such exports are mainly of agricultural products. Payments under the Special Account are to be completed by 1997. The Special Account is operated by the Central Bank. The normal procedure for the potential exporter and importer was to reach on an agreement in principle and both sides then seek a green light for the transaction to be included under the "Special Account". The exporter needs to receive a letter of credit from the importer in the Soviet Union through Vneshekonombank (until its abolishment), with a reimbursement clause referring to the Special Account. The Central Bank then informs the commercial bank in question and credits this bank for payment to the exporter. This system is still in force with minor modifications.

The third trading is based on the Natural Gas Agreement. Natural gas is imported by Turkey under a 25 year countertrade agreement with the USSR which provides for natural gas in exchange for services, manufactured goods, and agricultural commodities. The natural gas countertrade deal began to flow in 1989. The main source for the import of natural gas from the USSR is the pipeline passing through Bulgaria. The collapse of the Soviet Union has not interrupted gas supplies. After dissolution of USSR, the natural gas import deals were made between Turkey and three of the republics: Russia, Ukraine, and Belorussia.

Between the Turkish and USSR authorities, "a natural gas list" is prepared each year. This list consists of the goods to be exported to the USSR by the Turkish firms. In order to import from Turkey through the gas deal, the inquiries of the USSR firms are collected in the Undersecretariat of Turkish Treasury and Foreign Trade (UTFT). Then, the negotiations start between the Directorate and the Soviet Trade Consul in Ankara. Negotiations are based on lists prepared by the Directorate (UTFT) with the help of information related to contract between Turkish and Soviet firm. Letter of intention and credit arrangements supplied by the Soviet side are also appended to these lists. After the acceptance of the contract agreement by the Directorate, the permit to export through the gas deal is granted to the firm. The monitoring of this contractual agreement is done in Turkey by the Undersecretariat of Treasury and Foreign Trade (UTFT). In practice, Turkish exporters register the goods in this Directorate prior to actual transfer, then the private banks that conclude these transactions keep the records (at the time of transfer the banks put a clause stating that this transaction is within the natural gas account). The Prime Ministry has also a copy of the up-to-date records collected from the banks and the treasury.

Türk Eximbank, is another trade channel which is an active institution in Turkish trade assisting Turkey's export drive. Türk Eximbank supplies credits for exports to USSR by first arranging bridging finance through a number of Turkish

banks and then adding its own longer-term resources. To qualify for use of this credit, the exporter should obtain permission in principle from Türk Eximbank for its export to be included on the list.

Normal settlement channel also gained importance recently. For the great majority of transactions in 1991 and 1992, the basic mechanism for trade finance was payment in hard currency on the basis of a letter of credit or cash against documents or cash against goods.

Background Literature for the Study

In order to evaluate marketing activities of Turkish firms in the former USSR market two streams of literature is surveyed. First is related to Turkish studies concerned with mainly export behavior of firms. As expected there was no prior study on the USSR or CMEA area. The second one is related to studies directed towards this particular area.

The behavioural aspects of Turkish exporters have been studied previously by Bodur (1982), Bodur and Çavuşgil (1985), Karafakioğlu (1986), and Kaynak and Erol (1989). Bodur (1982) describes the export marketing management of 89 food and textile manufacturers, on the basis of their policies in export marketing planning development, problems they face during exporting and the possible solutions for those problems. Bodur and Çavuşgil (1985) study provided a comparative analysis of export information needs and the marketing research orientations of Turkish exporters selling to different regions of the world, North Africa and the Middle East, and OECD countries. Karafakioğlu (1986) examined factors which are influential in directing Turkish manufacturers to exporting. This research pointed out that the majority of the Turkish companies started exports in response to unexpected orders and entered international markets as a result of domestic push factors. Kaynak and Erol (1989) examined the export orientation of Turkish manufacturing and trading house firms and differentiated these two types of firms in terms of their export drives.

Involvement types with the USSR are studied by Marer and Miller (1977), Hoyt (1978), and Hisrich and Peters (1983). Attitudes and interests in specific trade related activities with the East are further analyzed by Hisrich and Peters (1985), and Hecht and Oliver (1988). Finally Möller (1982) compares the promotional management in exporting to the Soviet Union versus OECD countries with a sample of 100 Finnish firms. However, there are no empirical studies examining trade and marketing activities with USSR from a developing country perspective.

Research Methodology

The study started with the identification and gathering of the available secondary data on Turkish-USSR trade relations, and academic studies on "firms behavior towards USSR". Relying on the background information at hand, a questionnaire was designed for administration to business people that were already involved with the USSR.

There were no lists of companies actively involved with the USSR to use as a frame from which a sample could be drawn. So the sample was selected from the DEİK's (Foreign Economic Relations Board) Soviet-Turkish Business Council members. This can be regarded as a judgemental sample, as the researcher believed that most of the bilateral trade participants had joined DEİK to get advantage of the Board's connections and influence in Moscow.

Following a pilot study, questionnaire was distributed to the members of DEİK Turkish-USSR Business Council, during a plane trip to the biannual meeting in Moscow, on 15 December, 1991. So, a substantial number of members received the questionnaires at the same time. They all completed it within 1.5 hours.

Self-administered questionnaires were filled in the researcher's presence, thus an opportunity was created for the respondents to seek clarification on points of confusion. 103 questionnaires were passed to DEİK members during the plane trip from İstanbul to Moscow. 63 business people representing different companies completed the questionnaire; 23 reported that they had insufficient experience with Soviet trade; 8 declined to answer the survey, stating company policy as an excuse; 3 of the questionnaires were incomplete; and 6 did not hand in the questionnaire.

Although the questionnaire consists of several parts, only a section of data collected are examined here. Besides the company characteristics information (industry, gross sales, exports to total sales, number of countries involved, the length of involvement, experience of contacted person), importance of various marketing activities, and use of promotional activities for the Soviet market is analyzed.

As 1991 has been an extremely dynamic year in terms of changes in USSR and these changes are reflected in the business relations with that country, the questionnaires were distributed to the respondents at the same time to guarantee that they all had the similar information at the time of the study. Otherwise, the effect of "history" (2) would leave this research with incomparable replies.

Findings

The firms in the sample came from various industries. The highest number was from the trading firms (some were FTCCs), which were represented by 22.2% in the sample. Construction sector supplied the second largest group with 17.5%. Then followed textile, and machinery groups both having an equal share of 15.9%. Food and beverage industry is represented by 11.1%, chemical industry by 7.9%, and banking sector by 6.3%. Both earthenware, and iron and steel industries had only one firm in the sample.

Relying on the ISO (İstanbul Chamber of Industry) statistics, 78.3% of the firms in our sample could have ranked among the top 500 firms (gross sales over 10 million USD), so they can be classified as "very large". Accordingly only 15% of our firms (total sales less than 5 million USD) can be in the "small-to medium" sized category. The rest, between 5-10 million USD, are classified as "large".

When the firms are evaluated in terms of their exports/foreign contracts share to total sales, it is found that 42.4% of the firms earn more than 50% of their sales revenues from abroad. Exporting/foreign contracts can be said to be important for 23.1% of the firms as 26-50% of their revenues come from this source. Finally, exporting/foreign contracts seems to have limited importance for 34.5% of the firms as less than 25% of their income is earned by these activities.

The firms are further classified according to the number of countries involved. Firms that just started to internationalize, with USSR their only foreign market, is represented by 11.7% of our sample. The second group that has business relations with two to five countries constitutes about 30% of the sample. The rest has involvement in more than six countries and they can be evaluated as actively involved international companies.

The length of Turkish firms involvement with Soviets runs parallel to the development of bilateral trade relations. There is a high percentage (46.1%) of firms whose involvement is only one to two years old. The companies that have relations for more than five years old constitute 20.6% of our sample.

The average experience of the contacted person in exporting or international business is about five years.

Marketing Activities for USSR Market

In order to understand the (export) marketing attitude of Turkish firms towards the Soviet Union, a twofold analysis is carried out. First, the importance of marketing activities in exporting to USSR is explored (Table-2), then the Turkish companies' use of these promotional activities for Soviet market is analyzed (Table-3). Finally, the Turkish findings are compared to Möller (1982) study which evaluated the marketing activities of Finnish firms directed to the USSR market (Table-4).

In Table-2, the "product" variable is measured by product quality as well as product design and package (Möller, 1982). Eventhough in the same Möller study "price" is asked in two dimensions, because of the importance of hard currency issue at the time of our survey, it is measured by three explanatory variables: Price and discounts, company credit, payment terms and conditions. "Place" is questioned in two dimensions: Delivery time, and distribution channels.

The importance attached to various marketing activities towards USSR by Turkish companies is presented in Table-2.

TABLE 2
IMPORTANCE OF THE MARKETING ACTIVITIES FOR
USSR EXPORTS

Marketing Activities	Toduk-Akiş Study(1991)		Möller Study(1982)	
	Mean(1)	Rank	Mean(2)	Rank
Payment Terms and Conditions	3.489	1	1.56*	13
Public Relations Activities, Gifts	3.348	2	2.16	8
Company Credit	3.273	3	1.56*	14
Price and Discounts	3.250	4	3.32	1
Reputation, Company Image	3.239	5	3.12	2
Sales Calls	3.159	6	2.40	7
Delivery	3.068	7	2.64	6
Product Quality	2.978	8	3.08	3
Distribution Solution	2.778	9	1.88	11
Product Design, Package	2.732	10	2.12	9
Customers' Plant Visit	2.698	11	2.96	4
Technical Service and Training	2.649	12	1.96	10
Trade Exhibitions, Symposia	2.415	13	2.92	5
Advertising	2.282	14	1.44	12

* Asked in one question

(1) calculated mean scores by using a 1-4 Likert Scale, 1 being the least important, and 4 being the most important.

(2) adjusted Möller (1982) study's Likert scale from 1-5 to 1-4 for comparison purposes.

In the Turkish study, it is very obvious that price related variables ranked highest. They are followed by public relation activities and sales calls. Advertising, and trade exhibitions and symposia were among the activities judged least important in the context of international marketing activities directed towards the USSR market by Turkish firms.

When the findings of the Turkish study are compared with those of Möller's Finnish study in Table-2, it can be seen

that in both studies advertising receives the lowest value. Surprisingly, in the Möller study, even though the "price" variable including price and discounts ranks as the highest important activity, another "price" variable consisting of credit and payment terms ranks as the second lowest variable. Möller, also finds this point noteworthy because as it is stated "credit and payment terms are usually very important when selling to the COMECON area. A possible explanation could be the rather small size of a typical order from Finland" (p.207). In the Turkish study this variable was divided into two dimensions as payment terms and conditions, and company credit, and were perceived as the first and the third most important variables in consecutive order for the marketing activities towards the USSR. This may be due to the better balance of Turkish sample than the Finnish one (ranging from small firms to big ones) in representing the general attitude.

Use of Promotional Activities in USSR Market by the Turkish Firms

The promotional mix investigated in this study (Table-3) includes the following activities (Staube, 1974): Advertising; company and factory visits for customers; exhibitions, trade fairs, symposia; public relations activities and gifts; sales calls, product demonstrations; technical service and training. Another closely related factor is company image (Möller, 1982), which is a function of both communication activities, and past and present company performance.

The utilization of promotional activities in Soviet exports was expected to be correlated with the pattern of their perceived importance. Table-3 gives the number of firms using each activity and their intensity of use.

TABLE 3
USE OF PROMOTIONAL ACTIVITIES FOR SOVIET MARKET

	n	* mean	std. dev.
Sales Calls	47	3.532	.584
Customer Visits	46	3.413	.654
Public Relations Activities, Gifts	41	3.069	.875
Trade Exhibitions and Symposia	37	2.667	.737
Technical Service and Training	22	2.200	.961
Advertising	31	2.154	.844

* When the Turkish firms usage intensity levels are weighted according to the Likert scale; "1" being not used at all, and "4" being used many times, the weighted averages are calculated for each promotional activity.

Sales calls ($x=3.53$) and customer visits ($x=3.41$) have received the highest usage levels in the Turkish sample. However, the same variables ranked the sixth and the eleventh when all the marketing activities importance levels were considered (Table-2). So, a new Table-4 is generated in order to show the comparisons of the importance of the marketing activities, with the promotional activity importance and usage levels.

In the following Table-4, promotional activities as a whole, with the exception of the "public relations activities and gifts" ranked amongst the least important marketing mix activity. Sales calls, as stated was the sixth, and the rest of the four promotion activities have received the 11th, 12th, 13th, and 14th positions.

TABLE 4
COMPARISON OF PROMOTIONAL ACTIVITIES IMPORTANCE AND USAGE LEVEL

	Marketing Importance Rank (Mean)	Promotion Usage Rank (Mean)
Public relations activities, gifts	2 (3.348)	3 (3.069)
Sales Calls	6 (3.159)	1 (3.532)
Customers' Plant Visits	11 (2.698)	2 (3.413)
Technical Service and Training	12 (2.649)	5 (2.200)
Trade Exhibitions, Symposia	13 (2.415)	4 (2.667)
Advertising	14 (2.282)	6 (2.154)

As hypothesized before, the activities perceived as most important were expected to be used more than others. Even though "public relations activities, gifts" was judged as the most important promotion activity, it was only the third utilized promotional variable. This may be due to the nonexistence/limited availability of professional public relations organizations, as well as the difficulty of identifying the right target to give gifts or build a company image. So it could not have been practiced as much as the Turkish firms would like to use.

Finally, Table-5 puts the comparison of Turkish versus Finnish firms use of promotional activities for the Soviet market. Although time periods for which the two studies are compared are quite different, Turkish firms seem to utilize the promotional activities more than Finnish firms in general. In the particular cases there is not much difference in the ranks of promotional activities; sales calls, customer visits, trade exhibitions, and public relations activities occupy the first four ranks in either case.

TABLE 5
USE OF PROMOTIONAL ACTIVITIES FOR SOVIET MARKET: A COMPARISON

Promotional Activities	Toduk Akiş Study % of firms using the activity	Möller Study
Sales Calls	100	88
Customer Visits	100	82
Public Relations Activities, Gifts	95	75
Technical Service and Training	73	49
Trade Exhibitions and Symposia	95	86
Advertising	79	29

Discussion and Implications

Before the decentralization of imports in the USSR, the structure of the bureaucracy used to act as a barrier to entry and ultimately reduced the marketing costs. Demand for goods was so high and supply so short that advertising budgets on the large Western scale virtually did not exist for Soviet firms or foreign firms active in the USSR market. Nor there was the severe competition we find in open markets. So market shares could remain secure with very little additional investment. Besides, because very few officials could purchase essentially all of one product for the nation, there was no need for an expensive sales force or distribution system. This led to the minimization of the marketing activity as a whole until 1992.

Eventhough there has been some empirical research on the export behaviour of Turkish firms, this study is the first one demonstrating this behaviour towards a unique-area: former-USSR. The importance of this area for the Turkish companies has increased with the beginning of a special countertrade practice since 1987, that is the natural gas deal between the two countries. The disintegration of the ex-USSR Republics offer some opportunistic business markets for the Turkish companies which also necessitates well planned international marketing strategy along with effective use of marketing tools.

The present paper analyzed the importance and use of several marketing tools by the sampled Turkish companies in the former-USSR market. It is seen that the adverse market conditions as well as the unconventional trade channels do not allow the systematic use of effective marketing tools in the area yet. This may make it necessary for the business community to form the required functional units within the former-USSR so that the tools could be used when needed.

Turkish government and its agencies may also act as market developers -i.e. to form its own trade banks, barter houses, contact offices, and public relations units - to support the Turkish exporters. This action has to be taken as soon as possible, so that Turkish companies could have their first-comer advantage over the others. The only way to sustain this advantage over a longer period is to rely on an organized marketing effort in the former-USSR Republics.

Notes

1 In order to be eligible for FTC status, the company should have paid capital of 5 billion TL, and export volume of 100 million USD; according to Decree promulgated in Official Gazette dated 18 January,1992.

2 Churchill (1991) definition "History refers to the specific events, external to the research (experiment) but occurring at the same time, that may affect the criterion or response variable" (p.182).

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**INTERNATIONALISATION OF THE EUROFOOD RETAIL SECTOR WITH
SPECIAL REFERENCE TO FOREIGN MARKET ENTRY MODES**

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Abstract:

Foreign expansion is gradually becoming an important option for further corporate growth in the Eurofood retail industry. The objective of this paper is to find out whether there is a correlation between the entry modes chosen by the Eurofood retail firms entering foreign markets and the macro-environmental factors of the host country markets. It concludes that; similarities or dissimilarities between macro-environmental factors of home and host markets will effect the choice of foreign market entry modes and more similarity leads more foreign market involvements by the Eurofood retailers.

Introduction

Internationalisation has been defined as "a process in which the enterprise gradually increases its international involvement" Johanson (1990), Jannet (1988), Root (1987) and Buzzel (1988) gave a range of reasons why organisations may start foreign operations. Some of these motives are:

1. The domestic market has become mature and hence, there is lack of further growth opportunities in the domestic market.
2. Foreign markets are growing faster than the home market.
3. Getting additional volume and achieving economies of scale.
4. Purely defensive reasons (foreign competitors are entering the home market). In general, there are three modes for foreign expansion distinguished namely exporting, contractual modes (licensing, franchising) and direct investment methods (joint venture, equity participation, acquisition and start from scratch or greenfield investment). Exporting implies that the product is manufactured outside the target country and afterwards transported to it. According to Young (1989), "exporting is generally recognised as being the least-risk method of internationalisation and, as such, normally represents the "toe in the water" in international business. Contractual modes are "long term non-equity association between an international company and an entity in a foreign target country that involve the transfer of technology of human skills from the

former to the latter" (Root 1987). A direct investment is the method with an investor in one country moving capital to another for the purpose of participating in ownership or management of business activities" (Matsuura 1991). Joint ventures, starting from scratch/greenfield investments and acquisitions are examples of a direct investment. Which method is the best for a firm considering foreign expansion, depends on many factors. Several authors like Vernon, Horst, Hirsh and Aliber (in Young 1989, p.30) and Rugman (1985) focused on the rational approach; they compared the costs of each method and suggested that the cheapest method should be chosen. The Uppsala model of international expansion highlights the role of behavioural factors in the process of choosing a particular entry mode (Johanson 1990). It is suggested that the more a decision maker knows about a foreign market, the more confident he/she will feel. Hence, firms will start with exporting their product. After a while, contractual methods will be applied. When businesses are going well, the final stage is that companies are presumed to apply direct investments (Johanson and Vahlne 1977, Erramilli 1990). Erramilli (1991) further suggested that the major determinant of selection is the similarity between the host and the home market. Hence, the choice of entry mode is a function of cultural characteristics, firm variables and industry variables. Empirical research proved the importance of cultural factors in the choice of entry mode. Cultural factors are seen as very important in the case of entering foreign markets by means of an acquisition due to "the difficulty of integrating an already existing foreign management" (Kogut and Singh 1988).

A SURVEY OF FOREIGN EXPANSION OF THE EUROFOOD RETAIL

In this study, Euromarket has been seen as the European Community (EC) countries only (Dalgic 1992). Hence, the efforts for cross border expansion of food retailers from these countries were regarded. It appeared that the

structure of the food retail sector for each EC country is varying; from monopolistic competition-many suppliers, limited ability to affect the prices individually and with no entry barriers-in the Southern area to oligopolistic-a few number of suppliers, able to set prices-in the North.

THE RESEARCH METHODOLOGY

In order to see whether Erramilli's (1991) findings are valid for the Eurofood markets, a mail survey was conducted among 20 European food retailers who have engaged in international operations. This number was obtained from Food Magazine International and verified with the list of Euromonitor (European Food Retailing to 1995) and Prodis (Vademecum van de Levensmiddelen Distributie 1992) in terms of their international characteristics. It was decided to conduct a full survey rather than applying a sampling method for only 20 companies. It may be claimed that they may represent the Eurofood retailers in the industry which have international involvements. Chief Executive Officers of each firm were sent a questionnaire. This was consisted of two groups of questions;

- 1- company-specific with general questions about the organisations and;
- 2- country-specific with questions about their foreign expansion for each country. Finally, 9 firms returned completed questionnaires in usable forms, making the response rate 50 percent. These 9 replies were accompanied with 18 completed country-specific questionnaires. 5 other firms either gave short information by telephone or sent some general information about their foreign involvements. Only 4 organisations remained refusing to co-operate. However, informative data was found for the foreign activities of these companies from the literature.

Survey Results:

Starting from scratch is the most favourite type of foreign entrance mode for Eurofood retailers subject to our survey. Apparently, direct investment methods are most popular in the process of international expansion of the Eurofood retail industry. Franchising as the only pure contractual method, is only applied in a relatively few cases.

According the factors influencing the choice of the initial foreign market entry mode, the overall scores of the 8 firms which answered this question for their joint 18 home country-host country relations, were as presented in on a five-point Osgood Scale. According the scores given, the costs of the several entry modes which can be chosen is generally considered as the most important factor by the 9 respondents. In conclusion, it can be said that the findings of this survey supports the findings of Erramilli (1991) for the Eurofood retailers covered in this study. When Western European food retailers are seeking cross border expansion of their corporation, the choice of

entry mode depends on the similarities and dissimilarities between the home and the host country macro-environmental factors. Foreign expansion can be an attractive option to sustain corporate growth in the food retail sector in Europe.

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A comprehensive list may be obtained from the authors.

SELECTING INTERNATIONAL FREIGHT FORWARDERS:
AN EXPERT SYSTEMS APPLICATION

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Abstract

The environment of international freight forwarding has witnessed drastic changes in recent years. Three sources of change can be identified in this environment: (1) the changing nature and needs of companies involved in exporting; (2) the diverse and increasingly comprehensive set of services provided by international freight forwarders (IFFs); and (3) a rapidly changing set of environmental background factors that are affecting the nature and the scope of the forwarding business.

Against this background, "new forms" of forwarders incorporating a broad spectrum of services under one roof are emerging. In an effort to increase their potential contributions to the value chains of their customers, many IFFs are becoming one-stop comprehensive service providers. Such total logistics companies are becoming a critical third party in obtaining a competitive advantage in foreign markets. Hence, the selection of an IFF is no longer a simple operational decision but a "strategic" one.

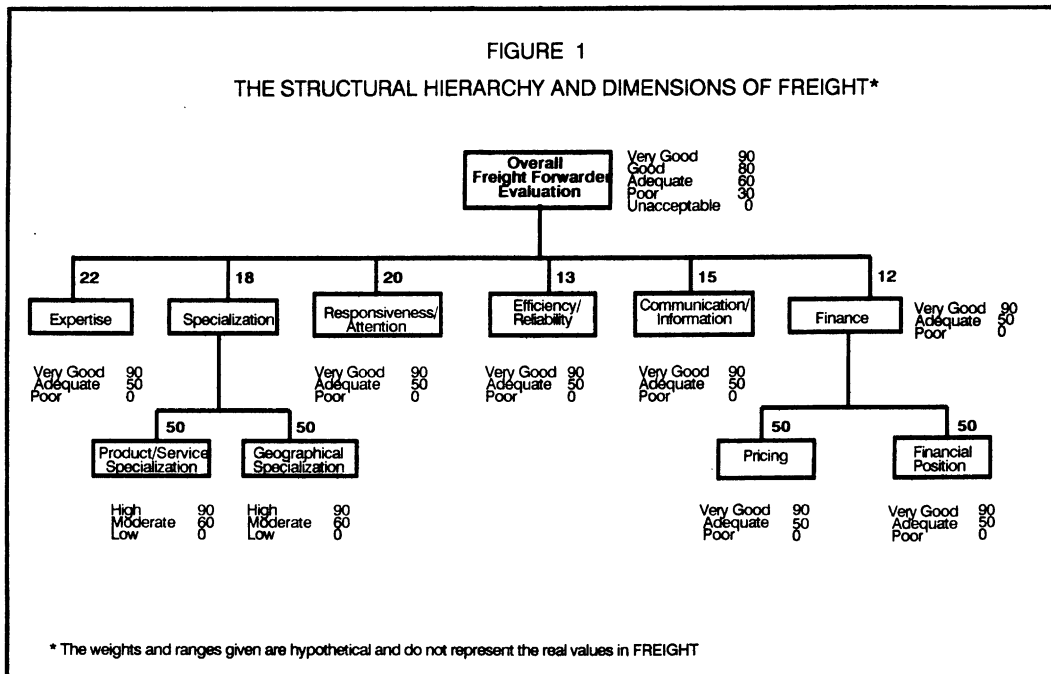
This paper presents an expert systems tool to assist decision makers in selecting the freight forwarder that fits their needs best. The system, called FREIGHT brings together international marketing, logistics, and artificial intelligence knowledge. In order to facilitate understanding of the tool, a sample consultation session with FREIGHT is also presented.

Structure of the FREIGHT Expert System

FREIGHT was developed as a response to the deficiency of expert knowledge and the complexity and specificity of the IFF selection problem. FREIGHT is based on a hierarchical weighted model. The hierarchy is defined in terms of abstracted freight forwarder features called dimensions. Dimensions serve as the baseline for evaluating a potential IFF.

Dimensions are related to each other in a parent-child relationship producing a tree-structured hierarchy. Incorporating both expert knowledge and published research findings (See Ozsomer et al. 1993 for a discussion of the development and validation process) six parent dimensions are identified: (1) Expertise; (2) Specialization; (3) Responsiveness & Attention; (4) Efficiency & Reliability; (5) Communication & Information; and (6) Finance. The structural hierarchy and the dimensions of FREIGHT are presented in Figure 1.

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GLOBAL MARKETING OPPORTUNITIES IN SERVICES
FOR THIRD WORLD BUSINESS

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Abstract

Services sectors of various economies in the world are fast expanding. Concurrently the world trade in services is growing at a faster rate than in manufactured products and commodities. This process is facilitated by several global developments which are progressively removing the barriers for global trade in services. This paper identifies the emerging trade opportunities in global trade in services especially for third world businesses. It also provides some strategic guidelines dealing with the supply and demand sides of services marketing.

Although global trade in services is fast expanding and has significant implications for socio-economic development of all countries, in recent it is shrouded in controversy, conflict and North-South confrontation. However, these larger global services policies issues and the resulting North-South confrontations are beyond the scope of this paper. The major objective of this paper is to point out the emerging global environment and opportunities for international trade in services, especially for developing countries and provide some strategic guidelines for realizing such opportunities through effective international marketing of services.

Introduction

One of the significant developments in recent years world over is the growing recognition of the importance of the services sectors in the national economies of the various countries. As many of the developed countries phase into post-industrial stage of development, services sectors are emerging as the dominant parts of their respective economies. This trend of growing importance of services can generally be observed not only with regard to developed countries but also in the case of many developing countries. According to one author: "Services are an increasingly important component of the economy of most countries in the world to-day. In the industrial nations, for example, an average of about 60 percent of gross domestic product comes from services. In middle income countries the average is about 50 percent, while in low-income countries almost one third of GDP can be attributed to services" (Dahringer and Muhlbacker, 1991). Concurrently international trade in services is gaining momentum in recent years. New information and communication technologies are accelerating the growth in international trade in services. While total international trade in services variously estimated to be between 20 to 30 percent of the total world trade, it is expected to grow at the rate of about 20 percent.

Because of the new technologies the scope of tradeable services is expanding greatly in recent years. These new technologies are also changing the competitiveness of various countries. Thus, for example, the recent growth in shifting a number of back-office clerical tasks from developed countries to more competitive semi-developed or developing countries facilitated by satellite transmission is a case in point of such fast changing competitive scenarios in the international trade in services. Table 1 provides an overview of some of the major players in global services trade.

Insert Table 1
World Services Trade
Here

Emerging Global Environment
For International Trade In Services

In November, 1982 at GATT ministerial meeting, U.S. and some other developed countries made proposals for the establishment of a working paper on services. Since then the developed countries argued to bring the international trade in services within the framework of GATT agreements. However, objections were raised by developing countries lead by Brazil and India which have generally been opposed to the establishment of multilateral framework for negotiating the international trade in services. There is extensive literature dealing with this North-South conflict and confrontation in the area of international trade in services. There is extensive literature dealing with this North-South conflict and confrontation in the area of international trade in services. In spite of such North-South conflicts and confrontations, the nations of the world—both developed and developing—are progressively embracing liberal international trade postures both in goods and services. It is increasingly being recognized that liberalization of trade in services is not a zero-sum game. There are gains not only for countries which expand their exports (for example countries in the case of services) but also for those which will increase their imports (for example developing countries in the case of services). It is increasingly recognized by many countries, including countries that freer trade in services can accrue many developmental benefits. It can provide inexpensive inputs, infrastructures and technology transfers as well as international trade development. Such development implications are likely to provide more access for international trade in services in many developing countries in future. Simultaneously, tradeability of many services facilitated by the new information and communication technologies is opening up many export opportunities in services to the developing countries. In many labor intensive tradeable services the comparative advantage is inexorably shifting in favor of developing countries, especially those endowed with technically trained manpower. These emerging trends in international trade in services clearly demonstrate that comparative advantage in services trade is of

itself dynamic not static. Also, these trends demonstrate that liberalization of trade in services, as stated earlier, is not a zero-sum game but benefits accrue to both developed and developing countries. As Professor Jagdish Bhagwati contends that "factor endowments make labor cheaper in the poor countries and that this makes services cheaper in turn since they are labor intensive" (Jagdish Bhagwati, 1987). There is growing evidence in recent years which indicate that the comparative advantage for trading in services is shifting from developed to developing countries (Quinn and Ganon, 1986, Chipello, 1988, Wysocki, 1991).

Global Opportunities In Tradeable Services

Global opportunities in services trade are fast emerging as result of many contemporary developments in global business environment. Some of the recent developments which are likely to give greater push to global trade including trade in services include:

- 1) disintegration of former USSR into twelve independent states
- 2) the approaching greater integration of the European Econommunity by 1992
- 3) The U.S.-Canada free trade agreement
- 4) the emerging North American Free Trade including Mexico
- 5) privatization processes initiated in the East European countries
- 6) the unification of west and east Germanys
- 7) the growing flow Japanese investment and technology in Pacific rim countries resulting in accelerated economic growth
- 8) continued buoyancy of the four East Asian NIC (Newly Industrialized Country) nations
- 9) the fast improving Sino-West relations in the post-Tiananmen Square era
- 10) the social reforms in South Africa
- 11) the liberalized trade and investment policies in India and
- 12) the general spread of the concepts of trade liberalization and privatization in rest of the world.

These global macro developments underscore economic self interest rather than political idealism and economic cooperation rather than military and political confrontations. In pursuit of economic interests the walls of trade and investment restrictions are being torn down, creating an international business environment which has been referred to by *Fortune* magazine (McNulty, 1990) as "the era of possibilities".

As barriers to trade and investments are being removed, it would be possible of all services organizations including those in the developing countries to expand their businesses across national boundaries. With the removal of particularly investment restrictions, service firms in developing countries would find it easier to make quality investments which are often necessary to do business abroad. Services, according to the United Nations estimates, already are a large portion (about 50 percent) of all foreign direct investment especially in advanced countries. With the elimination of barriers, the amount of foreign direct investment for services in all nations will grow even more. In this era of economic cooperation

as pointed out by Stewart (1990), worldwide services represent the best prospects for sales and profits for all services firms both in developed and developing countries. Especially for those developing countries with potential to provide various types of business and technical services at competitive prices, for example India, the prospects for increasing international trade in services look bright under the emerging conditions of world-wide trade and investment liberalization.

Within this cooperative business climate, new and advancing technologies create tremendous opportunities for international trade in services. Many countries in Asia, Africa, Latin America, Eastern Europe and elsewhere desperately need technology and technical assistance rom outside to improve their economic standards. Consequently, there is a strong demand for such services as data processing, programming, management saltation, equipment maintenance and repair, education, management training and development and, industrial planning. Services related to information and communication technologies especially are in big demand worldwide.

Another factor that has improved the prospects for services is the rise in incomes and savings in many parts of the world. Japan, Korea, Taiwan, Singapore, Hong Kong, the United Kingdom, Germany and others have experienced an unusual economic growth over the past few years. As a result, demand for a number of services including financial services, health care, travel, personal care, insurance, lodging, recreation, and entertainment has spurred. Rapidly growing consumer demand in many countries offers significant growth opportunities for various consumer service industries as well.

The growth in incomes and savings seems to have affected tourism in an important way, providing global opportunities is such projects as airport development, hotel construction, hotel franchising, hotel management, car rentals, catering, travel and excursion planning and transportation. Foreign travel by business representatives has recently increased so fast that it has forced many nations to expand their travel facilities very quickly. Most developed and developing nations are anxious to develop tourism business and many offer a variety of incentive programs to encourage foreign investments.

For other types of business infrastructure services there are better prospects abroad, too. In developing countries, direct mail and telephone marketing are new concepts with a great potential for growth. Maid services, mail processing, accounting, collection, tax preparation, message taking and temporary help are among the number of services which are expected to grow world wide during the 1990s.

As a result of unprecedented global developments over the past few years, overseas opportunities exist in both consumer and industrial service markets. Foreign governments also represent viable markets for service providers. Certain world markets with potentials for services are summarized in Table 2.

Insert Table 2
Global Prospects In Services-Selected Markets
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Strategic Guidelines

In order to take advantage of the available foreign opportunities, small service businesses will have to design strategic programs that would enhance customer satisfaction and overcome some of the challenges of such unique service features as perishability, inseparability, intangibility and quality variability.

Supply Side

Unique service features pose serious problems on the supply side. Because services have to be produced when and where they are needed, customer satisfaction depends considerably on the quality of service providers. As the market for services expands, so does the need for capable service providers. There lies a challenge of matching supply with demand. In this context, if the services businesses in the developing countries have to take advantage of the emerging service trade opportunities world-wide, they have to recognize the rigorous quality and on-time performance standards demanded all over the world in today's highly competitive global markets.

To service customers efficiently and effectively in the demanding overseas markets a service firm needs people who not only could produce services but also market services through personal characteristics that extend beyond their technical competence. Such effective marketing competence may be especially required on the part of the services businesses in developing countries, where they often lack marketing sophistication compared to counterparts in developed countries. Developing countries, which may have services export or overseas services production potential at competitive prices, have an obvious shortage of such people. There is obviously shortage of such people, especially in developing countries which may have the services export or overseas services production potential at competitive prices. Most services organizations are faced with the problems of recruiting and retaining individuals who are both technically and culturally qualified to engage effectively in international business. These problems may prove to be serious obstacles especially to the developing countries' businesses aspiring to expand their services operations in overseas markets.

Many service organizations could alleviate this personnel problem by providing training in cultural and/or technical areas. Financial incentives and conducive work environment are necessary and should be provided in order to minimize recruiting and retention difficulties. Perhaps, in the developing countries context, these problems may be less onerous as most of the foreign assignments, with few exceptions are looked upon more favorably by the employees than in the developed countries. Once the staffing problem is overcome, customer satisfaction-and, thus, customer retention-is rather easy to achieve.

There are examples of service organizations which have tried to solve their personnel shortage problems by bringing foreign customers to the seller's home country or by going to the customer overseas in regard to the latter, many Indian computer software supply companies send their staffs abroad for short durations on specific service supply assignments. Border crossing strategies are effective, but they still impose serious physical and legal limitations, hindering expansionary efforts. To overcome some of these limitations, strategies such as foreign licensing, joint-venture, or wholly-owned subsidiaries may be used. These foreign affiliation or collaboration strategies may involve a variety of ownership and control features each one having its individual advantages and weaknesses in terms of organizational objectives and customer satisfaction.

The affiliation approaches result in multi-site locations with multi-providers of services. As the number of service locations and service providers increases, services become less uniform and less consistent creating variability in quality. Thus, as a service firm expands beyond a single location to multiple locations abroad, it is faced with a challenge of achieving uniformity in its service quality from one site to another. Consistency in quality is important for efficiency and effective marketing purposes. If the quality is relative inconsistent from one customer to another, from one point in time to another, or from one site to another, it can lead to customer dissatisfaction making marketing promotions and customer retention difficult.

One way to accomplish uniformity is through specialization of service providers by customers, components of a specific service, or tasks. With specialization comes standardization which is good for organizational efficiency and customer satisfaction. The principles or concepts of product standardization are applicable to services although there may be some difficulties in applying them. Division of work and intensive training are important.

Another approach to uniformity is to make services largely product based rather than based on human performance. Since human performance varies depending on psychological and physical characteristics, it may be better to involve people in delivering services as little as absolutely necessary so that the problem of variability in quality are minimized. Automation and standardization strategies may minimize the competitive advantage of the service firms from developing countries whose competitive advantage is derived from the less expensive technically trained manpower to render various technical and business services. Firms in developing countries may face greater opposition to automation resulting in the elimination of people and hence, the jobs. On the other hand, customers in many cultures may prefer a personal touch and the human element over convenience, product quality, price or speed. Each overseas services marketing opportunity needs to be carefully analyzed in depth and detail so that appropriate supply strategies are developed.

Demand Side

To overcome some of these supply side problems, a service organization can affect the demand side. When supply factors are inadequate to service the customer satisfactorily, it is possible for the service organization to train the customer so that he can fulfill his own service needs. For instance: training industrial customer in the areas of equipment maintenance and repair can significantly reduce the demand for such services, thus enabling the customer to save and money while at the same time reducing staffing problems of the service marketing organization. Shifting the focus from servicing foreign customers to training them is an effective entry or expansion strategy, particularly for the smaller organizations with limited service capabilities.

Training may be an only alternative to servicing the foreign customer who is reluctant or unwilling to try out an unknown, service company from a developing country. Because services are intangible and heterogeneous, their benefits cannot be observed, experienced, or anticipated until they are simultaneously produced and consumed. Consequently, the customer tends to perceive a higher risk with services than with tangible products. This customer perception forces him to be predisposed with dissatisfaction rather than satisfaction resulting from the purchase services. This problem is common at the entry level especially for firms from the developing foreign countries that lack international reputation for quality. The foreign customer may be anxious to learn but if not, the service organization will have to find some other ways to overcome the customer's preoccupation with dissatisfaction. These processes of customer behavior may be particularly intense in among firms from developing countries attempting to marketing their services to overseas markets. Financial incentives or guarantees may encourage the customer to try out initially.

Customer training obviously could serve many useful purposes. If the customer is adequately trained, he is able to assist significantly in the production of services since the ability of the service provider to deliver depends largely on the client's ability to clearly identify his needs and desires. Furthermore, customer training or dedication is vital in creating realistic client expectations. Unrealistic expectations lead to greater dissatisfaction. Educational seminars, brochures, study manuals and other teaching materials should result in active customer involvement, participation in the marketing and production process, and lead to satisfaction.

Conclusion

In conclusion, all business services firms from developing countries could design effective international strategies to take advantage of the expanding opportunities in global trade in services. Firms from developing countries, especially those in countries with good supply of technical manpower—just like the big service multinational firms from developed countries—are capable of satisfying their customers in foreign markets. There are numerous examples of many firms

from developing countries like India which are achieving overseas market success in services trade. There is no doubt that limited capital, experience and image problems could create strategic problems for these firms. However, these firms have certain strategic advantages in the form of cost competitiveness and an ability to quickly adapt and respond to needs of the overseas customers, which can potentially give them a differential advantage in the overseas markets. It is apparent that in order to grow and succeed the service firms in developing countries will have to broaden their outlook and be prepared to compete internationally.

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Tables available from authors upon request.

MARKET ORIENTATION REVISITED- A EUROPEAN VIEW

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Abstract:

This paper is an early attempt to explain the basic macro and micro-environmental reasons why European companies have started to apply market orientation later than their North American counterparts. It commences with the explanation of the important aspects and foundations of market orientation within a historical framework and tries to evaluate and integrate separate studies from a European perspective to propose a construct of market orientation.

Market orientation: an introduction

The terminologies; consumer orientation, marketing orientation, marketing approach, market orientation, The Marketing Concept and customer orientation have been used to explain the same or similar phenomena both by marketing academics and practitioners over the last three to four decades.

According to McCarthy and Perrault (1990) marketing orientation deals with "carrying out the Marketing Concept" which implies its application and implementation. Kohli and Jaworski (1990) accept market orientation and marketing orientation as identical. Some other authors use consumer orientation and market orientation interchangeably (Parkinson 1991). Several authors have different views on the nature and characteristics of these concepts and the terminologies used to explain them. While Felton (1959) labelled the marketing concept as "a Corporate State of Mind", other authors have labelled it as; "a Business Philosophy", as "an Ideal", as a "Policy Statement" as a "Faith" as a "Managerial Prescription/Philosophy" as a "set of processes touching on all aspects of the company" and as a " Guiding Philosophy". (Barksdale and Darden 1971, McNamara 1972, Wentz 1979, Houston 1986, Shapiro 1988, Parkinson 1991).

All of these labels refer to a concept, a belief or a value system which are generally reflected in the mission statements of companies. The same observation has been made by Kohli and Jaworski (1990). Narver and Slater (1990) agreed on these diagnosis and reached similar conclusions.

This leads us to the conclusion that one of the most important concepts of several North American and European marketing textbooks, may not have been understood properly by business practitioners as well as academics. It also lacks a generally accepted methodology for its application and measurement.

Macro-environmental variables and enabling conditions for market orientation: an external analysis approach

An extensive literature review on the history of market orientation and its applications (Bartels 1962, Berkowitz, Kerin and Rudelius 1989) has revealed that consumer orientation was a natural progression from the selling practice towards the understanding of the consumers, their problems and needs and working towards a solution and satisfaction of those needs. This idea had in a way progressed through stages parallel to the developments in the US economic history; from the Production Era to the Marketing Era through to the Sales Era, each containing their own orientation for business activities. Most authors who have published share this evolutionary stages approach for marketing management. Among them; Pride and Ferrell (1989), Berkowitz, Kerin and Rudelius (1989), Kotler (1990), McCarthy and Perrault (1990). Seglin (1990) concludes;

"Only when a society reaches the stage of having satisfied its production and sales needs does it pass on into a marketing oriented

phase. When a society is in the early stages of industrialization, business forces focus on providing products that fill the basic needs of the members of that society".

This view may be related to Maslow's (1970) hierarchy of needs theory which covers five stages of human needs in which each level must be satisfied before people will try to accomplish the following higher level needs. Taking this concept into account, we may draw a parallel between the satisfaction levels of consumer needs and the stages of economic development.

Micro-environmental variables and organisational disabling conditions for market orientation: an internal analysis

While some authors approached market orientation from a macro-environmental point of view by comparing the stages of economic development and competition to reach some sort of construct enabling macro-environmental variables; others tried to understand the organisational and managerial reasons and conditions which are playing a role in preventing or impeding the companies to become market oriented.

They tried to analyze disabling conditions for market orientation. Except for a few European researchers, a great majority of these authors were mainly North American. Their starting point was the acceptance of the existence of a high level of economic development and competitive market conditions. Those authors who studied the internal factors and conditions were; Souder (1980), Shanklin and Ryans (1984), Ruekert and Walker (1987) and Shapiro (1988) and Masiello (1988). Lichenthal and Wilson(1992) presented a comprehensive review on these studies. A European author Payne (1988) developed a plan to improve an organisation's marketing orientation by using Kotler's (1977) and other marketing audit rating schemes.

Another European author, Piercy (1991), approaches the micro-environmental variables of market orientation as an issue of context but not as an issue of content and supports the view of market-led strategic changes.

What happened in Europe?

In the European economy, as opposed to the developments which took place in the single U.S. economy, several national economies have had exhibited a different pattern of economic development; from a very early industrialisation level to a mass production situation. In general there were Eurowide problems hampering the developments to create suitable macro-economic environmental conditions to enable the companies to become market oriented. These problems were the following:

- Two World wars took place in Europe,
- Delay of Market Integration,
- Heavy Regulations,
- Fragmentation of national markets,
- Domestic economy and protectionist tendencies,
- Public Sector involvement,
- Language, business traditions and cultural differences as well as nationalistic and regional diversities,
- Marketing had been seen as a sub-economic activity,
- Marketing was not treated as a separate subject of study.

Market Orientation Constructs: A comprehensive internal analysis approach

Although as a guiding philosophy, the marketing concept and its implementation, market orientation; was adopted earlier in the US than in the European countries.

Although there are only a few research-based studies in this field from the USA.

Despite the limited number of empirical research-based studies in the market orientation field; two recently published research papers which were carried out by different researchers have reached almost similar conclusions in the definition and construct of this concept. A careful analysis of two recent US studies; Kohli and Jaworski (1990) and Narver and Slater (1990) will reveal the following three core themes and fourth and fifth dimensions that underline the application of market orientation;

- 1- **Market Information/environmental information,**
- 2- **Dissemination of this information within the organisation,**
- 3- **Responding to this information,**
- 4- **Long-Range, strategic focus,**
- 5- **Profit motivation.**

A European Dimension: Interaction Focus

The constructs of market orientation may be further expanded within a European context by taking into account the North European (Nordic School) model; which views marketing as; "a market-oriented management rather than a separate function" of business (Gronroos 1989) and is based on Customer Relations and Interaction Process (Hakansson 1982, Calonius 1986, Gummesson 1987). An enlarged integrated market orientation including a interaction focus to apply to European thinking may be proposed in the following manner:

1-Extroversion- being open to the environment meaning, continuous information gathering from the environment which covers; customers, competitors, suppliers, shareholders, political, economical, social and technological developments,

2-Holism- dissemination of this information within the organisation, trying to understand what it means and its implications for the organisation as a whole. This means, identifying the target customers and understanding their needs, and communicating with the employees, channel members and suppliers,

3-Responsiveness- responding to the needs of customers as a total organisation through a coordinated value creation activity for the customer, with an organisation-wide effort,

4-Long-Term Focus- having a longer view about the customers, their future needs and other environmental factors as well as renewal of company assets, R&D activities and production. Focusing from a strategic point of view, bearing in mind the fact that

optimization may be best served for the benefit of the organisation on the long run, rather than instant profit maximization. Establishing a long-term understanding with the social environment and acting in a socially responsible manner,

5-Profitability Focus- creating profit for the organisation. Here profit is not only a result but also a starting point when attempting to satisfy the customers' needs,

6-Interaction Focus- establishing relationships with the customers, involving employees, channel members and suppliers by taking into account the developments of the macro-environmental variables. This construct supports the European tradition of interaction and requires developing internal marketing plans to match the external marketing plans, and the application of total quality principles.

Directions for Further Research

If planned and applied properly, this integrated market orientation approach may give marketing a dominant role in the management of the business rather than just a function of it. The whole business operations and activities are centred around the market; the customer, and marketing management may become a market oriented, market driven, market led management.

Of course implanting market orientation into an existing organisation and starting a new company based on market orientation may require different managerial and organisational approaches and activities. When implanting a market orientation in an existing organisation, one should at first instance look at the macro-environmental variables after which it can proceed with changing the organisational culture, structures and systems to turn the company into a learning organisation.

Starting a market oriented business may require a different approach; building an organisational culture around the customer; a further analysis of needs, changing production

and delivery of products and measuring the satisfaction of the customers.

All these issues need to be investigated further, perhaps with an eye on the macro-economical variables, to utilize the experiences of the developed market economies.

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A comprehensive list of references may be provided by the authors.

**EXPORTS IN THE GLOBALIZATION STRATEGIES
OF KOREAN, JAPANESE AND U.S. FIRMS
- AN INTERACTIVE ANALYSIS**

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Abstract

The successes of their export sectors have been key to the economic recoveries of both Japan and Korea through the 1970's. During the 1980's, exportation became fundamental in the establishment of their largest firms as major multinational corporations. At the beginning of the 1990's U.S. trade officials point to America's export sector as the outstanding performer in a generally weak economy. This study conducts mail questionnaire surveys of senior executives of the largest Korean, Japanese, and U.S. corporations to gain insights into the evolution of the international competitive strategies of their corporations. The paper uses quantitative analysis to improve understanding of how firms continuously adjust their marketing strategies in response to their interactions in export markets in an increasingly global market place.

Introduction

Throughout the decades of the 1970's and the 1980's Korean firms have grown rapidly from domestic firms to multinational corporations. During this period Korean firms pursued export orient growth strategies based on the low cost of labor. Currently, large business groups are progressing toward the global corporation format. Through this transition, they are facing new trends in the business environment such as, competition based upon technological superiority, requirements for advanced marketing skills, R&D investments, increasing costs of domestic labor, protectionism, localization, and expanding global competition. Because of these trends, Korean firms are transforming their strategies from one of export growth to one of global localization. Moreover, the importance of Korean firms is increasing significantly in global industries. In 1990 more than ten Korean firms were ranked in the list of the "Fortune Global 500" corporations.

Research studies on the issues of the global competitiveness and exporting strategies for Asian developing countries including Korea are becoming available. L. H. Wortzel and H. V. Wortzel [1981] investigated export marketing strategies of NICs' firms. Their focus was on three major industries: consumer electronics, athletic footwear, and clothing. L. H. Wortzel and H. V. Wortzel [1988], also followed multinational enterprises from developing countries (MEDECs), and identified significant weaknesses in these MEDECs for global businesses. Saghafi and Davidson [1989] studied the global competition of NICs by researching the development of the semiconductor industry. They found that in some NICs like Taiwan and Korea, global business philosophies were not the same as those of other developed countries. Research regarding foreign investments of NICs was done by Fong & Komaran [1985] and Kumar & Kim [1984]. Levy [1988] analyzed the strategic difference between Korean and Taiwanese firms by studying three key industries: footwear, computer keyboards and personal computers. Chao [1989] studied the impact of the reverse investments by NICs in the U.S. The results emphasized the importance of manufacturing electronic products in the U.S. market to improve consumer evaluation. Dymysza [1984] revealed the recent rise of Third World MNCs.

Khanna [1986] implemented an empirical study about Asian companies' stereotypical images of their country-of-origin, which has significant implications for the multinational corporations of developing countries. Magaziner and Patinkin [1989] studied Samsung's success in the microwave product war and showed how Samsung achieved competitiveness in the microwave products market. Rhee, Larson and Pursell [1984] studied the competitiveness of Korean firms in overseas exporting by surveying 150 Korean export firms. Korean firm's strategies in general were analyzed by Kang [1989], Steers, Shin, & Ungson [1989], Amsden [1989], and Porter [1990].

In order to gain some further insight into global marketing competitiveness this paper examines three hypotheses.

Hypotheses

Hypothesis 1:

There are significant differences among U.S., Japanese, and Korean firms in terms of the factors needed to achieve increased global competitiveness.

Hypothesis 2:

There are significant differences among U.S., Japanese, and Korean firms in terms of problems faced during globalization.

Hypothesis 3:

There are significant differences among U.S., Japanese, and Korean firms in terms of the corporate strategy of focusing on the global perspective.

Research Methodology

Sample

To acquire data on global competitiveness, this study used the survey method. The samples were chosen from three different countries; U.S., Japan, and Korea, since the purpose of the study was to compare the global marketing competitiveness among the firms of the three countries. The size of the corporate population in each country was as follows: Four hundred fifty U.S. manufacturing firms were selected from the list of the Fortune 500 largest U.S. industrial corporations in 1991. Five hundred Japanese manufacturing firms were chosen from the Japan Company Handbook 1991. Six hundred Korean manufacturing firms were selected from the National Corporation Almanac 1991, the Chun Kuk Kiyeopche Chongkam 1991. The survey was conducted for U.S., Japanese, and Korean firms. A total of 450 U.S. firms were surveyed; 54 usable questionnaires were returned for a response rate of 12.0%. Seventy five questionnaires out of a total of 500 Japanese firms were returned for a response rate of 14%. The response rate for Korean firms was 20% which represented 120 out of a total of 600 Korean firms.

Statistical Method

This study used several statistical methods including One Way Analysis of Variance (ANOVA), Scheffe contrasts, and T-test. One Way ANOVA was conducted to examine the impact of countries on each of the issues. Scheffe contrasts were used to find significant differences between pairs of countries for each of the variables. T-tests were to show whether pairs of countries are different from or similar to one another.

Questions to be Answered

Three issues were addressed in a questionnaire regarding corporate globalization and competitiveness.

1. In order to increase global competitiveness in the overseas market, which factors do you emphasize?
2. Are the following problems very important when you want to develop global firms in your country?
3. Rank on a scale of one to five the importance of global perspectives in your corporate strategy.

Survey Results

Results of Hypothesis 1

In **Table 1** ten variables are analyzed. In three of the ten issues, significant differences are not exhibited in the corporate emphases of the U.S., Japan, and Korea. On the other hand, ANOVA results indicate that significant differences ($p < .05$) exist in the following seven issues: overseas manufacturing platforms, overseas distribution channel platforms, overseas sales platforms, investments in high-technology, human resources management, global alliances, and international financing (**Table 1**). The test results supported the hypothesis.

U.S. vs. Korean Differences

Korean firms are more likely than U.S. firms to emphasize the issues of investment for high technology and international financing. Conversely, Korean firms are less likely than U.S. companies to emphasize issues which include overseas distribution channel platforms and global alliances.

Japanese vs. Korean Differences

Four issues show significant differences ($p < .05$) between Japanese and Korean firms in respect to corporate emphasis to increase global competitiveness in overseas markets. For all four issues, Japanese firms are more likely than their Korean counterparts to emphasize global competitiveness. The four are overseas manufacturing platforms, overseas distribution channel platforms, overseas sales platforms, and global alliances.

U.S. vs. Japanese Differences

Four issues exhibit significant differences ($p < .05$) between U.S. and Japanese companies regarding their efforts to build up global competitiveness in foreign markets. Firms in Japan have a higher mean score than U.S. companies in the following issues: overseas manufacturing platforms, investments in high-technology, human resources management and international financing.

TABLE 1
GLOBAL COMPETITIVENESS IN THE OVERSEAS MARKET
(ANOVA RESULTS)

1. Overseas Manufacturing Platforms		N	Mean	SD	F Value	Sig.	Scheffe (p<.05)*
Type of Country							
a. U.S.	53	3.62	1.15				
b. Japan	72	4.14	.74	6.49	.0018	U>J; J>K	
c. Korea	117	3.61	1.14				
2. Overseas Distribution Channel Platforms		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	54	4.19	.89				
b. Japan	73	4.11	.84	11.66	.0000	U>K; J>K	
c. Korea	115	3.56	1.03				
3. Overseas Sales Platforms		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	54	4.06	.88				
b. Japan	71	4.24	.71	6.40	.0020	J>K	
c. Korea	118	3.78	.96				
4. Investments in High-Technology		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	50	3.22	1.11				
b. Japan	68	3.78	.93	5.48	.0047	U>J; U<K	
c. Korea	115	3.81	1.18				
5. Human Resources Management		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	53	3.40	1.08				
b. Japan	70	4.04	.81	6.79	.0014	U<J	
c. Korea	115	3.77	.99				
6. Merger and Acquisition		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	53	2.96	1.21				
b. Japan	70	3.07	.95	1.99	.1386		
c. Korea	110	2.75	1.14				
7. Global Alliances		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	54	3.57	1.00				
b. Japan	68	3.53	.89	12.14	.0000	U>K; J>K	
c. Korea	110	2.88	1.12				
8. Localization of Strategy		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	53	3.91	.90				
b. Japan	69	3.87	.82	.99	.3728		
c. Korea	114	3.72	.97				
9. International Financing		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	52	2.92	1.19				
b. Japan	68	3.49	.91	7.34	.0000	U<J; U<K	
c. Korea	115	3.54	.95				
10. Developing Raw Material Sources		N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
Type of Country							
a. U.S.	52	2.96	1.29				
b. Japan	67	3.21	.87	.84	.4352		
c. Korea	111	3.00	1.30				

* The probability ($p < 0.05$) indicates that the Scheffe test is significant when the probability of the difference between the groups is 5% or less due to chance. Mean scores were calculated on a 5-point scale, with 5= emphasize very much and 1= emphasize not at all. U=U.S.; J=Japan; K=Korea

Results of Hypothesis 2

As **Table 2** shows, ANOVA results indicate that there are significant differences ($p < .05$) in six of the eight issues as follows: consumer's recognition of brand name, quality of product, development of technology, R&D investment, labor cost, and trade protectionism. Scheffe country contrasts show that overseas marketing skills and regional integration are not significantly different from corporate problems faced during globalization.

U.S. vs. Korean Differences

Four issues have significant differences ($p < .05$) between U.S. and Korean firms regarding corporate problems in developing global firms. Of the four issues, Korean firms have higher mean score than U.S. companies. This indicates that Korean firms regard the importance of their problems more

strongly in terms of developing global corporations. The four issues are consumer's recognition of brand name, development of technology, R&D investment, and labor costs.

**TABLE 2
PROBLEMS FACED DURING GLOBALIZATION
(ANOVA RESULTS)**

1. Consumer's Recognition of Brand Name	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	53	3.57	1.22	7.11	.0010	U<J; U<K	
b. Japan	71	4.13	.92				
c. Korea	118	4.20	1.03				
2. Quality of Product	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	53	4.58	.72	3.35	.0367	J>K	
b. Japan	73	4.81	.43				
c. Korea	119	4.52	.91				
3. Overseas Marketing Skills	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	53	4.13	.81	.25	.7808		
b. Japan	72	4.24	.62				
c. Korea	118	4.19	.92				
4. Development of Technology	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	53	3.70	1.05	12.03	.0000	U<J; U<K	
b. Japan	71	4.42	.62				
c. Korea	117	4.35	.96				
5. R&D Investment	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	52	3.12	1.08	24.82	.0000	U<J; U<K	
b. Japan	71	3.97	.86				
c. Korea	117	4.24	.96				
6. Labor Cost	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	53	3.11	1.01	5.26	.0058	U<K	
b. Japan	71	3.48	.89				
c. Korea	116	3.64	1.00				
7. Trade Protectionism	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	53	3.25	1.19	4.26	.0152	J<K	
b. Japan	69	2.99	1.14				
c. Korea	115	3.47	1.01				
8. Regional Integration	Type	N	Mean	SD	F Value	Sig.	Scheffe (p<.05) Country Contrast
a. U.S.	52	3.35	.93	2.10	.1248		
b. Japan	70	3.23	1.16				
c. Korea	114	3.55	1.08				

* The probability (p< 0.05) indicates that the Scheffe test is significant when the probability of the difference between the groups is 5% or less due to chance. Mean scores were calculated on a 5-point scale, with 5= very important and 1= not important. U=U.S.; J=Japan; K=Korea

Japanese vs. Korean Differences

Japanese firms are more likely than Korean firms to perceive the importance of problems in the quality of their products. Conversely, Japanese companies are less likely than Korean companies to place much emphasis on the importance of problems in trade protectionism.

U.S. vs. Japanese Differences

In issues of consumer recognition of brand name, development of technology and R&D investments, Japanese firms regard them more strongly with respect to the development of global corporations.

Results of Hypothesis 3

Table 3 shows the significant differences of both U.S. vs. Korea (p<.05) and Japan vs. Korea (p<.001). However, there is no significant difference between the U.S. and Japan's corporate strategy for focusing on global perspectives. This T-test strongly support the hypothesis.

**TABLE 3
CORPORATE STRATEGY FOR FOCUSING
ON GLOBAL PERSPECTIVE
(T-TEST RESULTS)**

Type of Country	N	Mean	SD	T Value	Significance
U.S.	54	2.0	1.01	-2.22	.027*
Korea	120	2.39	1.10		
Japan	73	1.74	.80	-4.40	.000**
Korea	120	2.39	1.10		
U.S.	54	2.0	1.01	1.62	.108
Japan	73	1.74	.80		

Two-tailed test with * p < 0.05, ** p < 0.001
Mean scores were calculated on a 5-point scale,
with 5= definitely disagree and 1= definitely agree.

Discussion

Table 1 shows how Korean firms increase global competitiveness in the overseas markets as compared with Japanese and U.S. firms. The strategy of Korean firms went from exportation to global localization strategies in order to strengthen their competitiveness. Table 1 shows the mean scores for the following issues: overseas manufacturing platforms (3.61), overseas distribution channel platforms (3.56), overseas sales platforms (3.78), investments in high-technology (3.81), human resources management (3.77), localization of strategy (3.72), and international financing (3.54). They exhibit more than 3.50 on a 5 point scale (with 5 = emphasize very much and 1 = emphasize not at all).

These issues are very important for firms in achieving global localization. The relatively high mean scores indicate that Korean firms are strategically trying to achieve global localization. In the issues of investment in high-technology and international financing, Korean and Japanese firms have higher mean scores than U.S. firms with Korean firms having the highest mean scores among the three countries. The major focus of Korean firms, now, is to increase technological competitiveness. Because of increased costs of labor in Korea, Korean firms have difficulties in competing with other developing countries such as China, Thailand, Indonesia, and Malaysia in the labor intensive industries. Korean firms also recognize the importance of good quality, excellent design, and high technology in order to meet with developed country customers' demand for quality, service, status of brand name and in order to compete with world class manufacturing firms. For these reasons, technology investment is very important for Korean firms.

The arena of international financing will be significantly important for Korean and Japanese firms as compared to U.S. firms in 1990's. Japanese and Korean firms have been more restricted than U.S. firms in the use of international financing. However, due to increased involvement in global businesses, these firms should recognize the significance of international financing. Even though they have substantial profits from overseas activities, Japanese and Korean firms have lost money because of the exchange risks of foreign currencies. Korean firms are now gaining strength in this field by recruiting and training experts.

U.S., Japanese and Korean firms have no significant differences in the issue of localization strategy. This indicates that Korean firms are recognizing the strategic movements of competing global firms of the U.S. and Japan. However, Japanese and U.S. firms have strengthened more their global competitiveness in overseas markets than Korean firms through manufacturing platforms, distribution channel platforms, sales platforms, and global alliances.

Table 2 shows the importance of problems in developing global firms and how much Korean firms are concerned about global localization strategies. Korean firms have very high mean scores on a 5 point scale (with 5 = very important and 1 = not important) in the five issues that are the major requirements for global localization. The five issues are: consumer's recognition of brand name (#1), quality of product (#2), overseas marketing skill (#3), development of technology (#4), and R&D investment (#5). Korean and Japanese corporations have significant differences from U.S. firms in three issues: consumer recognition of brand name (#1), development of technology (#4), and R&D investment (#5). Japanese and Korean firms strongly emphasized overseas markets because of the limited size of their domestic markets, and scarcity of raw materials, while U.S. firms strengthened domestic markets due to the huge purchasing power of domestic customers. For this reason, Korean and Japanese firms are very concerned about consumers' recognition of their brand names. Japanese firms, having recognized the importance of brand names, implemented global localization during the 1970's-1980's. However, Korean firms are only now feeling the strong need for a good reputation for their brand names. Korean products have been identified as low quality, cheap products because of their use of cheap labor. However, Korean firms can no longer compete in developed countries with only the use of low labor costs, because other Asian countries are also taking advantage of very low costs of labor. As a result, Korean firms have to appeal to customers in overseas markets by upgrading their brand image in order to compete with U.S., Japanese, and European firms.

As Table 1 points out, the priority of Korean firms is to reduce technological gaps with developed countries. Korean firms are targeting high technology industries such as automobiles, semiconductors, computers, electronics, telecommunications, and aviation industries and staying away from conventional labor intensive industries. Firms cannot survive in high-tech global industries without technological superiority. Therefore, Korean firms such as Samsung, Daewoo, Hyundai, and Goldstar are increasing their investments in R&D and the development of high technologies.

The two issues of labor costs (#6) and trade protectionism (#7) influenced Korean firms to pursue the strategic direction of global localization. As the issue of labor costs (#6) shows in Table 2, there are significant differences between Korea and the U.S.; Korean firms have a higher mean score than U.S. firms.

This is a very vulnerable situation for Korean firms: they have to face high labor costs while maintaining their competitiveness based on low labor cost. Therefore, this current threat is making Korean firms transit from an exporting strategy to a global localization strategy of high quality products, high technology intensive products, good brand name reputation, and customer oriented marketing in global markets.

There are significant differences between Korean and Japanese firms on the issues of trade protectionism (#7). Korean corporations exhibit the highest mean score. Japanese firms are less likely to be concerned than Korean firms because they are prepared to deal with problems of trade protectionism. For instance, there was a very serious movement toward anti-dumping regulations and trade protectionism for automobiles and electronics products in western countries during the early 1980's.

Conclusion

The Voluntary Export Quota of Japan, with respect to the U.S., provided new opportunities for most Japanese automobile companies to start manufacturing in the U.S. Since then, Japanese firms have focused on increased global localization by setting up manufacturing platforms and R&D centers abroad, upscaling the quality of products and gaining the satisfaction of local customers. On the other hand, Korean firms are aware of the different business environments of global markets due to increased protectionism arising from such arrangements as European economic integration and North American trade pacts. These new trends limit the exporting strategies of Korean firms. Therefore, Korean firms need to continue to focus more on global localization to overcome protectionist trade barriers and to maintain their growth.

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**MARKETING OF FREE TRADE ZONES (FTZs) - A COMPARISON OF FTZs IN
DEVELOPED vs DEVELOPING COUNTRIES**

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Abstract

The objective of this study is to investigate the key marketing variables that discriminate between FTZ (Free Trade Zones) operations in developed versus developing countries. The discrimination between these two FTZs groupings was based upon a set of 40 variables related to the marketing concept, representing three key dimensions: (a) satisfying the industrial buyer needs (20 variables), (b) achieving the organisational goals (10 variables), and (c) integrating marketing functions (10 variables).

The data for this research was collected via an international mail survey that was addressed to 159 FTZs authorities in 67 countries around the world. The response rate was 53%. The data collected was analysed via Discriminant Function Analysis, separately for the 2 categories of countries, were the FTZs operate. The study results indicate that 19 variables, out of the original forty, could be considered as significant discriminators between these two typologies.

Some conclusions and future expected developments in FTZs competitive posture, are also presented in this paper.

Introduction

This study is a global investigation aiming at identifying marketing attributes that discriminate between Free Trade Zones (FTZ) in developed versus developing countries. There are today in the world over 500 FTZs and although the FTZ phenomena is not a new one, in the last 30 years or so, these zones have been flourishing and contributed widely to the economy of various countries throughout the world. Papadopoulos (1985) pointed out that if the present growth trend continues, FTZs may soon account for as much as 20% of the world trade, a fact that has many ramifications for marketing and public policies of many economies. Unfortunately, despite the importance of Free Trade Zones to many countries, relatively very few studies have been undertaken on the **marketing** operations and characteristics of these FTZs.

The present paper presents some of the findings of an in-depth research study

undertaken at Sheffield University over the last few years, on the application of marketing concepts by FTZs (Al-Sanie, 1992).

The nature of Free Trade Zones (FTZ)

A Free Trade Zone (FTZ) means a part of a territory of a country where any goods, be it raw materials, semi-processed or wholly processed brought inside the defined area are generally regarded, in so far as import duties and taxes are concerned, as being outside the customs territory and are not subject to the usual customs control.

The idea of FTZ has antecedent forms which began in antiquity. However, it did not gain world wide acceptance until the mid 1960s when modern version of a FTZ, called Export Processing Zones (EPZs), was spreading throughout the developing world. Since then, the device of a FTZ has been incorporated into the economic policies of many governments of the developing countries for the hope of generating foreign exchange earnings, creating employment, and transferring technology. Manufacturing companies of the industrial countries are currently looking for FTZs that would provide the best deal in terms of labour, tax incentives, financial benefits, convenience and flexibility. This in turn contributes to the overall integration of the world economy.

A detailed historical account of the development of free trade zones or free ports from time immemorial through the Greeks and the Roman Empire until the first half of the twentieth century has been provided by Thorman (1959).

Subsequent to World War I, there was a widespread movement of European ports to establish zones exempt from customs regulations (Lomax, 1947). As of December 1989 there were 142 foreign trade zones in the USA, of which 48 were engaged in manufacturing operations (Diamond, 1989).

The developing countries neglected to focus on free trade zones until after the United Nations' Economic and Social Council plenary meeting (August 1967), adopted a resolution suggesting that one of the fundamental avenues of export expansion for the developing countries was to improve port customs and trade zones facilities. Soon afterwards the United Nations Industrial Development Organisation (UNIDO) drew up a

plan for a model free trade zone. Several governments have adopted UNIDO's provisions and as a result, there has been a remarkable proliferation of free trade zones in the developing countries since 1966, when there were only two zones: Kandla in India and Mayaguez in Puerto Rico.

Today there are 506 FTZs located in 86 countries around the world. These FTZs are operating under diverse labelling and titles, for example, there are: Export Processing Zones (EPZs), Free Ports, Foreign Trade Zones. Nearly 42% of these are in developing countries (i.e. outside Western Europe, Australia, Canada, USA and Japan).

Literature Review

Unfortunately, the literature on marketing management of FTZs is rather limited. Most of the papers and books on the subject deal with economic, social or legislative issues.

Amongst the most important marketing studies on FTZ we have Turnbull (1981), who has discussed the importance of marketing in FTZs operations and in particular the roles of advertising campaigns in starting-up actual FTZ activities.

Feldmann (1983) studied the importance of marketing concepts in creating an economically viable FTZ. Feldmann elaborated on how to put the marketing concept to work, how to create a favourable zone image, and the steps required in the creation of an accurate intelligence/market research system and effective market segmentation.

Kelleher (1976) was one of the first researchers to investigate the systematic planning and management of a FTZ. He stressed the importance of site selection, location requirements and marketing planning for successful FTZ management.

Besile and Germidis (1984) studied the FTZ and their roles in industrial and economic interdependence, for the developing and developed countries. They argued that whilst there is no ideal FTZ model, one could establish from successful experiences of FTZs cases, policy lines that countries and FTZ authorities should follow in order to establish basic satisfactory conditions.

Jean Currie (1986), observed that the performance of FTZs operations tend to vary significantly from one another. She made an elaborate analysis of the activities of the FTZs operations on the basis of such economic factors as: cost-benefits, the number of firms using the FTZ and the nature of their businesses, level of employment, the bulk of investment and the generation of foreign exchange.

The literature review (see reference list), plus readings of basic international marketing textbooks such as Terpstra (1990), Jeannet and Hennesey (1984) and Keegan (1990), enabled us to generate a list of marketing variables/attributes that are necessary in order to effectively manage the marketing operations of a Free Trade Zone (Table 1). These variables are split into three categories: (1) those that are related to the satisfaction of industrial buyers' needs (20 variables); (2) variables related to achieving FTZs organisational goals (10 variables); and (3) activities necessary to integrate the marketing functions (10 variables).

Methodology

An attitudinal questionnaire on a nine-points itemised scale, attempting to establish the importance of each of the 40 marketing variables presented on Table 1, was developed. This was pilot tested with FTZs international experts, translated into eight different languages, and mailed to the directors of 159 FTZ authorities in 67 countries. Eighty five completed questionnaires were returned from 48 countries, i.e. 53% response rate.

The data was analysed separately for FTZ in developed (USA, Canada, Japan, Australia and Western Europe) and developing countries.

The data was analysed via Profile Analysis, i.e. averaging the scores (means) for each of the two sets of 40 variables. The Profile Analysis results are presented in table 2 and briefly discussed in the study results. The main analysis, however, was undertaken via a Discriminant Function Analysis (DFA), separately for developed and developing countries FTZs.

The discriminant function analysis (FDA) is a statistical multivariate technique for investigating dependence relation. With two groups, the DFA involves deriving a linear combination (i.e. a discriminant function) of the predictor variables that can best discriminate between the two 'a priori' groups. This is done statistically by maximising the between-group variance relative to the within-group variances.

The DFA analysis has been undertaken by using a SPSS statistical package. The key DFA output offers some standardised discriminant functions coefficients that reflect the relative ability of each predictor variable to determine discrimination between groups

when the other predictors are held constant. The absolute magnitude of the standard function coefficients is used as an indication of the relative importance of a predictor variable. The larger the discriminant coefficients, the more important the variable is as a discriminator.

**TABLE 1:
THE MARKETING VARIABLES AND FUNCTIONS REQUIRED
FOR MARKETING MANAGEMENT OF FREE TRADE ZONES**

(a) Variables related to satisfaction of Industrial Buyers' Needs	
<p>1. Location of zone</p> <p>2. Size of the zone area</p> <p>3. Capacity of space for warehousing and storage</p> <p>4. The offering processing operations</p> <p>5. The offering assembly operations</p> <p>6. Size of area available for manufacturing activities.</p> <p>7. Utilities for manufacturing activities (e.g. Energy sources, water supplies, sites for machinery, control devices, etc).</p> <p>8. Transporting equipment (e.g. shafts, carts, trolleys, etc).</p> <p>9. Maintenance of equipment (e.g. machines, tools, devices factory utilities, etc).</p> <p>10. The offering of a Telex system.</p>	<p>11. The offering of a Facsimile system</p> <p>12. The maintenance of telecommunication systems (e.g. telephones, computers, teleprocessors, etc).</p> <p>13. The size of the work force (e.g. Managers, staff, technicians and labour).</p> <p>14. Quality of the work force.</p> <p>15. The well-being of the work force (e.g. cafeteria, recreation, social activities, etc).</p> <p>16. Safety of the work force.</p> <p>17. Cleanliness of zone area.</p> <p>18. Sanitation of the zone area (minimising noise and pollution).</p> <p>19. Security of zone premises.</p> <p>20. Supervisory manoeuvring of zone privileges, facilities, services and activities.</p>
(b) Achieving Organisational Goals	
<p>21. Maximisation of sales</p> <p>22. Maximisation of profits</p> <p>23. Maximisation of market share</p> <p>24. Maximisation of return on investment</p> <p>25. Minimising cost of zone operations.</p>	<p>26. Growth rate of Free Trade Zones</p> <p>27. Integration of the departmental functions of the zone authority.</p> <p>28. Public relations with zone users.</p> <p>29. Relations with government</p> <p>30. Free Trade Zone image/reputation</p>
(c) Integrating the Marketing Functions	
<p>31. Expanding the area available for the zone privileges (e.g. space of warehousing and storage, sites of processing, assembly and manufacturing, cargo docks, etc)</p> <p>32. Improving the quality of the zone privileges (e.g. spaces of warehousing and storage, sites of processing, assembly and manufacturing, cargo docks, etc).</p> <p>33. Updating the zone facilities (e.g. telecommunications system transporting equipment, manufacturing utilities, etc.)</p> <p>34. Extending the capacity of the zone facilities (e.g. telecommunication systems, transporting equipment, manufacturing utilise, etc).</p>	<p>35. Offering zone users more choice of operations inside the zone (e.g. packaging, repackaging, sorting, mixing, labelling, exhibition, containerisation, refrigeration, etc.)</p> <p>36. Reviewing the pricing of the zone privileges, facilities, and services.</p> <p>37. Using advertising channels for the zone privileges, facilities and services.</p> <p>38. Personal selling of zone privileges, facilities and services.</p> <p>39. Marketing research activities for the zone privileges, facilities and services.</p> <p>40. Policies for implementing plans for marketing the zone privileges, facilities and services.</p>

Study Results

Responses from the authorities of 85 FTZ - of which 55 were located in developing countries and 30 in developed countries - were analysed via two separate runs of DFA (Discriminant Function Analysis).

The study results suggests that out of the 40 marketing variables, 19 represent the most important discriminators between FTZs in the developing and developing countries. These discriminators are shown in Table 2 in order of their discriminating weights (coefficients) and split into three categories of marketing variables: (1) satisfaction of (industrial) buyers' needs; (2) achieving organisational goals; and (3) integrating the marketing function.

(1) Satisfying the industrial buyers' needs

In terms of satisfying the industrial buyer needs, 11 variables have been found as the key discriminators between the two types of FTZ under study. These discriminators, in order of their weights are: utilities for manufacturing activities (.96); sanitation of zone area (.93); the offering of processing operations (.92); maintenance of equipment (.91); the offering of facsimile systems (.71); location of the zone (.68); cleanliness of the zone area (.65); transporting equipment (.49); the offering of a telex system (.43); the offering of assembly operations (.31); and size of area available for manufacturing activities (.26).

Of particular concern to the discrimination between the FTZs in both the developed and developing countries are the sanitation of zone area, and the offering of a facsimile system. With respect to the first variable, it should be noted that it appears for the first time to distinguish only between the FTZs in the developed and the developing countries. Most of the FTZs authorities in the developed countries (and more so in the developing countries), attach this variable ratings in the range of between 'above average' and below 'extreme importance'. The reason is that these FTZs authorities realise that sanitation of the zone area is an important need of the industrial firms (most of whom usually come from the advanced/developed countries). The task of the sanitation of the zone area involves taking the necessary actions to minimise the noise and air pollution resulting from the operations/activities inside the zone.

(2) Achieving the organisational goals

As for the variable of offering of a facsimile system, the FTZs authorities in the

developed countries gave this factor a higher rating than did their counterpart in the developing countries. This is perhaps because of the novelty and high cost of such a telecommunication system.

**TABLE 2:
STANDARDISED CANONICAL DISCRIMINANT
COEFFICIENTS AND GROUP**

**Means: DFA Output of FTZs in the Developed
vs Developing Countries**

G1 = Developed Countries
G2 = Developing Countries

Discriminant Variables	Group Means		Standardised Discriminant Coefficients
	G1	G2	
(i) Satisfying the industrial buyer needs:			
1. Utilities for manufacturing activities	5.9	8.0	.96
2. Sanitation of the zone area	6.8	7.3	.93
3. The offering of processing operation	5.3	5.9	.92
4. Maintenance of equipment	5.5	5.6	.91
5. The offering of a facsimile system	7.3	6.5	.71
6. Location of the zone	8.1	8.1	.68
7. Cleanliness of zone area	7.8	7.8	.65
8. Transporting equipment	5.6	5.9	.49
9. The offering of a Telex system	6.5	7.6	.43
10. The offering of assembly operations	5.7	6.3	.31
11. Size of area available for activities manufacturing	5.7	7.1	.26
(ii) Achieving Organisational Goals:			
12. Integration of the departmental functions of the zone authority	5.6	6.8	.89
13. Public Relations with zone users	7.4	7.4	.64
14. Free Trade Zone image/reputation	7.7	8.3	.32
(iii) Integrating the Marketing Functions			
15. Personal selling of zone privileges, facilities and services	7.3	5.3	.52
16. Offering zone users more choice of Operations inside the zone	7.4	6.3	.38
17. Using advertising channels for zone privileges, facilities and services	5.6	6.6	.30
18. Reviewing the pricing of zone privileges, facilities and services	6.0	6.5	.26
19. Extending the capacity of the zone facilities	6.6	7.4	.22

Only one marketing variable, integration of the departmental functions of the zone authority, represents a discriminator with respect to the differentiation between the FTZs in the developed versus developing countries. The FTZs authorities in the developing countries gave higher rating to this factor than their counterparts in the developed countries. The reason might be because the organisational structure of the FTZs in the developing countries is more involved. There are more flaws of communication and feedback interaction. Accordingly, this factor comes in this category of variables to assure the importance of integrating the departmental functions to achieve the organisational goals and continue to exist as a competing zone.

(3) Integrating the marketing functions

Under this category, there are two variables of concern. These are: personal selling of the zone privileges, facilities and services; and offering the zone users more choice of operations inside the zone. The study results show that these two variables are among the three exceptions which received higher scores from the FTZs authorities in the developed countries than their counterparts in the developing countries. The possible explanation could be that: as for the first variable, the methods and techniques for personal selling are more advanced and widespread in the developed countries than in the developing countries and the marketing managers use the personal selling techniques more extensively in the package of promoting their products. As for the second variable, the FTZs authorities in the developed countries attach more importance to offering the zone users more choice of operations, than their counterparts in the developing countries. This is perhaps because many governments in the developed countries impose a variety of restrictions on manufacturing inside the FTZs. Therefore, the FTZs authorities had to increase the choice of operations allowed in their zones, which usually include operations such as packaging, sorting, mixing, labelling, exhibition, containerisation, refrigeration, etc.

Conclusions

As indicated in the study results, the FTZs authorities in the developing countries were found to be more oriented to satisfying the buyers' needs particularly by: the size of area available for manufacturing activities; the offering of processing operations; the offering of assembly operations; and the sanitation of the zone area. The FTZs authorities in the developed countries attach higher importance, than the developing countries' FTZs, towards the capacity of

space for warehousing and space. These differences might be because the FTZs in the developing countries are more oriented towards attracting manufacturing firms, while the FTZs in the developed countries are inclined to attract those firms with warehousing and storage intention and perhaps with some light industry.

In relation to the three facets of operations: satisfaction of industrial buyers' needs, achieving the organisational goals, and integrating marketing functions, the following conclusions can be drawn, if a FTZ authority wishes to be successful in its marketing operations:

(1) Satisfying the industrial buyers needs

The FTZ authority make certain that the following are in effect:

- (a) The telecommunications systems are always in a good working condition.
- (b) Facilities are available for installing a facsimile system.
- (c) The industrial wastes are dumped and the zone area is always clean.
- (d) The capacity of space for warehousing and storage meets the demands of the zone users.
- (e) The size of the zone area can be enlarged to accommodate future zone expansion.

(2) Achieving the organisational goals

While satisfying the needs of the industrial buyers, a FTZ authority should achieve, at least, the following three goals:

- (a) The maximisation of its sales by increasing sales transactions through other marketing efforts, for example, by conducting

number and character of potential industrial buyers, and using promotion techniques such as advertising and personal selling in order to convince future prospects to invest in its FTZ.

- (b) The maximisation of its market share. There are five key strategies of importance for gaining market share in an industrial market (Fogg, 1974): lowering the prices below the competitive levels; introducing product modifications or significant innovations that meet customers needs; offering more services; improving the strength and quality of the sales force targeted at customers who are not getting adequate quality or quantity of attention from the competitors; increasing the advertising and sales promotion of the products, services, facilities, or any offerings beneficial to untapped customers. These all could be adopted to FTZs.

- (c) Public relations with the zone users. Public relations can be accomplished by a set of communications activities to create and

maintain favourable relations between the organisation (the FTZ authority) and its public (customers, employees, stockholders, the locals, and government officials). For example, the FTZ authority should create and maintain a systematic, continuous public relation programme.

(3) Integration the marketing functions

A FTZ authority, hoping to satisfy the needs of the industrial buyers and achieve its own goals, should, at least, integrate the following three variables in the operations of its zone: (a) marketing research activities; (b) updating the zone facilities; and (c) extending the capacity of the zone facilities.

As for the future, the 1990s shall witness extreme developments of FTZs from fast growth in Eastern Europe to steady but slow growth in the developing countries, to the closure of many zones in Western Europe (particularly those which are involved in manufacturing and industrial activities). On one extreme, the collapse of communism and the emergence of free economy in Eastern Europe sow the seeds of new opportunities for FTZs development and growth. For example, two FTZs are already under construction in the former Soviet Union. However, on the other extreme, many FTZs in Western Europe shall be forced to close in compliance with 1992 EEC regulations to protect the industries of the twelve member countries of the European Economic Community. For example, there are already

from 1993. Eventually, these extreme FTZs developments shall result in fierce competition amongst FTZs throughout the world. On one side of the competition is the FTZs of Eastern Europe who shall exploit their educated labour force and the proximity to Western Europe to attract Western investments. And on the other side, is the competition among FTZs of the developing countries in exploiting their cheap labour, strategic geographical locations, and lucrative package of incentives.

In order that a FTZ will be able to gain a competitive edge, a more focused marketing orientation will have to be adopted by the FTZs authorities as indicated in this paper. The main elements of such an approach should be: (1) industrial buyers satisfaction and (2) achieving organisational plans and integration of the marketing functions of the FTZ.

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THE WORLD TRADING SYSTEM AFTER THE GATT URUGUAY ROUND

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Abstract

The paper examines the tortuous course of the Uruguay Round and investigates the reasons for its failure thus far to reach its destination after meandering for almost five and a half years. It then considers the future of the world trading system after the Uruguay Round.

Introduction

The General Agreement on Tariffs and Trade (GATT) is the international organization that sets rules for the conduct of world trade. It has enabled the progressive liberalization of the multilateral trading system (MTS) since the end of World War II. This liberalization, based on multilateral trade negotiations (MTN), has fueled global economic growth and prosperity. The Uruguay Round (UR), the eighth of the GATT rounds, was launched in Punta del Este, Uruguay, in September 1986 to further develop and strengthen the MTS. The UR has had three major goals: (1) Reduce trade barriers, (2) extend GATT rules to new sectors, and (3) improve GATT rules and make them more effective through better dispute settlement mechanisms.

This round is the most ambitious one. Services sector, trade-related intellectual property rights (TRIPs), and direct foreign investment (DFI) have been included in MTN for the first time. Also, agriculture and textiles are being integrated into the GATT more fully. The structure and main articles of the GATT itself have come under unprecedented review. Agreement has already been reached to form a new Multilateral Trading Organization (MTO). The MTO would embrace the GATT and the new General Agreement on Trade in Services (GATS). The MTO would administer all the UR agreements and conduct reviews of member countries' trade policies (as the GATT has actually done since 1991). Moreover, the MTO would run an integrated dispute settlement system. This system would provide speedier processing, an appeals body, and stricter discipline on governments' implementation of verdicts.

The long delay to conclude the UR, which was scheduled to end in December 1990, reflects the serious problems facing the interdependent world economy. Since its start, the UR has often been on knife-edge. Deadline after deadline has been set and missed. Fears that the UR would collapse have been widespread. Sufficient technical work has been done on all issues to permit agreement as part of an overall compromise; however, the political will and environment to reach that compromise has been missing. In an increasingly polarized world with no hegemonic economic power, the U.S. has been no longer either willing or able to provide the leadership essential to the survival and transformation of the GATT system. Moreover, economically and politically minority groups such as farmers have exerted powerful protectionist pressures that have hampered further trade liberalization.

As a result, negotiations are stalled as of mid-May 1993. The risk of a complete breakdown and collapse still exists.

In the longer term, the evolution of the global economy is at stake. If the UR fails, the MTS might disintegrate into regional trading blocs such as the European Community (EC) and the North American Free Trade Area (NAFTA). This could lead to greater protectionism and lower rate of economic growth throughout the world.

The paper examines the tortuous course of the UR and investigates the reasons for its failure thus far to reach its destination after

meandering for almost five and a half years. It then considers the future of the world trading system after the UR.

The General Agreement on Tariffs and Trade (GATT)

GATT, concluded in 1948, is based in Geneva, Switzerland. It has 111 members. GATT has helped reduce average tariffs in industrial countries from over 45% in 1947 to under 5% today. The concept of fairness is embodied in the principles of the GATT. A basic GATT precept is the "most-favored-nation" (MFN) rule. Under MFN, countries that are members of the GATT must treat all other members equally in their application of trade measures. Another concept related to fairness is "national treatment." It says that the products of domestic and foreign firms should receive equal treatment with respect to domestic taxes and regulations.

GATT trade talks are based on "exchange of concessions" approach. Negotiators talk about the mutual policy reforms as if they were exchanging concessions. This approach has been quite successful in the previous seven GATT rounds. It allows governments to counter national groups opposed to opening the domestic market with the political influence of domestic exporters.

The original GATT was written primarily to deal with trade in manufactured goods among developed countries. Today, however, only about three-fifths of world export earnings come from manufactures. Services account for about one-fifth of world export earnings, agriculture accounts for about one-tenth, and oil and minerals account for the rest.

Also, in recent years many less developed countries (LDCs) have become important participants in the global trading system. They are not, however, yet fully subject to GATT rules. DFI is also an increasingly important aspect of the world trading system. GATT rules, however, do not yet explicitly address such investment. Tariffs of developed countries (DCs) are quite low on the average. Non-tariff barriers (NTBs), such as export subsidies and import quotas, however, have proliferated. They have canceled much of the trade liberalizing effects of tariff reductions. Tariffs are easy to quantify and relatively easy to negotiate. NTBs, however, are difficult to quantify, negotiate, and reduce. In the past decade, the number of managed trade arrangements has increased. Agriculture, automobiles, consumer electronics, semiconductors, steel, textiles, machine tools, among others, have been subjected to governmental management of exports, market shares, and prices in various parts of the world.

The GATT Uruguay Round

GATT members, which account for nearly 90% of world trade, as well as several non-members have participated in the UR. The UR comprised 15 originally agreed negotiating areas under the Trade Negotiations Committee (TNC), which had two subsidiary bodies: Group of Negotiations on Goods (GNG) and Group of Negotiations on Services (GNS). GNG was further divided into 14 negotiating groups: I. General trade liberalization issues: 1. Tariffs, 2. NTBs; II. Sector-specific trade liberalization issues: 3. Natural resource-based products, 4. Textiles and clothing, 5. Agriculture, 6. Tropical products; III. Improvement of the GATT as a legal framework: 7. GATT articles, 8. MTN agreements and arrangements/GATT codes of

practice, 9. Safeguards against sudden import surges, 10. Subsidies and countervailing measures, 11. Trade-related intellectual property rights (TRIPRs), such as patents and copyrights, 12. Trade-related investment measures (TRIMs) such as performance requirements; IV. Improvement of the GATT as an institution: 13. Dispute settlement, 14. Functioning of the GATT system

These 14 areas were streamlined in April 1991 into seven: 1. Market access (largely through the reduction of trade barriers); 2. Textiles and clothing; 3. Agriculture; 4. Rule-making for such areas as antidumping, subsidies, and specific GATT articles; 5. TRIPRs and TRIMs; 6. Institutions and the framework for the implementation of the UR results; 7. Services.

At the start of UR, GATT members committed themselves to a "standstill" (forfeiting new trade restrictions) and a "rollback" (elimination of trade restrictions inconsistent with the GATT). Negotiators spent 1987-88 clarifying the content and defining the modalities of the negotiations. During this period, however, new trade restrictions did emerge, contravening the standstill commitment. Only the EC proposed to rollback certain quantitative restrictions, if similar offers were made by others; no such offers were made.

The U.S. proposed a focused approach to the negotiations: early agreement reached in selected areas would build momentum and morale. The EC, however, preferred a global approach: balanced progress in most negotiating areas. Apart from the disagreement on the approach to negotiations, for months no agreement was reached on what was or what was not on the table for negotiation! No progress was made toward compromise in dealing with antidumping, subsidies, agriculture, textiles, services, TRIMs, and TRIPRs.

Agriculture soon began to emerge as the make-or-break issue of the UR. The U.S. insisted on the long-term elimination of all subsidies, on the basis of its "zero approach." This implied the eventual end of Common Agricultural Policy (CAP) of the EC. The EC vehemently opposed this approach.

The original U.S. proposal was to phase out all farm production and export subsidies in ten years. The EC rejected this proposal. The U.S. then changed its deadline to "within an agreed period of time." The U.S. proposed to eliminate (1) all import barriers in agriculture by converting NTBs to fixed tariffs (tariffication) to be reduced and ultimately abolished, and (2) all direct and indirect agricultural subsidies that affect trade (except for direct income support to farmers not linked to production and for food aid to poor countries).

The EC proposal, on the other hand, focused on short-term measures to improve the world market for specific commodities. The EC advocated freezing farm supports at their 1984 levels and then reducing them at a certain (to be negotiated) percentage to lower maximum levels in 1990.

The Cairns Group (14 countries with substantial agricultural exports) had their own proposal. They supported the U.S. long-term objectives but with a transitional schedule: start with a freeze, followed by 10% annual cuts in production supports in 1989 and 1990; then agree on a system for further regular annual reductions to arrive eventually at completely free trade in farm products. Japan, on the other hand, concerned about "food security," was reluctant to open its rice market to imports,

and sided with the EC.

No progress was made on TRIPRs (copyrights, patents, trademarks, and trade secrets) due to eyeball-to-eyeball confrontation between the U.S. and some LDCs such as Brazil and India. The LDCs preferred to keep TRIPRs out of the GATT and within the World Intellectual Property Organization (WIPO).

Little progress was made in agreeing on tariff cuts. Most remaining high tariffs were on politically sensitive products such as textiles. There was disagreement on what to do about tariffs not "bound" (fixed with a commitment not to increase them). The DCs insisted that both cuts and bindings should this time apply to the LDCs.

There was disagreement between the U.S. and the EC on the tariff cut negotiations method. The U.S. preferred the request-offer method to allow protection of sensitive sectors such as textiles. The EC preferred a fixed formula like the one used in the Tokyo Round to cover every single tariff.

Some agreement was reached on "procedural issues," i.e., strengthening the GATT, improving the dispute-settlement mechanism, trade-policy surveillance of members (regular reports by the GATT secretariat on the trade policies of member countries); and on tropical products.

While the UR, as the epitome of the multilateral approach to trade, encountered one obstacle another, the U.S., as well as the EC, appeared to favor increasingly unilateralism, bilateralism, and regionalism. The U.S. enacted a tough trade law in 1988, the Omnibus Trade and Competitiveness Act, with section "Super 301." This provision established "a systematic approach to national patterns of foreign unfair trade practices." Under Super 301, the U.S. Trade Representative (USTR) identified and investigated "priority" foreign trade practices in "priority" countries. It had to negotiate for at least three years to get the offensive practices eliminated. It was required to show progress but not to retaliate or launch a trade war. Canada and the U.S. entered into the Canada-U.S. Free Trade Area (CFTA) in January 1989. This was preceded by the FTA agreement that the U.S. had entered into with Israel in 1985. The EC became preoccupied with Project 1992, giving rise to the fears that it might become "Fortress Europe."

At the midterm review of the UR in Montreal during 5-9 December 1988, the at least partially resolved issues ("framework" accords) included: Liberalizing trade in services, swifter settlement of trade disputes, freer trade in tropical products, a target of reducing tariffs by 30%, easing NTBs, easing some DFI restrictions, and monitoring members' trade policies. The four basic unresolved issues were: Liberalizing trade in agriculture, new protection for TRIPRs, textiles and clothing trade reforms, and rules for safeguards against imports.

After the deadlock on agriculture in Montreal, the U.S. proposed that a package be agreed on excluding agriculture. The EC accepted but the Cairns Group rejected this proposal. This led to the suspension of the midterm review. However, agreement was reached in Montreal for the TNC to reconvene the UR in April 1989 in Geneva to pick up the pieces. The GATT Director-General Arthur Dunkel was asked to work toward a compromise in the four critical areas without any agreement. The UR negotiations resumed in Geneva during April 1989, amid fears of imminent "gattastrophe."

What was intended to be the "final" meeting of the 107 countries at the trade-ministers level took place in Brussels during 3-7 December 1990. The 391-page document draft text covering the 15 negotiation areas had nothing on agriculture! The 70 pages on services were littered with square brackets (disagreements) and the financial services annex was blank!

The "final" meeting collapsed due to the failure of the U.S. and the EC to agree on agriculture. The EC refusing to budge, rejected a compromise plan to cut agricultural supports by 30% over five years in all three areas, i.e., domestic supports, imports barriers, and export subsidies.

Dunkel was again asked to be the troubleshooter to save the UR from collapse. He could decide when to reconvene the negotiations in Geneva; but the consensus was that only a major political initiative at the highest level in the U.S. and the EC could save the UR. The UR resumed in Geneva in January 1991. The three decisive issues appeared to be: Agriculture, services, and market access (further lowering of tariffs and NTBs in manufactures trade).

After the failure of the negotiating parties to come up with their own final draft agreement, covering all issues, Dunkel produced his own. At the Geneva meeting, during 20-22 December 1991, he presented his "draft final act," 436-pages of 26 draft accords. Negotiating parties were given till 13 January to respond and then bargain over details at another Geneva meeting. France rejected the Dunkel text even before its release!

There was opposition to the Dunkel text from all sides. The EC rejected the agricultural package, especially because direct payments to farmers in order to cut production and exports would not be put in the "green box," i.e., regarded as "gattable," and the inclusion of quantitative limits on subsidized exports.

The U.S., too, was dissatisfied with the agricultural package. It was also displeased with the treatment of TRIPRs as too lenient toward the LDCs. It did, however, endorse the Dunkel draft with some reservations, planning to seek some changes.

Negotiations resumed in Geneva on 13 January 1992 but broke down again after the outright rejection of the Dunkel draft by France. President Bush claimed that the EC was "hiding behind an iron curtain of protectionism." The EC, in turn, accused the U.S. of drifting toward managed trade, after Bush's unfortunate high-pressure sales trip to Japan.

The 31 March 1992 deadline set by Dunkel to reach a final agreement in Geneva on the basis of his December draft of 26 accords became one of many deadlines set and missed in the UR.

The July 1992 G-7 summit in Munich, just like the London summit in July 1991, yielded no high-level political agreement on the UR. Faced with the central disagreement on agriculture and the French intransigence, the G-7 leaders again failed to break the deadlock. Hopes for a breakthrough were postponed till after the French referendum on 20 September 1992 on the Maastricht Treaty.

But then the negotiations were clouded by the separate five-year old oilseeds dispute between the U.S. and the EC, and also by the U.S. decision to increase its own export subsidies for agricultural products. A GATT panel had ruled twice against EC subsidies for oilseeds but the EC refused binding arbitration. The U.S.

threatened sanctions (punitive tariffs on EC agricultural exports) and the EC threatened retaliation. This episode revealed again the impotence of the GATT dispute settlement mechanism. Oilseeds, such as soybeans and sunflower seeds, used in making cooking oil, margarine, and animal feed, were already covered by the GATT. The U.S. wanted the EC to cut its oilseeds production by half over six years but the EC refused.

In October 1992, the UR hopes were sinking into electoral morass, with the 3 November presidential and congressional election in the U.S. and the March 1993 elections in France. On 5 November 1992, the U.S. announced that sanctions against the EC would go into effect in 30 days, in the form of 200% tariffs on white wine, wheat gluten, and rapeseed (canola) oil, covering EC exports worth about \$300 million. Could this be the start of a "trade war" and the final demise of the UR?

On 19 November 1992, the U.S. and the EC resumed talks on agriculture in Washington, D.C., despite French opposition. They reached agreement on 20 November. The "Blair House accord," besides setting EC oilseed production limits to the satisfaction of the U.S., resolved the long-standing UR agricultural dispute. The EC and the U.S. agreed that, over six years, subsidized EC agricultural exports would be cut by 21% in volume; value of export subsidies would be cut by 36%, and internal supports would be trimmed by 20%. France, however, threatened to veto the deal in the EC Council. On 26 November 1992, the UR resumed in Geneva.

The environment for the progress of the UR was then further clouded by several developments. On 27 January 1993, the U.S. announced provisional antidumping duties on steel imports from 19 countries, including several EC members. The new Clinton administration was beset by calls for protection from autos, steel, oil, semiconductors, etc. It appeared to encourage such calls by its announcement that the U.S. could no longer afford to subordinate national economic interests to foreign policy or defense concerns.

In early February 1993, the USTR Mickey Kantor threatened sanctions, within 45 days, against the EC in response to the EC's adoption of local-content rules for government purchases of telecommunications and power-generation equipment. Under the EC Utilities Directive, adopted on 1 January 1993, the EC utilities were required to apply a 3% price preference to EC bids; they also could reject non-EC bids, those with less than 50% local content. Also, the U.S. threatened to pull out of the GATT procurement code, negotiated in the Tokyo Round. The EC accused the U.S. of "unilateral bullying," noting that the U.S. itself had several "Buy America" provisions, especially for Department of Defense procurement, not to mention myriad state government provisions.

Then President Clinton attacked the Airbus subsidies, despite the bilateral agreement between the U.S. and the EC, reached in July 1992, to limit subsidies to 33% of total product development costs. Shortly after, the U.S. announced that it would review the agreement, but later decided to stick to the accord.

On 22 April 1993, the EC and the U.S. reached partial agreement on public purchasing in heavy electrical engineering equipment; appearing to have avoided a tit-for-tat trade war. The U.S., however, seemed determined to impose token sanctions in telecommunications. The EC threatened counter sanctions.

Trade officials from the United States, the EC, Japan, Canada, meeting in Toronto, on 13-14 May, tried to reach a final agreement before the G-7 Tokyo summit. At this summit, scheduled for 7-9 July 1993, leaders of the United States, Japan, United Kingdom, France, Canada, Germany, Italy were expected to agree on the conclusion of the UR by the end of the year. France, however, remained opposed to last November's EC-U.S. farm trade accord. It also called for a complete review of the EC trade policy.

The U.S. House Ways and Means Committee approved the extension of the fast-track negotiating authority needed to conclude the Uruguay Round. If the full House and Senate also accept President Clinton's request to extend the fast-track, he would have until 15 December 1993 to sign the final draft of the UR. Congress would then have 120 days, until 15 April 1993, to vote "yes" or "no" on the trade pact.

The Post-Uruguay Round Trade Issues

Environment

The next big issue for the GATT is clearly the environment: how to prevent environmental controls from being used as artificial trade restrictions. Resolving the apparent conflict between trade and the environment, much talked about at the U.N. Earth Summit in June 1992, is likely to be one of the most important trade issues of the 1990s. This issue has already been the subject of heated debate.

The U.S. banned imports of tuna from Mexico in 1990 under the Marine Mammal Protection Act. This act forbids imports of tuna caught in nets that also kill dolphins. Mexico took the U.S. to GATT. A GATT panel ruled against the U.S. in August 1991. The U.S. was using domestic measures to protect dolphins outside its territorial jurisdiction. The GATT prohibits discrimination between "like products on the basis of their method of production." This case provoked anger among many environmentalists who began to refer to the GATT as "Gattzilla the trade monster".

The GATT has no specific mechanism or program for dealing with trade and the environment; it has only a limited exemption permitting a ban on imports where it is necessary "to protect human, animal and plant life and health." However, in October 1991, the GATT revived its working group on the environment. This group had never met since its establishment 20 years ago.

It has been suggested that the next GATT round should be the "Green Round." This new round would create a GATT Environmental Code, modeled after the current Subsidies Code. Each nation could set its own environmental standards. This code would ban or restrict, however, the imports of goods produced in ways that violate internationally recognized norms. It would legitimize the imposition of trade sanctions to enforce environmental accords. Countervailing duties (CVDs) would be levied if the products or processes producing them failed to meet the importing nation's environmental standards. These CVDs would offset any economic advantage gained by making the product under less stringent environmental protection rules.

The GATT issued a report on the environment in February 1992 cautioning against "environmental imperialism" (one country using trade barriers to foist its environmental laws on others). It warned that the environmental movement was in

danger of hijacked by trade protectionists. It argued that free trade improved, not harmed the environment. The UR agricultural accord would cut farm subsidies and output in DCs that used much more fertilizers and pesticides and shift production to LDCs that used less. The GATT subsidy rejected the idea of an "ecological subsidy" given by lax environmental standards.

Under the proposed and failed 1991 International Pollution Deference Act in the U.S., charges of "social dumping" would have accused others not with doing something (as with dumping) but with not doing something. In May 1993, Congressman Richard Gephardt, majority leader in the U.S. House of Representatives advocated the enactment of "green and blue 301". Under Section 301 of the 1974 Trade Act, the U.S. can levy trade sanctions on countries that are said to be involved in "unfair" trade practices. Congressman Gephardt wished to extend that authority by authorizing trade sanctions against countries in which labor standards were not enforced (blue) and against countries in which environmental standards were not enforced (green).

The future importance of the environmental and labor issues in world trade has been foreshadowed by the emphasis given to them in the debate over the proposed NAFTA among Canada, Mexico, and the U.S. NAFTA faces serious opposition from several groups in the U.S. that are determined to vote against it unless side-agreements on the protection of the environment and labor rights are negotiated by the Clinton administration.

Competition Policy

Another important trade issue that is likely to emerge after the UR is: Should global competition rules covering subsidies, cartels, merger policy, and public monopolies be integrated into the GATT? As regards subsidies, the GATT already has power to rule on the acceptability of state aid to companies but this power could be increased. As for cartels, the GATT could clarify international definitions of cartels and restrictive practices. The question with respect to mergers is: Should (could?) there be a supranational antitrust authority? The GATT may also have to deal with the distortions created in world trade by public monopolies. The proposed and failed International Trade Organization (ITO) in 1947, besides supervising the GATT, would have had responsibilities for regulating international competition in restrictive business practices, investments, and commodities.

As long as the world trading system lacks credible international rules on competition, governments will increasingly resort to "voluntary export restraints" (VERs), "voluntary import expansions" (VIEs), and antidumping duties. The future importance of the competition policy issues in world trade has been foreshadowed by the emphasis given to them in the proposed NAFTA among Canada, Mexico, and the U.S. Explicit provisions are included in NAFTA mandating cooperation among the member countries on competition law enforcement and other antitrust issues. A trilateral commission would be responsible for monitoring the relationship between competition laws and trade.

Summary and Conclusions

This paper reviewed the tortuous course of the Uruguay Round (UR) and investigated the reasons for its failure thus far to reach its destination after meandering for almost five and a half years. It then considered the future of

the world trading system after the UR. The problems encountered in the UR reflect the precarious state of the post-World War II multilateral trading system (MTS), based on the GATT, which has fueled global economic growth and prosperity.

The GATT-based MTS is in danger for two basic reasons: (1) In an increasingly polarized world with no hegemonic economic power, the U.S. is no longer either willing or able to provide the leadership essential to the survival and transformation of that system; and, (2) the democratic system of government (despite its superiority over all other forms of government) in the U.S., the EC, Japan, and other developed countries enable economically and politically minority groups such as farmers to exert powerful protectionist pressures that prevent further trade liberalization.

If the UR fails, the survival of the GATT-based MTS will be in doubt. The danger of the world splitting into regional trading blocs and the outbreak of trade wars will become real. Even if the UR is concluded successfully and the GATT survives in the form of a stronger Multilateral Trading Organization (MTO), the world trading system will soon face new challenges. These will include such issues as the global harmonization of national environmental and competition policies.

AN APPLICATION OF GLOBAL MARKETING VIA INTERNATIONAL LOCATIONS

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Abstract

Strategic marketing management is rapidly becoming an important issue for multinational enterprises. Changes in the global markets are forcing these firms to rely heavily on marketing managers and marketing strategies. An international facility location (IFL) strategy is one useful approach for multinational firms, which was the focus of Pomper's research. Using Canel's (1991) model, this paper replicated and extended Pomper's (1976) optimum location model. This paper suggests that multinational firms could benefit from a mathematical model in evaluating the profitability of an international location and developing strategic marketing management.

Introduction

Strategic marketing management is rapidly becoming an important issue for multinational enterprises. Changes in the market place are forcing these firms to rely heavily on marketing managers and marketing strategies. Walker, Boyd, and Larreche (1992 p. 27) state that "competitive advantages are becoming harder to sustain as product life cycles shorten and global competitors contest more markets." These authors believe that marketing plays a crucial role in formulating and implementing business strategies.

Because they occupy positions at the boundary between the firm and its customers, distributors, and competitors, marketing managers are usually most familiar with conditions and trends in the market environment. Consequently, they are responsible not only for developing strategic plans for their own product-market entries, but also are often primary participants and contributors to the planning process at the business and corporate level as well. (p. 21).

Facility location strategy is one useful approach for marketing managers to contribute to the success of multinational firms. Porter (1985) believes that superior resources such as marketing information and intelligence could identify optimal location for firms' facilities.

The location of activities in relation to each other as well as to buyers and suppliers often contributes significantly to such

things as labor rates, logistical efficiency, and supplier access. The firm that locates its facilities well will often gain a significant cost advantage. The optimal location of activities change over time... (p. 105).

Advantages of IFL have also been noted by other researchers. Several of these advantages are (Kogut 1984; Moxon 1975): (1) to extract raw materials, (2) to secure a foreign market (3) to take advantage of certain resources, (4) to expand export markets, and (5) to be more responsive to local markets.

International facility location (IFL) can be viewed as an extension of the facilities location problem (FLP). In FLP literature, plants, facilities and customers are all assumed to be in the same country; whereas in IFL, plants and facilities are in different countries, and serve customers worldwide.

While FLP has attracted a great deal of attention in the marketing/distribution and management science literature (see Thizzy et al. 1983, and Brandeau and Chieu 1989 for extensive reviews), there is very little research on the issues related to international facilities location (IFL) problems. The only notable exception can be found in Pomper's study (1976). This clearly suggests a strong need for optimal-location models that would provide competitive advantage for the firms.

The purpose of this paper is to replicate and extend Pomper's (1976) optimum location model using Canel's (1991) model. This paper is divided into four parts. In the first section, we provide an overview of the Agricultural Chemicals International, the company for which the model is applied. Pomper's study and findings are discussed in the second section. The third section of the paper presents our replication using Canel's (1991) model and finally the last section provides conclusions of the paper.

Characteristics of Agricultural Chemical International

Agricultural Chemicals International (ACI) is a U.S. based multinational chemical company composed of 30 overseas and 10 U.S. manufacturing facilities. ACI's foreign sales in 1973 were about 30% of their total sales. These manufacturing facilities were established to serve customers in the U.S., South America, Europe and the Far East. Product F is one of their several products identified as a major mature agricultural chemical product which had experienced a modest but steady growth for many years. The location and size of ACI's manufacturing facilities and markets for product F in early 1973 are shown in Table 1. During this period of time, ACI was compensating for its

capacity shortage, which was 2,215 tons annually, by reducing its market position in the least profitable markets. On the other hand, the markets of the company were growing, and management felt a need to expand. A planning cycle of 1.5 years was required for constructing new facilities and was therefore taken as the basis for determining the length of periods one, and two. Period one was defined from the beginning of 1975 till the middle of 1976, period two covered half of 1976 and all of 1977, and period three started from the beginning of 1977 until the end of 1980.

INSERT TABLE 1 ABOUT HERE

As Table 1 depicts, ACI did not have sufficient capacity to meet the demand in its defined markets. Therefore, management had to decide when, where, and how to expand capacity for product F. The plants considered by ACI were classified as small (technology 1), large (technology 2), and fully balanced plants with expected theoretical capacities of 10.7, 15.5 and 31 kiloton per annum, respectively. Furthermore, it was assumed that scheduling inefficiencies and inventory constraints would reduce the expected theoretical capacities by 10%, which was therefore incorporated. In addition, the effective capacity of facilities in Italy was reduced by 29% because of labor laws which required the closing of facilities on weekends. South Africa was not being considered as a potential manufacturing location because the local market was too small and a key raw material was not available locally and was not transportable. In addition, Southern Italy was added as a potential manufacturing location because of the investment incentives offered by the Italian government in that region.

ACI's manufacturing facilities for product F in 1973 were in the U.S.A., Brazil, Colombia, France, and Northern Italy (Table 1). In order to satisfy the demand in the existing markets ACI had to decide (i) the countries in which they should open new facility(ies); (ii) on the capacity(ies) of the newly opened facility(ies); (iii) the period in which the facility(ies) should be opened; (iv) the production quantities in the new facility(ies); (v) the supply network of the markets from the opened facilities in the next three periods and (vi) on the quantities to be sent from the facilities to the markets. The goal of the company was to maximize its after-tax profits.

ACI made a decision consistent with its past practice of building plants primarily to provide products for the local market with essentially no provisions for export. Thus, they approved a major capital appropriation request from the French subsidiary for a major capacity expansion in France, because the subsidiaries of ACI in the European Economic Community had a substantial shortage of capacity. Consequently ACI's decision was to build a large plant in

France which was heavily influenced by several factors. ACI assumed that it would take optimal action after the first period, which was not to build any new facilities in period 2 and to build a large plant in Brazil in period 3. Pomper (1976) incorporated this assumption in a dynamic programming formulation to maximize the profits for product F.

Pomper's Model

Pomper applied a dynamic programming solution technique for solving the IFL problem for ACI and then compared the results of his analysis to those of the company's. The model developed by Pomper selected the following optimal investment strategies (1976 p.54):

- (1) start the construction of a large plant in Brazil to start manufacturing at the beginning of 1975;
- (2) do not decide on a second capacity expansion until mid-1976;
- (3) in the middle of 1976 decide to expand the large Brazilian plant into a fully balanced plant which was equivalent to building a second large plant in Brazil.

This strategy was calculated to be worth a present equivalent of \$19 million which theoretically represented the present market value of ACI's product F business. However, ACI's strategy was calculated to be worth a present value of \$16.6 million which was \$2.4 million lower than the optimal strategy provided by Pomper's model.

Based on the above strategies developed by Pomper, the quantities shipped from the manufacturing facilities to the markets were determined for the next three periods as provided in Tables 2, 3, and 4.

The solution provided by Pomper suggests that ACI should open a manufacturing facility in Brazil with a capacity of 13,950 in the beginning of period 1, which is the beginning of 1975. Considering the construction lead time of 18 months required for a new facility in any country, the construction of this new facility should commence in the middle of 1973. This lead time of 18 months is the basis for the length of periods 1 and 2. The third period is assumed to be 3 years long. With the introduction of this new facility in Brazil the current shortages faced by ACI are eliminated. This new facility in period 1 results in an excess capacity of 6,425 in U.S.A. and 1,202 in N. Italy, a total of 7,627 in period 1, which are depicted in Table 2.

Table 3 illustrates the allocation of quantities from facilities to markets in period 2 which indicates that the solution suggested by Pomper does not bring in a new facility for this period. The total excess capacity of 7,627 in

period 1 is utilized to satisfy the increased demand during this period. However, the facility in U.S.A. still has an excess capacity of 4,304.

The decision for the third period is to expand the Brazilian facility introduced in period 1 with an additional capacity of 13,950, as shown in Table 4. Thus, the total capacity of the facilities in Brazil becomes 37,530 with this expansion. Pomper points out that the reason for this expansion is simply due to the fact that the investment costs in plant, equipment, and working capital for this expansion will be 60 % more than the one opened in period 1. Therefore, in period 3 it is more economical to double the capacity of the Brazilian facility opened in period 1. This decision is in accord with the second and third investment strategies suggested by Pomper; which were not to make any decision regarding a new facility or a capacity expansion for existing facilities till the middle of 1976 (beginning of period 2) and to decide to expand the capacity of the facility in Brazil in the middle of 1976. Thus, the construction for expansion would take place during the second period and the additional capacity in this facility would be available in the beginning of period 3 (beginning of 1977).

INSERT TABLES 2, 3, AND 4 ABOUT HERE

The solutions for these three periods interestingly illustrate that the manufacturing facility in N. Italy does not use any of its production for satisfying the demand from Italy. In addition, the facility in N. Italy has excess capacity during periods 1 and 3. The production in N. Italy is mainly used to supply the market in France in periods 1 and 3. The expansion of the facility in Brazil in period 3 results in 6,221 excess capacity in N. Italy because it is cheaper to supply the market in Italy from Brazil. The effective capacity of this facility is 6,965 which shows that 89.2% of the production capacity in N. Italy is not utilized due to the high costs in this country. Thus, it might even be better to close the facility in N. Italy in the beginning of period 3. However, The model developed by Pomper does not consider closing facilities and the costs related to this.

The Replication

In this paper, we used Canel's (1991) zero-one mixed integer programming (0-1 MIP) formulation to replicate Pomper's (1976) results and answer questions raised by ACI. In order to provide an objective and systematic comparison of the net present values calculated by Canel's formulation and Pomper's formulation we would have to use the same cost and price data. The exact cost and price data used by Pomper is not available to us. Therefore, we have generated all of the required cost and price data based on the explanations provided in Pomper's research. In

addition, we do not consider the terminal of facilities, management fees, and royalties which were included in Pomper's model as a solution.

The required cost data and prices are calculated based on the information provided in Pomper (1976). The data was only available for the initial period (middle of 1973 till the end of 1974) which necessitated the calculation of those data for the next three periods. The inflation and devaluation rates in different countries are taken into consideration in calculating the required cost and price data for the next three periods.

The choices for new facilities include opening facilities with effective capacities of 9,630 or 13,950 in Brazil and Colombia and a new facility with a capacity of 9,630 in U.S.A., France, N. Italy and S. Italy. Thus, in the Tables exhibiting the solutions provided by Pomper and Canel's MIP formulation, we will denote existing facilities with (0), new facilities with a capacity of 9,630 with (1), and new facilities with a capacity of 13,950 with (2) after the country name. Consequently, there were five existing facilities and eight potential new facilities. We assume that the facilities existing in 1973 will exist in the next three periods. Therefore, the formulation does not consider closing and reopening of any facility, which can easily be incorporated. In addition, there will not be any new markets in these three periods; however, existing markets will continue.

Next, we used Canel's formula with 0-1 MIP formulation developed in this paper and LINDO (Schrage, 1981). The results provided by LINDO are presented in Tables 5, 6, and 7, for each of the three periods. Using our formulation, the results indicate that a new facility with a capacity of 13,950 to be opened in Brazil in the beginning of period 1 (Beginning of 1975). Thus, the construction of this facility should start immediately (middle of 1973).

Table 5 illustrates the allocation of quantities from facilities to markets in period 1, which is slightly different from the one suggested by Pomper. Thus, even though the decision for opening a new facility in Brazil in period 1 is the same as the one suggested by Pomper, the allocation of quantities from facilities to customers is different. The reason for this difference is that we have used the data for creating the different types of costs and market prices as it is suggested in Pomper's. The excess capacity in period 1 takes place in facilities located in Colombia and N. Italy, with a total of 7,627.

The solution provided by the formulation for period 2 indicates that there should not be any new facility in period 2 and the excess capacity in period 1 is used to supply the increased demand in this period. Again, the

allocation of quantities shipped from facilities to markets is different from the one suggested by Pomper's solution because of the reasons explained earlier. In addition, our solution (Table 6) indicates that the excess capacity should take place in the Italian facility. However, Pomper's solution for the same period indicates that the excess capacity should take place in the U.S. facility. This is another difference between our solution and Pomper's solution for the second period.

The solution for period 3 (Table 7) does not recommend opening any new facility, unlike the solution suggested by Pomper. The reason for this discrepancy is that in our formulation the decisions are made in the beginning of the current time period for the next three periods, whereas Pomper suggests making a decision to expand the opened facility in Brazil in the beginning of time period 2 (middle of 1976). Consequently, Pomper's decision is based on the results of the first and second periods.

INSERT TABLES 5, 6, AND 7 ABOUT HERE

In period 3 (see Table 7), there will be a shortage unless additional capacity is provided. The alternatives for providing additional capacity are either to open a new facility or to expand any one of the existing facilities. In this case, as suggested by Pomper, it is more economical to expand the capacity of the facility opened in Brazil in period 1. He justifies the expansion of this facility by stating that the investment costs related to plant, equipment, and working capital will be only 60 % more than the initial investment cost of the existing facility in period 2. As a result of not opening any new facility for period 3, there is a shortage of 2,621 assigned to the French market where the shortage cost is the least and the facility in N. Italy is producing at its potential capacity.

The result of our study and Pomper's suggest that most of the demand in the Italian market is being supplied from the facility in Brazil in period 1 and 2. Thus, if the existing facility in Brazil were expanded in period 3, it would continue supplying the Italian market which in turn would result in under utilization of capacity at the N. Italian facility in period 3.

We do not provide a comparison of the profits obtained by the MIP formulation to those obtained by Pomper's model for several reasons. Pomper's model calculates the net present value of the cash flows by applying a discount factor, whereas our formulation does not incorporate any discount factor to provide a net present value of the objective function value.

Furthermore, we solved the same problem with the assumption that no shortages are allowed during any of the three time periods. The results

for this case indicate that the profits are lower than the case where shortages are permitted, which is the same conclusion reached by Pomper's model. Again, because we did not use exactly the same data for investment, fixed and transfer costs as in Pomper's model, our formulation suggests opening a small facility in Brazil in periods 1, 2 and 3 and another small facility in Colombia in periods 2 and 3 whereas Pomper suggests opening a large facility in Brazil in periods 2 and 3.

INSERT TABLE 8 ABOUT HERE

We also analyzed the IFL problem faced by ACI with an objective of minimizing costs during the three periods. In this case, we did not introduce the prices of the product in the objective function and kept the same set of constraints. Our results for this case indicate that no new facilities should be opened during any of the periods. Furthermore, we solved the same problem with an objective of minimizing costs, assuming that shortages are not allowed and then deleted the shortage costs from the objective function. The results for this case indicate that a large facility should be opened in Brazil in periods 1, 2 and 3 and a small facility in Colombia in period 3. In this case where the objective is minimizing costs with and without shortages, we found that the total costs are higher when shortages are not allowed. Table 8 illustrates the decisions and objective function values when we have different objective functions (maximization of profits and minimization of costs) with and without shortage costs.

Conclusions

In the domestic facilities location literature there have been many applications of the different techniques and models developed for solving a variety of location problems. However, interest in IFL is very much in its infancy. As such not much by way of application can be found in IFL literature. The only notable application found was the ACI study by Pomper. In this paper the IFL formulation developed in an earlier paper (Canel, 1991) is applied to the case study to verify the correctness of our formulation in this paper.

Our objective in comparing Pomper's solutions to ours is to verify the validity of our formulation (using Canel's model) by providing the same decisions for opening or not opening facilities within the time frame of three periods. The results obtained by our MIP formulation indicate that the MIP formulation provides the same decisions in terms of when and where to open new facilities.

Appendix

Changes in the market place are forcing these firms to rely heavily on marketing managers and marketing strategies. An international facility location (IFL) strategy is one useful approach for multinational firms. Using Canel's (1991) model, this paper replicated and extended Pomper's (1976) optimum location model. Further, this paper suggests that multinational firms could benefit from Canel's model in evaluating the profitability of an international location and developing strategic marketing management.

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The complete formulation of the IFL problem

$$\text{MAXIMIZE } \sum_c \left\{ \sum_c SP_{ct} S_{ct} - \sum_f INC_{ft} Z_{ft} - \sum_f FC_{ft} Y_{ft} - \sum_c \sum_f TFC_{fct} X_{fct} - \sum_f SC_{ct} QS_{ct} - \sum_f IH_{ft} QI_{ft} \right\} \quad (1)$$

Subject to:

$$\sum_c X_{fct} + QS_{ct} \geq D_{ct} \quad (\text{for all } f \text{ and } t); (2)$$

$$\sum_c X_{fct} + QI_{ft} \leq CAP_{ft} Y_{ft} \quad (\text{for all } f \text{ and } t); (3)$$

$$S_{ct} \leq \sum_c X_{fct} \quad (\text{for all } t); \quad (4)$$

$$Z_{ft} \geq Y_{ft} - Y_{f(t-1)} \quad (\text{for all } f \text{ and } t); (5)$$

$$Y_{ft} = 0 \text{ or } 1 \quad (\text{for all } f \text{ and } t); (6)$$

$$Z_{ft} = 0 \text{ or } 1 \quad (\text{for all } f \text{ and } t); (7)$$

$$X_{fct}, QS_{ct} \geq 0 \quad (8)$$

THE NOTATION USED IN THE FORMULATION

- CAP_{ft} - Capacity of facility in country f in period t.
- D_{ct} - The demand from customers in country c in time period t.
- FC_{ft} - The fixed cost associated with facility in country f in time period t.
- IH_{ft} - Inventory holding cost per unit at facility f in period t.
- INC_{ft} - Investment cost for facility in country f in period t.
- QI_{ft} - Quantity in inventory at facility f in period t.
- QS_{ct} - Quantity short in market c in period t.
- SC_{ct} - Shortage cost per unit at market c in time period t.
- SP_{ct} - Selling price in country c in period t.
- TFC_{fct} - Transfer costs from facility f to customers in period t.
- X_{fct} - Quantities shipped from facility f to market in country c in time period t.
- Y_{ft} - 1) if facility in country f is opened in time period t, in order to incorporate fixed costs.
0) otherwise
- Z_{ft} - 1) if facility in country f is opened in time period t, in order to incorporate investment costs.
0) otherwise

TABLES ARE AVAILABLE UPON REQUEST

GLOBAL BARRIERS TO MARKET ENTRY FOR DEVELOPING COUNTRY BUSINESSES

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Abstract

Market entry barriers are crucial environmental factors that influence firms to make market entry decisions. While the importance of barriers differs depending on the market and the type of product being marketed, their impact in international markets has continued to increase during the last decade. This paper discusses the importance and implications of ten major market entry barriers in international markets for firms from developing countries.

Introduction

Ever-increasing global competition and protective measures taken by governments have had a growing impact on performance of companies marketing their products in international markets. Firms from developing countries have been especially affected by these and other barriers to market entry. Although many businesses from developing countries face the same market entry barriers as their competitors from developed countries, the number and magnitude of barriers are often higher for them. This paper focuses on the barriers that are specific to developing country businesses attempting to enter international markets.

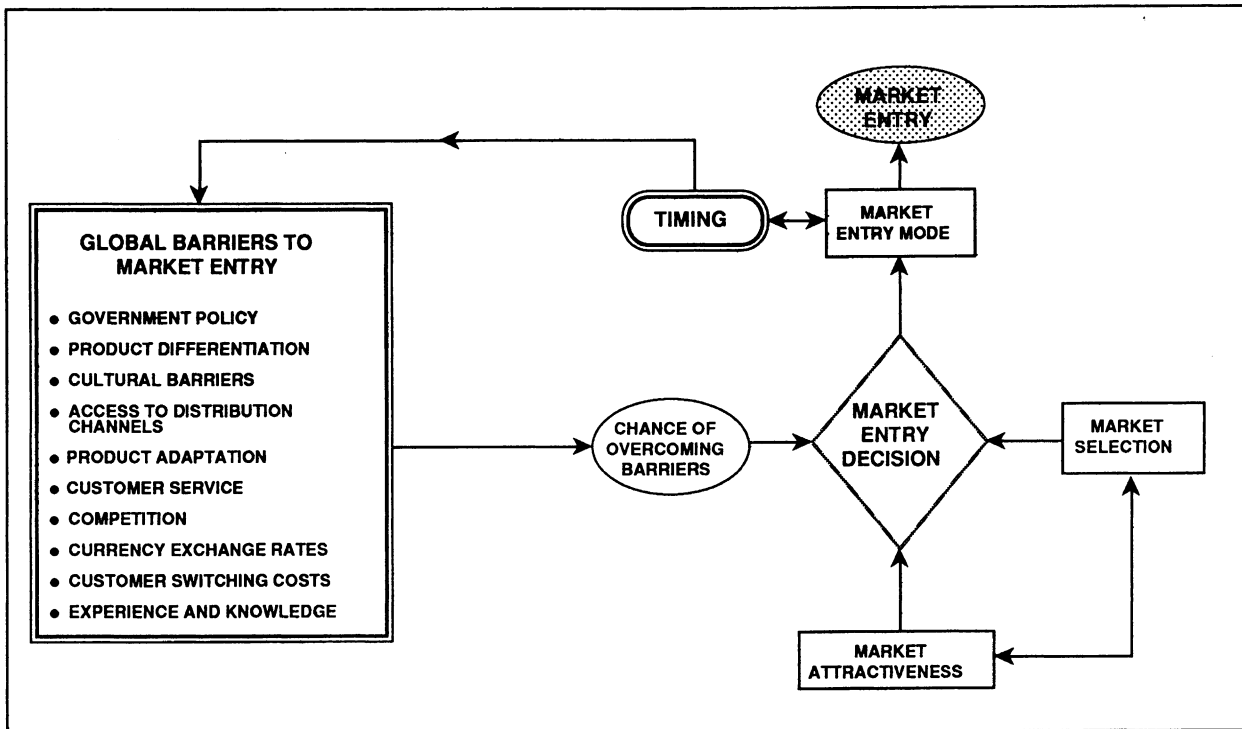
Shepherd (1979) describes barriers to entry as anything that decreases the likelihood, scope, or speed of the potential

competitors' entering into the market. The existence of barriers to entry results in fewer entries and, therefore, allows incumbents to enjoy above average profitability (Yip, 1982). Mann (1966) and Shepherd (1979) also support this view that barriers to entry influence profit rates.

Porter (1980) proposed six major sources of barriers to entry. These six barriers were: 1) cost advantages of incumbents; 2) product differentiation of incumbents; 3) capital requirements; 4) customer switching costs; 5) access to distribution channels, and 6) government policy. Karakaya and Stahl (1989) empirically tested these six barriers for both consumer and industrial products. In another study, Karakaya and Stahl (1992) examined the importance of 25 barriers to entry and their underlying dimensions in U.S. consumer markets.

There is an increasing number of research studies focusing on global market entry barriers for U.S. businesses. Yang, Leona and Alden (1992) cite three categories of barriers to exporting: 1) external barriers; 2) operational barriers, and 3) internal barriers. External barriers as suggested, by these researchers, consist of tariff and non-tariff barriers, foreign exchange fluctuations, competition in foreign markets, government policy, foreign business practices, and differing product and consumer standards in foreign markets (Bauerschmidt, Sullivan, and Gillespie, 1985; Czinkota and Ursic, 1983; Dichtl, Koglmayr, and Muller, 1986; Kaynak and Kothari, 1984; Kedia and Chokar, 1986; Robino, 1980). Similarly, operational barriers encompass problems of receiving payments from foreign customers, locating potential

FIGURE 1
 MARKET ENTRY BEHAVIOR OF FIRMS FROM
 DEVELOPING COUNTRIES INTO INTERNATIONAL MARKETS



buyers, making arrangements for transportation and shipments, clearing customs, and obtaining representation in international markets (Kedia and Chokar, 1986; Yaprak, 1985). Internal barriers are past experience in foreign markets, lack of managerial commitment, and lack of human and capital resources (Bauerschmidt, Sullivan, and Gillespie, 1985; Cavusgil and Nevin, 1981; Yaprak, 1985).

Market Entry Barriers for Firms from Developing Countries Attempting to Enter International Markets

Figure 1 shows a global market entry model for businesses from developing countries. The model consists of: 1) Global market entry barriers; 2) Chance of overcoming barriers to entry; 3) Timing; 4) Attractiveness of potential market; 5) Market selection, and 6) Market entry mode. It is important to note that many of the barriers in domestic markets (i.e. barriers for U.S. firms in domestic markets) can translate into competitive advantages for companies from developing countries.

Most of the market entry barriers identified in the literature are applicable to businesses from developing countries attempting to market their products in international markets. However, the viewpoints of executives in developing countries attempting to enter international markets are that most of the barriers change in form and magnitude. From this perspective, the following barriers are proposed to influence market entry and competitive position of the firms from developing countries:

1. Government policy (i.e. taxes, licensing requirements, controls, import quotas, and export restrictions);
2. Product differentiation advantage held by incumbents;
3. Cultural barriers;
4. Access to distribution channels and transportation costs;
5. Product adaptation;
6. Customer service;
6. Expected local and global competition;
7. Stability of foreign currency exchange rate;
8. Customer switching costs;
9. Experience and knowledge about foreign markets.

Government Policy Barrier

Government policy has become one of the most important barriers during the last decade. Often, foreign governments set import quotas limiting the amount of goods that can be marketed by foreign companies. According to Porter (1980), government policy can easily limit the number of firms in a market through controls such as licensing. Licensing requirement allows the government to emphasize their low tariffs or nonexistent quotas while still restricting entry.

There have been a variety of studies concerning the impact of the government policy barrier in domestic markets (see Harrigan, 1985; Moore, 1978; Pustay, 1985; Beatty et al., 1985; Grabowski and Vernon, 1986; Dixit and Kyle, 1985).

Interestingly, the influence of government's domestic policy also affects the way foreign companies can operate in international markets. Some important examples of this barrier include customs duty taxes, regulatory requirements, and import quotas. Some governments require joint ventures between the host country firms and the foreign firms. In addition, many governments subsidize agricultural production and other industries (i.e. steel and aerospace industries). Subsidy of wheat production in the U.S. and England's subsidy of Airbus are good examples of this practice.

Kotler (1987) states that firms may confront tariff (e.g. taxes) and non-tariff barriers (e.g. bias against a foreign company bid). In addition, some countries have created barriers by forming economic communities. For example, The European Economic Community, better known as the "Common Market," sets no tariffs on the member countries, but sets a uniform tariff and quota to nonmembers. The 1992 unification of the 12 member countries is expected to alter many of the barriers by removing fiscal, physical, and technical barriers among the 12 nations (Quelch and Buzzell, 1990). While the developing country members (e.g. Greece, Portugal, and Spain) will benefit from this unification, the nonmember developing countries marketing their products in Europe may be at disadvantage.

There is very little that firms from developing countries can do to overcome this major hurdle, the government policy barrier. However, this does not mean that they should remain passive and let foreign government policies rule their marketing strategies. Keeping a close eye on foreign government policies can help these firms take actions before it is too late. Communication with foreign government officials to resolve differences is an important step and it may be worthwhile. Of course, retaliatory action of the developing countries' governments is another alternative, yet it is not an easy one. In addition, the governments of developing countries usually are not in strong positions to retaliate. Thus, market entry through joint ventures may be the only alternative in defeating this barrier.

Product Differentiation Advantage of Incumbents

Product differentiation advantage held by the domestic and other foreign companies can hinder the market entry efforts of firms from developing countries. According to Porter (1980), product differentiation stems from the established firms' having brand identification and customer loyalties, which often result from past advertising or simply being first into the industry. Early market entrants often gain product differentiation advantages over the later entrants because when customers become convinced that the first brand in any product class performs satisfactorily, that brand becomes the standard against which subsequent entrants are rationally judged (Schmalensee, 1982). This view is also supported by Robinson and Fornell (1985).

Firms in developing countries are usually not the first entrants into foreign markets. Often these firms follow the domestic marketers, or enter the market at the growth or maturity stages of the product life cycle. Because early entrants have advantages and create some barriers to entry for later entrants, firms from developing countries are at a disadvantage when even thinking of marketing their products in international markets. Another important reason why it is difficult for developing country firms to achieve product differentiation is the fact that they do not have the advantage of being able to use the mass media in foreign nations as well as the domestic firms. Many do not even advertise, but choose to compete on the basis of price. However, some products from firms in

first world countries such as England, France, Germany, Japan, Sweden, and Switzerland have achieved product differentiation in the U.S. markets. The keys to the success of the companies from the European countries mentioned have usually been the high product quality and the effective use of promotion. If the firms from developing countries choose to differentiate their products, they must make certain that their products are of comparable quality and they must be able to use the mass media.

Cultural Barriers

Culture affects all areas of marketing: product design; acceptance; communication methods; the role of family members in the purchasing process; relations with distributors; and physical distribution (Kahlar and Kramer, 1977). Each country has its own folkways, norms, and taboos (Kotler, 1987). These translate into cultural differences among the nations which lead to market entry barriers. In fact, cultural differences create or contribute to the formation of other barriers in international markets. The cultural differences are not only apparent among the consumers of different countries, but also among the business executives. Therefore, market research is a must before a firm makes a decision to enter a foreign market.

Engel and Blackwell (1982) suggest the use of content analysis to determine the values, norms of behavior, and other elements of a culture by examining the verbal materials produced in the culture. Primary data gathering techniques could also be used in examining the shopping and consumption patterns of consumers. However, the cost of gathering primary data could be prohibitive. Thus, purchasing data from market research firms or syndicated services may be a preferred alternative.

Product Adaptation

Marketers usually have to modify their products to be effective in international markets. This can be costly. The higher this cost is, the higher the market entry barrier. The most common modification includes the language used on the product and its packaging, as well as the product specifications. Countries with similar cultures would require very little or no change in the product. Planning the necessary changes during the product development stages should make the modifications easier. If product adaptation is necessary, the developing country firms must study the foreign markets. The cultures and government policies in foreign countries will play a crucial role in designing an adaptation strategy.

Customer Service

Customer service is important for industrial products and some consumer products such as automobiles and household appliances. Lack of service facilities and high transportation costs including impracticality of user's shipping products to manufacturers for repair or service raises the height of this barrier and gives a competitive edge to local companies. Many European and Japanese manufacturers have overcome this barrier through franchising and joint ventures. For example, Japanese household appliance and auto manufacturers utilize wide distribution channels and have service facilities in the U.S. and other countries. Also, a Yugoslavian automobile manufacturer, Yugo, was successful in the U.S. through a joint venture. Similarly, other businesses from developed

countries have done well in global markets by using wide distribution channels. Therefore, firms whose products require servicing must be ready to obtain wide distribution to have a substantial market share so that servicing can be a part of their marketing activity.

Expected Local and Global Competition

The developing country firms' products do not only compete with local products. The competing products also come from developed, underdeveloped, and other developing countries. The attractiveness of a market usually increases the number of competing firms. Thus, this barrier tends to be high in these markets (i.e., western world markets).

Many developing country firms choose to enter the western world markets because of their attractiveness. Intensive competition in these markets usually forces firms to reduce prices and settle for lower profit margins. Firms from developing countries can avoid head-on competition by targeting their products to specific market segments or by selecting not-so-attractive markets. If western world markets are chosen, it is essential to study the competition and create a competitive niche in these markets.

Stability of Foreign Exchange Rate

If the foreign exchange rate for a currency is volatile, the marketing firms can experience quick losses or gains in international markets. Although developing country firms usually gain from the shifts in the exchange rates in the western world markets, it is possible to have losses in other markets. Losses in the western world markets can even occur if the marketing firm pays the shipping costs, or a part of the product is purchased from the countries in which the currencies appreciate. Therefore, developing country firms must monitor the foreign exchange rates and make adjustments in their marketing strategies. Past experience with a particular market or the past history of the foreign exchange rate with a country can shed light in the decision to enter that market or in determination of product pricing. Firms might also target a market in a country in which the exchange rate is fixed with the home country.

Access to Distribution Channels and Transportation Costs

Most distribution channels may prefer to carry domestic products simply because of the proximity of the suppliers. They are not likely to handle products from other countries unless they can be assured of continuous supply, and be given high monetary incentives. The proximity of domestic firms may often translate into cost advantages for the domestic marketers. Distribution is a key factor in successful marketing. Unless firms can develop their own distribution channels or acquire other firms (i.e. vertical integration) to use as their distributors, access to distribution channels remains an important barrier to market entry.

Japanese distribution channels is a good example of the access to distribution channels barrier. Alden (1987) reports that more than 1.7 million retailers serve Japan's population of 120 million who live in 651 cities, 1,997 towns, and 607 villages scattered over the habitable 19% of the country's mountainous terrain. Similarly, Shimaguchi and Lazer (1979), report that invisible barriers are imbedded in the mind-set and sociocultural characteristics of Japanese businesses, particularly in the

Japanese distribution system. The large number of small distributors and the length of the distribution channels appear to be the major causes of the barriers to entry in Japan.

According to Porter (1980), a barrier to market entry can be created by the new entrant's need to secure distribution channels for its products. This barrier becomes especially important for firms in the developing countries for four major reasons. These are:

1. difficulty of locating the appropriate channels of distribution;
2. difficulty in selecting the right channels of distribution;
3. difficulty in communicating effectively with the channels;
4. difficulty in competing with other firms, either domestic or foreign, to secure good channels of distribution (i.e. inability to provide adequate advertising allowances, etc.,).

Customer Switching Costs

Customers attempting to switch from one supplier to another always face some sort of switching costs. These costs can be categorized in two forms: 1) monetary costs (i.e. training employees, cost of modifying products to match a supplier's product, assurance of supply, etc.); 2) psychological costs (i.e. cost of severing a relationship with present supplier) (Porter, 1980). Therefore, the potential customers' perception of the switching costs influences their purchase decisions. The perceived switching costs may even be higher for the products of the developing country firms. Lack of experience of doing business with companies in developing countries and possible unstable political conditions add to the height of this barrier.

Battling with this barrier, depending upon the type of switching cost, may include training of potential buyers' employees, lower prices, product warranties, service agreements and assurance of continuous supply. Creating a good image for the company and its products (i.e. product differentiation strategy) can, of course, help the firms in developing countries overcome the customer switching costs barrier. Nevertheless, this strategy can not be achieved overnight, and its benefits can not be realized in the short run. Furthermore, this barrier does not apply to every product, and it may be very low or nonexistent for some products (i.e. low priced consumer goods such as chewing gum). However, it is almost always very high for industrial products.

Experience and knowledge about foreign markets

Lack of experience and ability to gather knowledge about foreign markets hinders market entry efforts of many developing country firms into international markets. While developed countries have marketing information available from libraries and marketing research firms, developing countries and underdeveloped countries have little or no marketing information. Although the markets of developed countries are more attractive, they are also more competitive. Joint ventures with businesses from developing and underdeveloped countries may often prove useful in gathering the necessary marketing information to make market entry decisions. It is important to question the secondary data in these countries since they may be outdated and inaccurate due to high inflation rates and inadequate or lack of reporting by businesses. In developed countries, however, marketing

research firms can provide the needed marketing intelligence and guidance at relatively low cost.

Discussion

Some of the barriers discussed in this paper have been tested in domestic markets while others, which have not been tested, only apply to international markets. Therefore, the ten barriers discussed are propositions for firms from developing countries in international markets, and require empirical testing. Furthermore, while the list of barriers discussed in this paper is comprehensive, it is by no means exhaustive. Some of the barriers examined may be more important than others depending on the market and the product type (see Karakaya and Stahl 1991). Previous experience dealing with these barriers may act an important determinant of success for the firms from developing countries.

The market entry strategy selected can also be a crucial factor in overcoming the barriers for firms from developing countries. Kotler (1987) suggest three major market entry strategies into international markets. Although, Kotler originally wrote his suggestions for developed country firms, they also apply to the developing country firms. These entry strategies are: 1) direct or indirect exporting; 2) joint ventures which include licensing, contract manufacturing, management contracting, and joint ownership, and 3) direct investment. Depending on the type and size of the market and the degree of financial risk involved, firms from developing countries can choose one or a combination of these strategies. The joint venture strategies should reduce the market entry barriers somewhat because of the experience and knowledge of firms from host countries, and the cooperation of the host country governments. Thus, joint ownership may work best for the developing country firms.

Conclusions

The international markets certainly appear to be attractive for developing countries. However, they also present high risk ventures if the market entry barriers are not studied before making entry decisions. The barriers discussed in this paper, and maybe some others must be measured and dealt with before entering markets. While some barriers exist before entering markets, others are created after entering markets. Therefore, firms from developing countries must also anticipate barriers and be ready to adjust their marketing strategies in international markets.

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EXPORT PROMOTION SERVICES IN THE UNITED STATES: IS IT TIME FOR A SERIOUS SOUL SEARCHING?

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Abstract

This study examined the awareness and utilization of several federal and state governments' export support services among a random sample of exporters in New York. Results from 159 completed surveys show significant ignorance among companies in this regard. In light of findings of this and similar studies, a number of specific policy recommendations are made to improve the efficacy of export promotion programs.

Introduction

In recent years, exporting, particularly by small- and medium-sized companies, has been regarded as an area deserving serious consideration since 1) the U.S. trade deficit has shown no sign of noticeable and persistent decline, 2) the low exchange rate of the American dollar has made the U.S. exporters more price competitive abroad, and 3) most of increase in U.S. exports has been attributed to the smaller companies. It is estimated that 85% of all the U.S. exports come from 250 of the top American multinational corporations (Stout, 1989) and they are producing at near capacity and show no inclination for further investments (Holstein, 1989). Export by small businesses, on the other hand, while still accounting for less than 15% of total export sales, has increased markedly in recent years, leading some to conclude that if there is any hope of reversal in the U.S. trade imbalances, it lies with the success of America's small business exporters (Marsh, 1989; Holstein, 1989).

This survey was designed to address several current concerns in the area of exporting and international trade. Specifically:

- * How successful have the public export assistance programs been in their efforts to assist small exporters?
- * How can such programs be made more effective?

Findings on these questions are going to be particularly important in their policy implications.

Review of Literature

In recent years, a number of export promotional services have been provided by the federal, state, and local government agencies, along with private organizations in this country in order to provide business firms of all sizes

with foreign market information, various distribution methods, financing opportunities, and other types of information deemed desirable to exporters - existing or potential. (Saddler, 1989; Stout, 1989; Small Business Administration, 1990). Although more resources have been devoted to the provision of these services in recent years, evidence on the effects of these programs in terms of stimulating initial exports has been rather mixed.

Investigating the impact of the establishment of Export Trading Companies (ETCs) on small exporters as well as non-exporters in Wisconsin, Mulugetta and Mulugetta (1986) found that nearly 70% of non-exporters did not have any intention of utilizing the services offered by ETCs, whereas more than 70% of existing exporters showed a willingness to join ETCs. They also found that non-exporters had low levels of awareness about the existence of export support programs available from various agencies such as Department of Commerce, Small Business Development Center, and the Export-Import Bank.

Kedia and Chokar (1986), in a survey of 49 exporters and 47 non-exporters in Louisiana, reported that relatively few companies were aware of government support programs. That is to say, only 10% to 20% of non-exporters were aware of the existence of the 17 promotional programs identified in the survey compared to 30% to 40% of the exporters. Among the latter though, the rate of utilization of the programs was relatively high, approximately 60% to 70%. This led authors to conclude that "increasing the exposure to and awareness of existing programs need to be a high priority of export promotion efforts to benefit the firms which need them most." As to how useful these services were, Kedia and Chokar found that respondents identified banking services most beneficial, followed by foreign market potential analysis and general exporting assistance.

Shah and Sharma (1989) surveyed 126 small firms in California concerning their awareness of nine export-assisting organizations, whether they received any help from them or thought they could benefit from their services. Findings indicated that while between 71% to 95% of exporters were aware of these sources and the services that these organizations provided, a very small percentage reported actually being helped by them, and a moderately higher percentage believed that they could be helped by these organizations. U.S. Department of Commerce, foreign-based distributors, and ETCs were most well known among exporters.

Finally, a recent study of exporters in a midwestern state, noted a mismatch between firms' needs and state agency's

services (Kotabe and Czinkota, 1992). As the authors concluded "while logistics, legal procedure, and foreign market intelligence are the problematic areas for local exporters, in particular, in early stages of export involvement, the state export promotion agency focuses half of its export assistance efforts on sales promotion..." suggesting that "it should redirect some more assistance efforts to firms in Stage One of export involvement from those in Stages Three to Five" (ibid., p. 655).

Research Methodology

A random sample of companies listed as exporters in the state of New York was selected from two sources: Central New York Directory of Exporters & Export Services and The Export Yellow Pages. A deliberate attempt was made to exclude strictly service-oriented firms and agricultural producers. Thus the sample emphasized manufacturing firms.

A survey questionnaire was sent to a total of 356 firms during the spring of 1992. Of these, 19 were returned due to business closing and/or address changes. After one follow up mailing, 159 useable surveys were received, yielding a response rate of approximately 47%. This paper reports the preliminary findings based on these responses. During the second stage of this project, the geographic coverage of the study will be expanded to include other states.

Results

Profile of Responding Firms

Companies were asked to provide selected background information pertaining to their size (measured by average sale during the last three years and number of employees), age, number of years in exporting, the ratio of export to total sales, the nature of the their product(s), among others.

Results indicated that about half of the respondents (48.0%) had sales under \$5 million, with another 31.8% whose sales were between 5 to 25 millions. Only 11.7% of the firms in the sample had average sales of \$50 million or more. About 68% of the firms employed less than 100 people, with another 20% employing between 100 to 500. Thus, the small- and medium-sized firms dominated the responding sample, hence their views are indeed reflective of such types of businesses across New York state.

About 95% of the firms in the sample were exporters. Of all the firms in the sample, 62.3% have been in export business for more than 10 years, while only 11% of the firms have started exporting during the last five years. Thus, one might conclude that the sample included a very large number of experienced exporters suggesting that they might be very familiar with the topics covered in this

study. In terms of sales generated from foreign markets, majority of firms were domestically oriented with a small fraction of their products going to foreign markets. Only 25% of the responding firms had more than 35% of their sales generated from the foreign markets.

Finally, a wide variety of products were manufactured by the firms in the sample. However, about 50% of the respondents produced three categories of products, namely, industrial machinery/computer equipment (17%), electronic and electrical equipment (20.8%), and fabricated metal products (11.9%).

Companies' Awareness/ Utilization of Export Promotion Services

Companies were asked if they had heard of or used a number of widely promoted federal and New York state export promotion services, and whether they benefitted or believed that they could benefit from those programs. [Table 1](#) summarizes the results.

The greatest "surprise" was the finding that a significant majority of programs, 8 out of the 11 programs (8 federal and 3 state), were not known to our responding firms in that approximately half or more (49.1% to 62.3%) had never heard of them. Topping the list were Matchmaker Service, Commercial News USA, SBA Export Assistance, and New York Global Export Market Service, in that order.

Among the programs used and found helpful, Trade Fairs, New York Exports Opportunities Bulletin and Agent/Distributor Service were more frequently mentioned. Trade Fairs, New York Export Opportunities Bulletin and Catalog Video Shows were also rated favorably by our sampled exporters.

In an effort to differentiate between the opinions of the more involved/experience exporters and others, responses to the preceding programs were also evaluated by the degree of export dependency of the firm, i.e., export/total sales. Based on the frequency distribution of responses to the question of what percentage of firm's sales was attributable to exports, a cutoff level of 15% was found as a logical breaking point. Furthermore, the "Likelihood Ratio Chi-Square" was employed to test for the statistical significance in differences in responses to the awareness/utilization of export promotion services between those exporting less than or equal to 15% of their production and those with more than 15%. [Table 2](#) presents the results.

As expected, those programs unknown to active exporters were even lesser known to those that were less involved and/or experienced, as the statistics in the first column of [Table 2](#) indicate. Similarly, those respondents who have been in exporting for a longer period and/or are more dependent on international markets were more likely to rate positively those programs found as useful. Furthermore, in terms of statistically significant difference

TABLE 1
AWARENESS/UTILIZATION OF EXPORT PROMOTION SERVICES (%)

PROGRAM¹	NHO	UNH	HH	WH	NR
Trade Opportunities Program	55.3	8.2	15.7	0.6	20.1
Commerical News USA	59.1	7.5	13.8	1.9	17.6
Agent/Distributor Service	52.2	9.4	17.0	4.4	17.0
Matchmakers Service	62.3	5.0	6.3	5.7	20.1
Trade Missions	41.5	13.8	15.7	5.7	23.3
Trade Fairs	29.6	12.6	32.1	6.9	18.9
Catalog/Video Shows	46.5	11.9	14.5	3.8	23.3
SBA Export Assistance	58.5	6.9	6.9	5.0	22.6
NY Global Export Market Service	58.5	9.4	7.5	3.8	20.8
NY Export Marketing Assistance Service	54.1	9.4	10.1	5.0	21.4
NY Exports Opportunities Bulletin	49.1	12.6	21.4	3.1	13.8

1. The sum percentages do not add up to 100 as many firms may utilize more than one program.

NHO - Never Heard Of
UNH - Used, Not Helpful
HH - Has Helped
WH - Will Help
NR - No Response

in responses, 7 out of the 11 programs questioned met the Chi-Square test at either 1% or 5% levels. That is to say, responses to the question of awareness/utilization of various export promotion services offered by the federal offices and the state of New York do indeed vary by the degree of the firms' export involvement in international markets.

Respondents' Suggestions for Improvement

The survey sent out included an open-ended question asking respondents to list programs that they believed should be reinforced or added to the existing panoply of services. In reviewing these qualitative remarks, several patterns can be readily discerned ranging from better dissemination of information on existing government programs and request for additional services on one hand, and "thanks, but no thanks" attitude on the other, suggesting that assistance from the government would be nice but not necessary and that government can best serve exporters by staying out all together.

In the first instance, several respondents requested as additional services those which are already being offered! A few of these were requests for programs on "how to's" of exporting. Such a request leads one to believe that either small firms are not expending the necessary effort to seek such information or that the government is doing a less than adequate job of publicizing them. Whatever the case, it serves U.S. economic interests to ensure that

these programs are put before the intended users. The federal and state government, therefore, should assume a more thorough and proactive role in publicizing their services.

In the second case, it appears that depending on the programs in question, a smaller or larger number of respondents are satisfied with the government docket of services as they presently stand. However, the scope and manner in which those programs are being offered seem to be in need of change. As an example, consider that 16% of the respondents requested expansion of Agent/Distributor type services. In addition, there were calls for increasing and expanding the coverage of export subsidies and credits (including tax exemptions) as well as expanding export seminars and mentor programs. In so far as the implementation of the programs is concerned, on several occasions, the structure and/or the knowledge of programs' personnel were criticized as being insufficient for the needs of exporters.

Lastly, from the responses provided, it is evident that many small- and medium-sized firms would like to see government assume a more active and direct role in promoting exports. Among the programs which exporters would like to see expanded or improved, a majority require legislative action of some sort. Requests for increasing export credits, subsidies and other financial services will first have to pass the U.S. Congress. If these requests are to be received favorably, they will require

the support of government officials at federal and state levels.

Discussion

As pointed out before, there seems to be a consensus that the chronic U.S. trade deficit would be significantly reduced if a greater number of small- to medium-sized firms became active exporters. In so far as export promotion services are concerned, two areas seem to hamper smaller companies' efforts to tap into

international marketplace. One is the "knowledge gap" on the assortment of programs/agencies that are unknown to many companies for whom these services are intended. Several studies cited before and the results of our study support this contention. Secondly, for any one company helped there are many others who feel ignored, either by design or by default. In recent years, due to budgetary restrictions or other concerns, the U.S. Department of Commerce seems to have reversed its conventional role in this area and thus made a deliberate and strategic choice of concentrating its efforts on "export-ready"

TABLE 2
AWARENESS/UTILIZATION OF EXPORT PROMOTION SERVICES
BY DEGREE OF EXPORT DEPENDENCY (%)

PROGRAM	NHO	UNH	HH	WH
Trade Opportunities Program				
Under 15%	71.0	11.3	16.1	1.6
Over 15%	67.7	8.1	24.2	--
Commercial News USA**				
Under 15%	78.5	6.2	10.8	4.6
Over 15%	64.5	11.3	24.2	--
Agent/Distributor**				
Under 15%	61.8	11.8	16.2	10.3
Over 15%	63.9	11.5	24.6	--
Matchmakers Service**				
Under 15%	81.5	4.6	3.1	10.8
Over 15%	75.9	8.6	13.8	1.7
Trade Missions**				
Under 15%	53.2	19.4	14.5	12.9
Over 15%	53.4	17.2	27.6	1.7
Trade Fairs**				
Under 15%	37.5	17.2	31.3	14.1
Over 15%	34.9	12.7	49.2	3.2
Catalog/Video Shows*				
Under 15%	63.8	13.8	13.8	8.6
Over 15%	56.5	17.7	24.2	1.6
SBA Export Assistance				
Under 15%	80.6	8.1	1.6	9.7
Over 15%	69.5	10.2	16.9	3.4
NY Global Export Market Service				
Under 15%	70.8	10.8	10.8	7.7
Over 15%	77.6	12.1	8.6	1.7
NY Export Marketing Assist. Service**				
Under 15%	73.0	6.3	9.5	11.1
Over 15%	63.3	18.3	16.7	1.7
NY Exports Opportunities Bulletin				
Under 15%	57.7	14.1	21.1	7.0
Over 15%	56.5	12.9	30.6	--

* significant at the 1% level; ** significant at the 5% level.

companies. Susan Schwab, assistant secretary and director general of U.S. and Foreign Commercial Service, has been quoted as saying "not too long ago, we were trying to be everything to everybody, now we have to play from our strengths." Along the same line, NIE (New in Exports) program, designed to assist smaller companies penetrating into foreign markets has received cutbacks. (Finney 1992, p. 40) Similarly, the multiplicity of agencies providing various services at the federal and state levels has resulted in a loosely coordinated structure with duplications. Small businesses, therefore, find themselves overwhelmed with information that they have little expertise digesting, or they feel benefitted only if they are lucky enough to "go to the right office and ask the right questions." (Finney, p. 42)

Conclusions and Policy Recommendations

At the outset, as Kotabe and Czinkota (1992) point out, whether public funds and efforts should be expended on enticing firms into exporting, instead of letting the profit motive and market mechanism drive the process at current times of tightening budget constraints and competing public priorities is inappropriate to some. On the other hand, they note, "... the fact that the prime export benefit to firms appear to accrue in the area of competitiveness, rather than profitability, may be a key tentative justification for government involvement in export promotion" (Ibid, p. 655). Based on this premise, state and federal government officials need to pay closer attention to how they publicize their programs and reach their target firms, as a significant number of their intended audience are still uninformed of the existence of such programs (see also Seringhaus and Botschen 1991 for similar evidence in Canada and Austria). Whether it is due to poor communication, loose coordination of services among the various federal and state agencies involved, exporters' passivity, indifference, and other attitudinal factors, or absence of a well conceived trade policy, the fact remains that much export potential exist in this country, particularly among small- and medium-sized businesses both in manufacturing and especially in service sector. Currently, the relative ratio of export to GDP stands around 7.4% for the U.S., compared with 26.3% for Germany, 9.7% for Japan (Business America, October 1992), and an average of 19% for the United States' major trading partners.

A number of areas of improvements seem in order. For one, a critical review of the publicity and promotion is needed to ensure wider awareness of export support services in the business community. Secondly, the existing programs ought to be streamlined and focused on those select group of services that serve specific needs of small- and medium-sized companies. Finally, it is suggested that the U.S. needs a clearly formulated trade policy drawn at the federal level and in partnership with private sector organizations such as industry associations, banks, universities, and regional governments, as is the case in Japan and Germany (Business Week 1992, p. 112).

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PRODUCT/MARKET PORTFOLIO, EXTENT OF ACCESS TO DISTRIBUTION
CHANNELS AND BRANDING IN EXPORT SUCCESS FACTORS RESEARCH
AN EXPLORATORY STUDY

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Abstract

An attempt is made in this exploratory study to assess the relationship between those factors deemed as the patterns of competition for exporters addressed to consumer markets. The factors considered are product/market portfolio, extent of access to distribution channels and branding. The study attempts to integrate and build upon the fragmented and insufficient knowledge in export success factors research. The export activities of four of the biggest food manufacturers from a developing country exporting to consumer markets have been examined in detail. The findings provide insights on several theoretical gaps and ambiguities apparent in previous research.

Introduction

Patterns of competition for manufacturers-exporters to retail markets

Since the late sixties, the "retailing revolution" in both the UK and abroad has resulted in a steady growth of the retailers exerting (discriminatory) power over manufacturers and threatening their market and financial viability (McGee and Segal-Horn, 1988). This is due to both the increase in concentration in distribution (Nielsen, 1988) and the parallel increase of private label/generic products squeezing market share occupied by manufacturers' (branded) products (Simmons and Meredith, 1984; Harris and Strang, 1985). Many manufacturers defend themselves by the complimentary action of enhanced product differentiation and consumer "pull" through the retailers occurring from distinctive production characteristics (Segal-Horn and McGee, 1987) and branding (Chernatony and McWilliam, 1989; Aaker, 1991). Manufacturers of unbranded products seem to relinquish the opportunity to create or sustain consumer franchise (Bradley, 1991). At the same time consumer behaviour may have not changed very much. Despite a certain convergence, fragmentation of consumer habits seems to describe reality (EC, 1988). The above were bound to have very substantial effects on the patterns of competition for exports of manufactured goods to consumer markets.

Literature on export success factors

Many efforts have been made to describe a firm's initial motives towards export (Wiedersheim-Paul et al, 1978; Cavusgil and Nevin, 1981). Several models were also proposed intended to describe the process of development of exports (Bilkey and Tesar, 1977; Reid, 1981; Wortzel and Wortzel, 1981; Cavusgil, 1980; Moon and Lee, 1990). The buyer-seller relationship was also discussed (Ford, 1980; Rosson & Ford, 1980; 1982) as well as the process and interaction between the two parties (Hakanson, 1982). Much empirical research on exporting has attempted however, to identify factors affecting the export "success" of a company. There is no unanimous agreement on either the existence of individual factors per se or their importance for export "success" as a series of literature reviews unveil (see for example, Bilkey, 1978; Aaby & Slater, 1989; Madsen, 1987; Miesenbock, 1990; Ford and Leonidou, 1991). Gemunden (1991) reviewing fifty empirical studies found more than 700 factors influencing performance. Among the above, market, product, brand and distribution related issues have attracted consideration by several researchers considered in turn, though a series of shortcomings, contradictions, ambiguities and gaps in theory are apparent.

Product related variables

Product standardisation defined as the offering of common product in several countries (Jain, 1989) has attracted attention. Kirpalani and MacIntoch (1980) argued in favour of the adaptation of existing products to foreign markets. Similarly, Cooper and Kleinschmidt (1985) argued that product adaptation is imperative and indicative of "marketing orientation" of a company, finding the correlation with export growth to be substantial. Burton and Schlegelmilch (1987), found that companies

with increased export involvement in sales terms, have introduced new products something reflecting product adaptation. Their results are close to those of McGuinness and Little (1981). A different view was expressed by Tookey (1964) and Munro and Beamish (1987). The latter studying 116 Canadian exporters mainly to the US, established that they would rather supply products for exports similar in characteristics to the ones targeted at the home market. Amine and Cavusgil (1986) found that 80% of clothing companies' export products were identical or similar to home market products. Christensen et al (1987) also found that successful Brazilian manufacturers were exporting unchanged products.

Another point of focus, is the export success of "unique" or "differentiated" products. Cavusgil and Nevin (1981), studying 473 Wisconsin manufacturers, found the possession of a unique product for firms actively engaged in exporting to be significant. But, Louter et al (1991) found that unique product attributes resulted in a decrease of export/sales ratio in a study of 165 Dutch exporters. Ayal and Hirsch (1982) found moderate association between product differentiation and level of exports in their examination of Israeli exports to US. Product strength has been also found to be positively correlated with sales (McGuinness and Little, 1981; Madsen, 1989). Linkages have also been drawn from the concept of life cycle. Ryans (1988) strongly argued that it is the stage of life cycle of the product category in the market in question and the degree of competition that relate to level of exports. Regarding product lines, Christensen et al (1987) and Diamantopoulos and Inglis (1988) found that multiple product lines were more successful in terms of continuation of exports and export intensity respectively. A contrary view was expressed however, by Kirpalani and MacIntoch (1980) and Munro and Beamish (1987). On the contrary, a more unanimous agreement exists regarding the importance of high quality product as a factor determining export success (Cunningham and Spigel, 1971; Tookey, 1964; Ryans, 1988 and Louter et al, 1991). Interestingly, Christensen et al (1987) found that some exporters selling low-quality products were forced to "jump from country to country" due to non repeated orders from their clients. An overall explanation for the above mentioned differences may be Schlegelmilch's (1986) argument that industry differences may influence the characteristics which distinguish between exporters and non-exporters, something in concordance with Amine and Cavusgil's (1986) conclusions.

Contradictory results concerning product adaptation and profitability have been also reported. Fenwick and Amine (1979) found a negative correlation with export performance, contrary to Koh (1991) who was unable to detect any differences in export profitability from variations in product modification in US industrial products. Similarly, Bilkey (1982) did not identify any significant relationships between uniqueness of product and export profitability. Louter et al (1991) showed that export profitability was improved through exports of specialised products in one industry but standardised products in different industries. Bilkey (1985; 1987) indicated that export profitability may be export destination and industry related.

Market related variables

Only a limited number of aspects regarding market related variables are to be found in the export success factors literature. The various approaches can be conveniently considered under headings such as market concentration versus diversification and market selection. Discussion about market concentration vs diversification has adopted three standpoints. The first -derived from early work by Robinson (1967); Tookey (1975); Day (1976)- recommends concentration on the basis of larger market shares in the view of "more intensive development" (ITI, 1979). The BETRO (1976) and ITI (1979) reports both empirically supported the above. The second standpoint is in favour of market spreading (Hamermesh et al, 1978; Piercy, 1981). Hirsch and Lev (1973) found empirically that higher profitability was associated with larger export market numbers in their study of Denmark, the Netherlands and

Israel. Cooper and Kleinschmidt's (1985) "world orientation" was found to be associated to both higher export growth and level of exports. Lee and Yang (1991) found that market diversification was associated with higher export level but, neither market concentration nor diversification was found to be related to export growth and profitability. The third standpoint is in favour of a contingency approach based upon Ayal and Zif's (1979) and Thomas (1977) argument. The latter identified worldwide exploitation of a technical advantage, but also cases of firm concentration upon a few key markets, particularly when the degree of product standardisation is low. Piercy (1982) further argued that market concentration or diversification depends upon situational and industry factors such as company, market, product and other marketing factors.

Market selection has been another focus with research concentrated upon the type of country where exports take place. Dennis and Depelteau (1985) conclude that slow growth exporters place greater emphasis on less developed countries. Christensen et al (1987) also found that successful Brazilian exporters rely more heavily on developed countries. Cooper and Kleinschmidt's (1985) found that a "non nearest neighbour orientation" is associated with both higher export growth and level of exports, similar to Diamantopoulos and Inglis (1988) who found that high-involvement exporters have a broader export coverage. Da Rocha, Christensen and Eduardo (1990) in their study of the Brazilian furniture industry also found similar results. Ayal (1982) and Ayal and Hirsch (1982) found positive correlations between level of Israeli exports, total imports and import shares to US.

Access to distribution related variables

The export success literature, with the exception of Ford et al (1987) and Wortzel and Wortzel (1981), pays much more attention however, to type, extent and number of channels employed than access to organised distribution, extensively researched elsewhere. These can be conveniently considered under headings such as characteristics of channel and selection. Regarding characteristics of channel employed, most authors take channels of distribution as given, choose one particular channel to study, and examine other issues such as channel conflict. Much of the literature is descriptive (see for example Albaum et al, 1989, Bradley, 1991). Hirsch (1971) and Christensen et al (1987) found however, that indirect channel bring higher performance. Bilkey (1982) found that perceived profitability was highest when firms export to a distributor who has own marketing channels instead of directing exports to retailer associated with the least perceived profitability. Munro and Beamish (1987) found that smaller firms employ indirect channels while larger firms employ both indirect and direct channels but without significant relationship between the type of channel employed and export sales, growth or profitability. Reid (1987) argues however, that channels used vary with firm-specific factors. Bilkey (1985 and 1987) similarly argued in favour of situational variables, saying that profitability of export marketing channels depend upon country-specific considerations even if adopted type of channel changes over the years.

Appropriate selection of export marketing channels also plays an important role in the export marketing of many manufacturing goods (Cunningham and Spigel, 1971; Shipley et al., 1989). Bilkey (1982) reports that indirect channel are more appropriate for consumer goods even though the channel choices of US exporters resulted in different average profitability depending on the country with which they were dealing.

Branding related variables

There is a paucity of studies in export marketing which explicitly assess the role of branding in export "success". Namiki (1988) found that the development of brand identification was among the ways to differentiate offerings abroad. Koh (1991) found that exporters who perceive their product to be more unique tend to use their own brand name. But, they do not seem to perceive any differences in export profitability because of the use of brand name something similar to Bilkey's (1982) findings, while both authors do not associate level of exports and branding. Amine and Cavusgil (1986) found that clothing companies were striving to maintain the particular

character of their clothes through a brand name. Wortzel and Wortzel (1981) found that it is only at stage 5 where it is the exporter who assumes full responsibility of branding decisions. Rosen et al (1989) also report a high degree of brand standardisation and a limited brand diffusion.

Limitations of previous research

It becomes clear that knowledge is fragmented and confusion exists about whether the aspects under study relate to each other in export markets and if so, how their interrelation affects export "success". The existence of the above problems may be attributed to several occurrences:

1) There is a visible lack of integrative theoretical frameworks in the area, something already acknowledged by Bilkey (1978), Cavusgil & Nevin (1981), Kamath et al (1987), Miesenbock (1989) and Aaby & Slater (1989). This results in an overall difficulty to conceive the position of various concepts in the field and assess their interrelationships.

2) Empirical studies have exhibited a predominant concern to identify specific characteristics that distinguish export activity than a more relevant focus on the extent of "performance" associated with such an activity (Reid & Rosson (1987).

3) Discussion of export "success" within individual industry settings has not yet been presented even though several contributors have argued in favour of industry-specific factors affecting exports. Past researchers have examined several industries and treated the sample as a homogeneous group. Whenever industries are distinguished industry-specific variables are found relevant for success (Schlegelmilch, 1986; Bilkey, 1985; 1987; Piercy, 1982). This results in theory bias.

4) Previous research used a methodology speculating that export "success" is associated with a (sometimes contradictory) list of variables. This approach assumes that this list actually comprises the most important variables affecting exports and no inconsistencies. Flawed knowledge may be inevitably inherited by successors and lead to implicit causal theory (Camemer & Fahey, 1986).

5) Low response rates and varying samples both in terms of content, size and coherence, constitute another bias. The use of cross-industry samples may suppress conclusions particularly important to individual industries. It seems irrational to assume that the same relationships and variables have the same importance and weight in every business setting. This occurrence reduces the value of the studies, especially when differences in measurement are recalled (Gemünden, 1991).

6) Operationalization of research into a few developed countries bias research experience.

Taking into account the above points, there is a need to focus and assess the relationships regarding the elements under study within individual industry contexts in more depth.

Methodology

Fieldwork centred on food manufacturers. A decision was made to focus on firms in a single manufacturing sector to minimise significant problems apparent in previous research as explained above. The Greek food manufacturing sector was chosen for further provision of research experience on exports from developing countries and in order to contrast with previous research mainly carried out in developed countries. Case research methodology was selected. This because "there are identifiable sets of research situations where the qualitative, in-depth approaches are desirable, and particularly useful in complex phenomena, where the existing body of knowledge is insufficient to permit the posing of causal questions, and when a phenomenon cannot be studied outside the context in which it naturally occurs" (Bonoma, 1985:207). Exports of firms is a complex phenomenon and needs to be approached as such, while the existing body of knowledge is ambiguous and insufficient to provide appropriate quality causal questions.

Two gauges ("Volume" and "Income") were used as measures of export success. "Volume" expresses the relative export market share of the company compared to competition at individual product or category of products level, these forming a distinct and separate group. "Income" expresses the set of financial arrangements received by the exporter from its intermediary buyers compared to competition. It is considered individually for each country and product/product category and comprises prices, credit, delivery periods (time value of money) and discounts.

The research was based on four different companies in the sector. Sampling was restricted to four companies due to the aim of this study. As Sellitz et al (1976) argue such a "purposive sampling is appropriate when the goal is to obtain good insights and critical appraisals because of the special experience (of the sampled cases) " (pp 536). Active exporters were targeted. The biggest exporters were selected. Smaller exporters were expected to be unable to provide sufficient information and keep adequate records. Two companies entirely (100%) oriented towards exports and two companies with both domestic and export operations were included. A published list of the major exporting companies was reviewed and followed by consultations with industry experts. Four different export product categories were chosen to enhance the explanatory usefulness of the study and permit replication of the initial findings. This is advisable and strongly supported in the literature (McGee & Thomas, 1989, p.41; Harrigan, 1983). Such an analysis and contrasting of multiple cases was expected to reveal particularities and illustrate conditions for transferability of the conclusions of this study to other business settings. A short description of each sampled company follows:

Company A: A 100% export oriented processor of fruits which exported 15-20% of total Greek canned fruits in 1983-1988.

Company B: A 100% export oriented processor of tomato paste that exported 4% of total EC exports in 1989.

Company C: The leading Greek yogurt manufacturer and exporter (14% of its turnover in exports).

Company D: The leading pasta manufacturer (7% of its turnover exported equal to 10% of Greek pasta exports in 1988)

Semi-structured interviewing was selected as the most suitable method to obtain data without abandoning a more rigorous systematic process. A pilot case study was used. In addition to the key informants, other employees of the sampled firms were also interviewed. An estimated three months period was finally spent on data collection for each individual case between October 1989 and July 1990. A second round of interviews took place in 1991. Several sources of data permitted not only a more precise identification of the export action of the sampled firms but also allowed detailed knowledge of business settings, export markets and competition to be acquired. A series of meetings were held for each case with machinery suppliers, food technologists, farmers, government and EC officials, industry unions' representatives, industry consultants and staff from competing companies. Secondary data derived from several countries' statistical sources. Particular attention was given to comparability of statistics in order to increase reliability of data. Tape recording was used with permission, draft case reports were written after the interviews and additional meetings were carried out for draft reading.

Findings

Findings support previous research in some instances and conflict in others. In most cases however, existing ambiguities and contradictions in the literature seem to be answered.

Product related elements

1) Product standardisation: The findings of this study shed some light on the ambiguities and the conflict existing in previous research, either in favour of product adaptation to foreign markets (Kirpalani and MacIntoch, 1980; Cooper and Kleih Schmidt, 1985; Burton and Schlegelmilch, 1987) or against (Tookey, 1964; Munro and Beamish, 1987; Amine and

Cavusgil, 1986; Christensen et al, 1987). Data indicate that:

1.1. Product adaptation for products actually produced for the domestic market may be necessary for exports to segments with different but not necessary for exports to segments with similar demand characteristics. The volume of a company exports depends in both cases upon the imports' development regarding these segments, their overall size and growth rate across countries and company's available capacity for exports.

1.2. Realisation of adaptation or non adaptation of products for exports. Exporting companies primarily interested in the domestic market carry out only minor adaptations because they are not willing to disturb existing production and company organisation procedures by developing new products for exports. The higher the demand from foreign markets, the higher the exports until a certain volume is

reached where the exporter does not want to expand further because major changes are needed. On the contrary, companies entirely oriented to exports carry out adaptations to a greater extent or create new products for exports. The degree of product adaptation however, (content and packaging) still remains in the narrow frame of capacity of existing machinery and company marketing capabilities. Companies exporting "basic" low differentiation products seemed not able to develop higher differentiation products because different configurations of export marketing, structure, production, finance and procurement were needed.

2) Product "uniqueness" and "differentiation": There is an inconclusiveness in the literature as apparent from Louster et al (1991) who found that unique products result in decreased exports/sales; Ayal and Hirsch's (1982) moderate association between product differentiation and level of exports; and Cavusgil and Nevin's (1981) view that possession of a unique product is significant for active export firms. Data indicate prima facie a negative correlation between product uniqueness, differentiation and volume of exports. Two of the companies' exports concerned "basic" products, defined as products with attributes positioning them as lower differentiated within their category of products. In this case, the low differentiation products correlated with high volume of exports. On the contrary, in the remaining two companies higher differentiation products strongly associated with unique product characteristics and strong brand resulted in low volume of exports. These mean that higher differentiation products have limited potential. But they may result in higher volume of exports if targeted markets' size and/or extent of access to distribution increase and presence of competition remains limited. Differentiation based upon branding seems however, to be a more lasting phenomenon. Another explanation for the differences in the previous literature seems prima facie to be the focus and other internal characteristics of the exporting companies. Focus of companies upon exports (100% in both cases) correlates positively with increased level of exports but negatively with the existence of higher differentiation products. But, the existence of higher differentiation products depends in turn however, upon the type of products the company was initially established to produce independently of export experience or company age. Sampled manufacturers exported the products their machinery was designed to produce and appeared to be constrained by its capabilities.

3) Product life cycle concept: Supporting Ryans' (1988) overall argument the findings of this study introduce the circumstances that influence the effect of the product life cycle upon volume of company exports. When segment size is very big compared with company exports, the effects are modest, also depending upon the firm's extent of access to distribution.

4) Width of product line.: There is conflict in the literature regarding width of product line with Christensen et al (1987), Diamantopoulos and Inglis (1988) arguing in favour of multiple product lines and Kirpalani and MacIntoch (1980), Munro and Beamish (1987) in favour of narrow product lines. Independently of the width of export product line, higher exported volumes are associated with only a few products, targeted markets' size and the extent of access to distribution.

5) Product Quality: The conclusions of the present study contradict previous findings which in almost all cases agree that high quality determines export success. High quality is not a necessary condition for high volume of exports with quality consistency fluctuating within a range of specifications and demand characteristics

6) Product related elements and income: There is a confusing relationship between product adaptation and export profitability as is apparent in previous literature (Fenwick and Amine, 1979; Koh, 1991). Data indicate that the higher the product differentiation and the lower the competition for the particular product, the higher the relative income received by the company compared to markets where the opposite situation exists. In some contrast with Bilkey (1982) who identified no significant relationship, "uniqueness" and strength of product positively correlate with higher income during the temporary period when "uniqueness" persists and market conditions such as presence and action by competition are favourable. Moreover, income is affected by the stage of product life cycle either positively in the growth stage and decreased competition or negatively

in the decline stage or increased competition which are elements not apparent in previous research in export marketing. But, decreased quality is directly and negatively correlated with decreased income, although such an effect may be moderated by market conditions such as limited presence and rivalry of competition.

Market portfolio related elements

1) Spreading of export markets- Market selection and Volume.

1.a. It is the configuration between the exporting company's portfolio of products and potential export segments which provides an initial indication about the degree of possible spreading of export markets. Export destinations seem to be independent to export experience, age of company as well as width of product line but dependent on the type and category of exported products, the lower quality and differentiation commodity like products having had larger and more widely dispersed markets.

1.b. Potential spreading of company export markets is framed by the product category itself and the trade block to which the country of exporting company belongs. They may be in neighbouring states, in industrialised or developing countries, accessible to the exporting company or not, depending upon the international commercial environment for the specific product category at the particular period.

1.c. Independently however, of the type of country and the type of segments, company exported volumes are affected by the firm's access to distribution and competitors' action. Companies targeting large segments and having wide extent of access to distribution achieve higher volume of exports. Presence and action of competitors affect volumes however, by limiting access to distribution.

1.d. The company may not be able to handle exports to all potential export destinations in a particular segment because of company internal organisation limitations such as production capacity, available finance, existing export marketing practice and management perceptions/philosophy. In this case, spreading of export destinations depends upon where a clientele has already been initiated and maintained. The above adds another perspective to the literature about the type of markets associated with higher exports as it was expressed by associating "success" with exporting to industrialised countries (Christensen et al, 1987; Dennis and Depelteau, 1985), "non-nearest neighbour orientation" (Cooper and Kleinschmidt, 1985) or broader market coverage (Diamantopoulos and Inglis, 1988). It is noteworthy that the existing differences may be due to the differences of samples used. Dennis and Depelteau, (1985) as well as Christensen et al (1987) used random and cross-industries sample, while Cooper and Kleinschmidt's (1985) sample was the electronics industry. Interestingly though, the data also indicate that exporting to consumer markets followed previous exports to industrial markets with two exceptions, these being the possession of a product with higher differentiation characteristics or a strongly branded product.

2) Market selection and income. The association between markets and profitability has attracted attention in the literature particularly by Bilkey (1982; 1987). The findings of this study suggest that the brand and product attributes are important factors for increased income further influenced by distribution and market conditions' elements. Width of market portfolio positively correlates with increased income from exports when targeted segments concern products of higher differentiation. Extended access to distribution and a very strong brand sustain high prices and may raise obstacles to competition. There is a tendency however, that income declines when competing products in the market.

Access to distribution related elements

There is a disagreement in the literature on the type of channel associated with higher performance (Hirsch, 1971; Christensen et al, 1987; Munro and Beamish, 1987) and limited evidence on the interrelationship between the extent of access to distribution and exports (Shipley et al, 1989). A company achieves a relatively higher volume within the targeted segments when it has wider access to distribution, identified as wider market coverage, entering into major instead of minor retailers as well as continuous rather than short term presence. These seemed to occur independently of the type of channel employed (direct or indirect), a mixture of both direct and indirect channels being evidenced. In this case, the extent of access to distribution itself intervenes in the determination of the firm's realisable exports.

Extent of access to distribution and income. The relationship between the extent of access to distribution and income is complex. In environments where higher competition between suppliers takes place, the exporter generally receives lower income unless possessing "exclusivity" of access, in which case, income increases. Strong owned brand and product differentiation play an important role here. In this respect, Bilkey's (1985; 1987) findings are supported and further clarified by the association of export channel profitability with product attributes as such; branding, both ownership and strength; and action of competition in each export country and segment.

Branding related elements

There is a paucity of studies in export marketing literature which explicitly assess the role of branding in export "success", although branding has been identified as practised in the market place (Amine and Cavusgil, 1986; Namiki, 1988; Koh, 1991; Rosen et al, 1989). Data show that ownership and strength of brand strongly affect exports in both volume and income terms.

A limited number of brands was used independently of market destination. Limitation of a strong brand into a small number of exported products results in an ultimate upper level of exports which depends in turn upon the size and development of the targeted export segments. But larger the targeted segments by the exporters, higher the relative volume of exports.

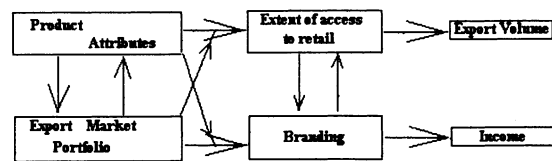
An incremental diffusion of an exporter's owned brand - initially weak- builds strength when extent of access to distribution is wider and there are limited exports by competitors. But, the direction of effect may be the opposite one.

The findings of this study indicate that "higher differentiation" or "unique" products carry company's own brand names. Brand introduction appears to be more difficult when competition is already established and export product is of lower differentiation. There is a strong view in the literature that branding is unrelated to export income. The findings of this study indicate on the contrary a strong association between branding and income. The stronger a brand, the higher the income received although influenced by the nature of the product itself.

Conclusions

The findings of this study clarify the relationships regarding the patterns of competition for a manufacturer-exporter addressed to consumer markets and the effects on export "success". The study findings shed light on several ambiguities and contradictions existing in previous research as explained in more detail above. In summary, the relationship between the four elements under study may be observed through the use of a perceptual map (figure below) incorporated in the text to serve only for conceptualisation purposes, since interrelationships are highly complex.

FIGURE
RELATIONSHIPS BETWEEN THE ASPECTS UNDER STUDY



In this respect, market portfolio and product attributes become very important independent variables whose configuration is what initially permits the establishment of potential for "successful" exports. But, it is branding and extent of access to distribution that become "intervening" variables in the above relationship to finalise the extent of actual "success" in company's export markets.

Limitations - Further research

This study concentrated upon the exports of independent manufacturers to consumer markets. Conclusions may not apply to exports towards industrial markets. Ownership by a multinational group might for instance have also altered

exporter's achievements. Replications of this study using larger samples should be conducted before the reliability and representativeness of these results can be established. There may also be some possible internal validity biases although believed to be kept minimal.

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THE INFLUENCE OF ECONOMIC FACTORS ON EXPORT MARKETING PERFORMANCE:
AN EMPIRICAL STUDY OF TAIWANESE COMPUTER FIRMS

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Abstract

This paper used both quantitative and qualitative methods to examine the influence of economic factors on export marketing performance. The quantitative data indicate that domestic market factors, foreign market factors, raw material restrictions are associated with export performance. The qualitative data reveal that financial factors is also related to export performance and help uncover the importance of emergent issues which were not addressed in the questionnaire, such as environmental protection.

Introduction

Economic factors, such as market size and status of economy, are an important part of a firm's external environment (Ross 1982). Although these factors are beyond the control of an individual firm, this does not mean a firm can ignore the economy's influence on export performance. Instead, firms should consider that export performance in the 1990s will be determined by the competitiveness of both the economy and companies (Saralehto 1991). A detailed examination of export literature, however, suggests that economic environment is rarely addressed. "This general neglect of environmental variables reduces the value of the studies, since such variables can be expected to have a great impact on export performance" (Madsen 1987, p. 183). Without identifying economic factors that may affect export performance, research results regarding export performance may not be generalizable.

According to a number of studies (Cooper and Hartley 1970), the economic factors that influence export behavior tend to be macro in nature. A firm that successfully adapts to economic conditions can create a competitive advantage for itself. Ross (1982) indicates that economic factors may influence a firm's decision to enter into foreign markets. In this regard, tariff and non-tariff obstacles alone may not be sufficient to explain a firm's export performance. Other factors, such as foreign exchange rate, capital available in the market, infrastructure, and foreign market price competition, have been demonstrated to influence firms' export performance (Haar 1990; Kumcu and Kumcu 1991). Whereas most previous research studies firms in North America and Europe, this study focuses on the effects of economic factors on export performance of Taiwanese computer firms to help better understand the role of economic factors in world market. Discussion and recommendations are provided based on empirical findings.

Literature Review

To explore the effects of economic factors on world trade, several authors (e.g., Ricardo, and Heckscher and Ohlin) have developed international trade theories. Although these theories provide a basis for understanding international transactions among nations and their interdependence in economic development, some assumptions of these international trade theories are not practical in the real world. For example, the Ricardian model of trade assumes only two countries with only two commodities involved in international trade. The Heckscher-Ohlin theory assumes free competition in all markets and absence of transportation costs; hence, the same commodity has the same price between different countries or areas. These assumptions may be a starting place, but other factors, such as a country's stage of economic development and its economic policies may be equally or more important in understanding international trade.

Given the inability of these two theories to explain transactions of more than two countries, the product cycle theory of international trade is developed. Although the product cycle theory of international trade has been useful in explaining and predicting trade patterns of some manufacturers and multinational expansion of manufacturing subsidiaries, this theory cannot explain how and why an individual firm participates in export marketing and may not provide appropriate direction for small & medium firms to improve their export performance.

In sum, while classical theory of international trade, Heckscher-Ohlin theory, and the product cycle theory of international trade are easy to understand and capture the essence of comparative advantages of a nation to another, some questions which are not answered by these theories and open to this study are the influences of demand situations, infrastructure, transportation costs, competition, financial factors, and raw material restrictions on export performance, which are important to understand the economic environment that enhances or hinders a firm to export and its export performance. Based on these open questions, this study focuses on four economic factors: (1) local market factors, (2) foreign market factors, (3) financial factors, and (4) raw material restrictions and examined the influence of these factors on the export performance of Taiwanese computer firms. With regard to the first factor, local market demand conditions, degree of competition (Porter 1990), market size, and communication facilities influence a firm's export performance, although to differing degrees. Insufficient demand or small local market size may force firms to

export. Fluctuating demand may also compel a firm to search for foreign markets to stabilize its operations. Domestic competition not only stimulates firms to be more innovative but also assists them to be more competitive internationally. Infrastructure systems, such as transportation and telecommunications, influence overseas communication and shipping products out of the country. These systems, thus, affect a firm's ability to serve foreign customers effectively. The first hypothesis is proposed as follow:

H₁: Local market factors significantly influence the export performance of Taiwanese computer firms.

When investigating the second topic, foreign market factors, the foreign distribution system should be taken into account (Bilkey 1978, 1982) in addition to usual measures of foreign market attractiveness. An appropriate foreign distribution system fosters a firm's ability to access and serve its foreign customers. Whereas convenient transportation systems in advanced countries nourish foreign exporting firms, these firms may discover their exporting business is hindered when entering a country with poor telecommunication or transportation. Additionally, cultural distance to market may have a negative influence on export performance (Glejser, Jacquemin and Petit 1980) and should be taken into account. The second hypothesis is provided as follow:

H₂: Foreign market factors significantly influence the export performance of Taiwanese computer firms.

Within the third area, financial factors, some scholars (Kumcu and Kumcu 1991) suggest that inappropriate foreign exchange control may hinder export performance. Piercy (1981) discovered that active exporters had more flexible export currency strategy than reactive exporters. Humphreys and Jaeger (1989) also report that a better operation in foreign exchange rate control and public finance enhances export performance. Delfs and do Rosario (1989) propose that the quality of banking services may influence the export performance of firms. Foreign exchange control and financial services are thus investigated in this study. The third hypothesis is proposed as follow:

H₃: Financial factors significantly influence the export performance of Taiwanese computer firms.

Finally, the lack of raw materials may be a major problem for countries which are in shortage of natural resources, such as Japan and Taiwan. To produce the products they export, firms in these countries have to import needed raw materials. Raw material restrictions become a critical factor influencing these firms' exporting ability.

The fourth hypothesis is provided as follow:

H₄: Raw material restrictions significantly influence the export performance of Taiwanese computer firms.

Method

To investigate the impact of economic factors on the export performance of Taiwanese computer firms, this study utilizes both quantitative and qualitative data. Although different assumptions underlie the use of quantitative and qualitative data for research, a number of authors (Deshpande 1983; Grove and Fisk 1992) believe that qualitative analysis can be complementary to quantitative analysis. As description is a major purpose of qualitative analysis, a well-described phenomenon (thick description) can help develop a conceptual scheme and constructs to be examined in a quantitative study. Qualitative research can also help establish better definitions and develop a full array of appropriate items for inclusion in a quantitative study. Moreover, triangulation of research methods improves the credibility and overall quality of data examined (Grove and Fisk 1992; Lincoln and Guba 1985).

A self-administered questionnaire is the major instrument used in this study to generate quantitative data to assess the influence of economic factors on firms' export performance. The questionnaire was pretested during the first week of January, 1992 with 8 exporting computer firms in Taiwan. The questionnaires were mailed to 1000 firms systematically selected from the Taipei Computer Association on January 18, 1992. The respondents were executives/marketing managers in the sample firms. A total of 124 usable questionnaires were collected. The response rate was 13.8%.

Over 90% of the respondents were from 30 to 50 years of age and most had attained a high level of education (93% have a college or higher degree). About 84% of the respondent firms have fewer than 200 employees and about 92% of the respondent firms have capital less than NT\$ 500 million (approximate US\$ 20 million) and are considered small and medium sized firms in Taiwan. The sample is representative of the population of computer firms in Taiwan in terms of the number of employees and capital.¹ When these Taiwanese firms first exported their products, the United States was the most popular export destination followed by Germany and other European countries.

The final questionnaire included a question

1. The representativeness of sample firms to the population of computer firms in Taiwan based on capital and number of employees may reduce the possibility of non-response bias, although non-respondents were not contacted to examine their firms' characteristics.

regarding respondents' interest in participating in a personal interview. Of 35 respondents who showed interest in taking part in a depth-interview, 17 were selected for a follow-up to the survey and were asked questions similar to those that appeared in the questionnaire. The purpose of the follow-up depth-interviews was to acquire detailed data to facilitate understanding of the responses obtained using the structured questionnaire. The follow-up depth-interviews explored the "personal realities" of informants, especially with regard to their view of how economic factors impact their export performance. By combining the results from these two methods, this study provides a clearer picture of the influence of economic factors on export performance.

Independent Variables

Local market factors, foreign market factors, financial factors, and raw material restrictions are independent variables used to evaluate their influence on export performance. A composite score for each of these economic factors was developed to correlate with export performance. The local market factors include degree of demand fluctuation, competition in home market, market size, availability of skilled labor, ease of communication overseas and shipping products out of the country. The foreign market factors consist of availability of foreign distribution facilities and cultural differences between home country and foreign markets. The financial factors include foreign exchange control, currency policies at home, and relative levels of financial services provided in home country. The raw materials restrictions embrace the degree to which restrictions on the importation of raw materials affect exporting, ease of obtaining raw materials, and cost of obtaining raw materials (Rogers 1987).

Dependent Variable

In the past, researchers have relied upon objective measures of export performance and have excluded subjective measures of export performance (Ayal 1982; Rogers 1987). However, Fenwick and Amine (1979) assert that the degree to which a firm achieves its particular goals should be the only rational measure of its export policy. Several other researchers (Rogers 1987) similarly conclude that subjective evaluation of export performance by executives or managers is critical to the initial decision to export and to eventual export success. Consequently, "any measure of export performance should include some assessment of the company's success on its own terms, albeit measured subjectively" (Fenwick and Amine 1979, p 88). Since executives' perception of export success may include several dimensions, such as their satisfaction with export performance and profitability, this study employs a subjective composite measure to assess export performance.

The subjective composite measure of export performance includes executives/marketing

managers' perceptions of 1) export success, 2) export profitability, and 3) satisfaction with export performance. These were assessed using six 5-point Likert scales. A score for the subjective composite measure of export performance was created by averaging each respondent's scores on the six items to correlate with economic factors. A detailed description of the subjective composite measure is presented in Table 1.

Table 1.
Dimensions of Export Performance

Constructs	Dimensions
Export success	-management's subjective evaluation of export performance -firm is a leader in the industry
Export profitability	-management's subjective evaluation of export profitability (s)
Satisfaction with export performance	-management's evaluation of export operations(s) -management's satisfaction with past export performance(s) -past export performance of comparable firms(s)

Sources: Revised from Rogers, Hudson P. (1987), The Determinants of The Firm's Export Marketing Performance: A Theoretical and Empirical Investigation, Doctoral dissertation, Memphis State University.

Findings

A correlation analysis was used in this study to examine the relationships between economic factors and export performance. The results are presented in Table 2.

Table 2. Correlations Between Economic Factors and Export Performance

Economic Factors	Subjective Composite Measure
Local Market Factors	-.24*
Foreign Market Factors	-.24*
Financial Factors	-.08
Raw Materials Restrictions	-.24*

* P < .01, N=124

The H₁, H₂, and H₄, that local market factors, foreign market factors, and raw material restrictions significantly influence the export performance of Taiwanese computer firms, were supported. The H₃, that financial factors significantly influence the export performance of Taiwanese computer firms as assessed by the composite subjective measure, however, was not supported by the quantitative data.

Although these economic factors, except financial factors, are significantly associated with export performance, the correlation coefficients between economic factors and export performance are not very high. To discover additional economic factors that may influence export performance, the qualitative data were investigated. While factors such as local government regulations and politics were mentioned by informants as influencing their export performance, the most serious restraints were abnormal price competition and environmental protection regulations. Additionally, currency evaluation and credit availability appeared to impact export performance.

Abnormal Price Competition

Domestically and internationally, price competition among Taiwanese computer firms is considered the biggest hindrance to profitability. A very common strategy adopted by Taiwanese small and medium sized firms is to discover the newest product, copy it, and sell similar products at a much lower price. Because engineering people in Taiwanese computer firms have the ability to quickly copy new products introduced by other firms, Taiwanese firms can provide similar quality products at much lower prices. Many firms also focus on unpatented products, especially products in the mature stage of the product life cycle, to obtain the advantage of economies of scale. These advantages, however, are negated by fierce price competition among Taiwanese firms. Without established brand names, they compete with low price, domestically and internationally.

Environmental Protection Regulations

The emphasis of the Taiwan government and consumer activists on environmental protection has increased production costs among Taiwanese firms. Many firms which are not able to fulfill the government's requirement regarding environmental protection have been forced to establish factories in other countries. The United Nations' warning about and possible prohibition of the usage of chlorofluorocarbons (CFCs) are especially threatening.

Currency Evaluation and Credit Availability

Financial factors were also mentioned by a number of informants who considered them serious obstacles to export. Several informants have complained about the rapid evaluation of NT dollars. One said:

I think the foreign exchange rate is a big problem for us. For example, the foreign exchange rate of NT (New Taiwan) dollars to U.S. dollars was about 26 or 27:1. At the beginning of last year, the exchange rate was between 25:1 and 26:1. At the beginning of this year, NT dollars kept appreciating their values. It is less than 25 NT dollars to one US dollar now.

All the profits we could have had are wiped out by the appreciation of NT dollars, because all our sales are from exporting. Thus, we cannot tolerate the loss if the foreign exchange rate changes too fast. We are not the only firm which suffers the loss from the appreciation of NT dollars. Many firms have this problem (Wang, M 53).

Another informant comments about poor banking services:

Taiwanese banks used to be pawn shops. Our banks only provided mortgage loans, which was different from what foreign banks provided. Foreign banks finance us only based on our credits, profitability, and business plans. Taiwanese banks may help large firms a lot, but I don't think they support small and medium sized firms (Fu, M 44).

Conclusion and Recommendations

The findings from the quantitative analysis reveal that economic factors, except financial factors, are related to export performance. The significant impact of local market factors on export performance should give the government some directions for improving its infrastructure in order to assist its firms to be successful in global markets. A current investment in infrastructure by Taiwanese government should be encouraged and should help Taiwanese firms compete internationally. The significant effect of foreign market factors on export performance gives these firms some criteria to rely upon when selecting their foreign target markets. This also implies that initial exporting firms can benefit from choosing culturally similar markets and is consistent with the literature on the internationalization process (Madsen 1987).

Raw materials restrictions are also related to export performance. Because most Taiwanese computer firms are not able to produce major computer components, such as CPUs, their international competitiveness may be restrained by these raw material restrictions. An ability to produce these major computer parts domestically will give Taiwanese computer firms a big advantage to compete with their foreign counterparts. Because Taiwan has many well educated people, including engineers, and the world's largest amount of foreign exchange reserve (US \$ 86 billion)², it should be able to produce these major computer parts domestically. The government could provide tax

2. This figure is the foreign exchange reserve of Taiwan at the end of June 1992 derived from China Central Bank, Taipei, Taiwan.

incentives or other benefits to assist and encourage the establishment of research centers/laboratories. To invite experts, domestically and internationally, to work in these research centers, the government and the private firms may provide competitive salaries similar to their foreign counterparts. While information is critical to innovation (Thurrow 1991), the government may use its large foreign exchange reserve to improve Taiwan's information systems, such as BITNET, INTERNET computer network, with other countries to improve and update information exchange.

Although export performance was not explained statistically by financial factors, the interview data suggest that continuous evaluation of NT dollar in the past few years has taken away Taiwanese computer firms' low labor cost advantage and restrained these firms from further development in the international market. The appreciation of NT dollar has its advantages, such as forcing these computer firms to improve their efficiency in production and management. However, a continuous and tremendous appreciation of NT dollar, such as that experienced in Taiwan during the past few years, may give firms little time to adjust their organizational structure to avoid failure. This type of appreciation making firms non-competitive on price has contributed to the failure of some Taiwanese computer firms during 1991. Appropriate regulation of the appreciation of NT dollar cannot be ignored by the government.

Conservative banking services also hinder these firms' financial ability to compete internationally. A policy by the government to allow private banks in the market during the past few years seems to have improved the banking system in Taiwan, at least to lower the interest rate. However, the over-reliance of Taiwanese banks on mortgages (rather than financial statements) for commercial loans appears to limit financial resources available to these firms. The establishment of a better accounting system able to reliably audit financial statements would be helpful in building mutual trust between banks and firms; such trust could be the basis for stronger cooperative agreements between small and medium sized firms and banks.

Environmental protection is an issue which cannot be ignored in the computer industry of Taiwan. Because Taiwan relies heavily on international markets, the possibility of regulation from the United Nations or similar international organizations on the usage of CFCs should be taken seriously. Because Taiwan is only a small island and the voice of environmental protection from the public is becoming stronger and stronger, the possible environmental damage or pollution which results from the production of computer products cannot be ignored. To overcome this problem, the government, as well as consumer activists, should encourage the adoption of new environmental pollution controls by firms. The government should also utilize its large amount

of accumulated foreign exchange reserve to improve Taiwan's infrastructure, including helping firms enhance their work environment, especially their factories. Because the computer industry is considered a strategic developing industry by both the public and the government, the government should encourage and support the development of substitutes for CFCs.

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AN EMPIRICAL ANALYSIS OF INTERNAL DETERMINANTS AFFECTING EXPORTING AND NON-EXPORTING COMPANIES IN TURKISH TEXTILE INDUSTRY

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Abstract

The objective of this study is to determine, the structural differences between textile exporters and non-exporters, who are exposed to the same external environment. The focus of this paper is to compare exporting and non-exporting companies in terms of size, managerial skills (i.e. age, proficiency of foreign language and international experience), company experience, business goal, labor/technology intensity and capacity usage rate. Findings show that exporting companies differ markedly from non-exporting in terms of these criteria.

Introduction

The export behavior of firms has been under the highlight of a vast range of study interest in international marketing since the early 1960s and numerous researches have been carried out in developed countries. However, research regarding the export behavior of companies in developing countries has been limited. Firms operating in almost to the same external environment display variance in their attitude toward exporting. For this reason, research investigating such firms in the same industry should have priority over others. This may provide valuable information for both public and private sector bodies interested in exporting. Findings of such investigations will certainly be of interest to governmental institution which seek to motivate more companies for exporting and will help them to understand how companies are involved in exporting or nonexporting.

No serious attempt, however, is made in Turkey to differentiate the exporters and nonexporters according to internal determinants such as size, manager's age, proficiency of foreign language and international experience, company experience, business goal, labor/technology intensity and capacity usage rate. The aim of this study is to shed light on how exporting and nonexporting companies differ from each other in terms of internal determinants and to find out if significant structural differences exist between them. Textile industry is chosen because, as a whole it has an important potential for growth and progress in Turkey's export.

Turkish Textile Industry

Until to the 18th century, Turkish textiles represented one of the most advanced textile industries in the world. Turkish toweling, flat weaves, embroideries, and patterned carpets were exported to Western Europe, European Russia, and North Africa. In 1923- that year the Turkish republic was proclaimed the country's textile industry had an inventory of 800 looms. The 1930's were a decade of intense industrialization. The establishment of Sumerbank (a state industrial enterprise concentrated on the manufacture of textiles) was an important step in the encouragement of industrial activities. By 1949, despite the difficulties involved in importing machinery during the second World War, the number of looms in the country had risen to 5500. At the beginning of the 1960's Turkey was in a position where it could become one of the textile manufacturing centers of Europe, because of its comparative advantages of abundant raw materials, low labor cost, and geographical position. An export-oriented investment campaign was launched by the government in this period. The result was that by 1972, Turkey became a net exporter of textiles, though Turkey's textile trade was worth a mere eighty million dollars at the time. The country's textile exports grew steadily to reach \$440 million in 1980 and \$2.1 billion in 1985. In the latter year, Turkey was responsible for 2.8% of the world textile trade. By the end of 1988, Turkish textile exports were worth three billion dollars a year. Today, textile manufacturing industry is the second largest industry in Turkey (Caliskan 1990).

Export Marketing Behavior

A company's involvement in exporting is a process which is affected by several "external" and "internal" determinants. Factors which explain a company's export marketing behavior has been explored extensively in many empirical studies (Bilkey 1978, Cavusgil 1980). Among these studies attempting to identify the differences between exporters and nonexporters Ogram 1982, Cavusgil 1984, Buonafina 1985, Diamantopoulos and Inglis 1988, Karafakioglu-Harcara 1990 were directly related. Studies on export behavior of companies have indicated that several internal characteristics play an important role in determining whether the company will tend to export or not. The

existence of external stimuli is important, but not a sufficient condition for being an exporter or vice versa. Internal variables which are used and measured in this study are as followings.

Firm Size

Researchers have agreed that firm size plays an important role in a firm's decision to export (Root 1978). However, empirical findings of previous studies on this issue have not always been consistent with each other (Bilkey 1978). While some researchers have found a positive relationship between firm size and company behavior in terms of being an exporter or not, (Perkett 1963, Tookey 1964, Palubinkas and Granat 1972, Withey 1980, Cavusgil and Nevin 1981, BuonaFina 1985, Harcar 1987), numerous surveys did not yield such a relationship Bilkey and Tesar 1977, Cooper and Kleinschmidt 1985). HirshLev and Cavusgil have found that very small companies are not inclined to export; there is a positive correlation between firm size and desire to export for small manufacturers, but beyond a certain size this correlation does not hold (Hirsh-Lev 1973, Cavusgil 1980, Cavusgil 1984).

Managerial Skills

The age of managers is another important variable; younger managers tend to be more internationally oriented than their older colleagues (Pinney 1970, Ogram 1982, Brooks and Rosson 1982). Many researchers have concluded that a favorable international experience of the decision maker leads to favorable assessment of a firm's participation in exporting (Wiedersheim, Olsan and Welch 1975, Bilkey 1978, Cavusgil and Nevin 1981, Reid 1982, Cavusgil 1983, Axinn 1988). This orientation in turn is influenced by foreign language proficiency of company managers and whether they have had experience with different cultures (Cunningam and Siegel 1971, Wiedersheim, Welch and Olson 1975, Langston and Teas 1976, BuonaFina 1985). As a result, company managers' personal assets seem to be critical for being an exporter or not.

Company Experience

Company's experience is one of the factors that has an impact on the initiation of exporting. Each firm has a unique history and this background places each firm in a particular "present" situation with different strategic alternatives, both domestically and internationally. That is why exporting is seen as a different task in each company

(Terpstra 1983). Cunningham and Spiegel point out the relationship between successful exporting and company experience (Cunningham and Spiegel 1971).

Business Goals

Various empirical studies support that there is a positive relationship between export marketing behavior and the decision maker's preferences for business goals. For example, the profit objective is believed to be an important internal factor for exporting. Several studies support this hypothesis (Alexandries 1971, Simpson 1973, Tesar 1975, Wiedesheim, Welch and Olson 1975, Bilkey and Tesar 1977, BuonaFina 1985). However, short-term profit may not always be a significant motive for exporting; desire to avoid losses in a saturated home market, i.e. safety of investment and survival are other motives in some manufacturers' initial involvement in exporting (Tookey 1964, Hunt, Froggart and Howel 1967, Sinai 1970, Cooper, Hartley and Harvey 1970, Povard and Bogart 1975, Rao 1977). Similarly, profit expectations do not constitute significant factor in export activities of service firms (BuonaFina 1985).

Labor/Technology Intensity and Capacity Usage Rate

With respect to the behavior of non-exporting firms, Cavusgil has pointed out that such firms are more likely to be found in low-technology industries (Cavusgil 1983). Cavusgil and Nevin have stated that the probability of exporting for high technology user companies is 70%, whereas this percentage is about 40% for companies operating in labor-intensive industries (Cavusgil and Nevin 1981). Another study about incentives for exporting, reports that excess capacity is another motive for exporting. According to this study, exports were sought to utilize excess capacity and to add low profit foreign sales to spread overhead over a larger volume. (Pavord and Bogart 1975).

Methodology

After a pilot survey of 16 companies, the internal determinants affecting exporting and non-exporting firms were investigated during interviews with 230 textile companies located in Istanbul. A quota sample was used and companies were first divided into two equal groups which consist of 250 exporters and non-exporters representing each different categories. Of the 250 companies consisting of the total sample, 112 exporters and 188 non-exporters were willing to participate in the research. The sample categories were randomly selected

from a list of textile companies registered at Istanbul Chamber of Commerce. The data collection instrument was a self-administered questionnaire consisting of close-ended questions. The questionnaire was carefully prepared with the assistance of manufacturers who have volunteered to participate in the preparation phase of the study. The respondents consisted of managers who are responsible for making export decisions. Decision-makers from each company in these two groups were asked to answer questions related to firm size, managerial skills (age, proficiency of foreign language and international experience), company experience, business goal, labor/technology intensity, capacity usage rate to determine any significant differences between these two groups with respect to internal export determinants mentioned above.

Analysis of Results

In terms of firm's internal determinants, there are significant differences between exporters and non-exporters in the textile industry. **Table.1** shows the various internal determinants between exporting and non-exporting textile companies. Among the textile companies surveyed, small firms (those employing 10 or less and with sales of less than \$ 50,000) were found to be significantly as non-exporting. The majority of exporters are larger firms compared with non-exporters. This finding supports the results of Perrett (1963), Tookey (1964), Palubinkas and Granat (1972), Withey (1980), Cavusgil and Nevin (1981), BuonaFina (1985) and Harcar (1987) where firm size was found to be a major determinant of a firm's export behavior. Foreign language proficiency of decision makers and international experience are also identified as important internal stimuli influencing the export behavior of firms. Managers in exporting firms have better foreign language skills and have more international experiences than managers of non-exporting firms. These findings support the findings of previous studies (Cunningham and Siegel 1971, Wiedersheim, Olson and Welch 1975, Langston and Teas 1976, Bilkey 1978, Cavusgil and Nevin 1981, Reid 1982, Cavusgil 1983, Buonafina 1985, Axinn 1988). As found in the Cunningham and Spiegel study (1971), Turkish textile companies are more export oriented if they have at least 10 years of experience in the industry.

The number of firms that consider growth as a major goal is significantly higher among exporting companies as compared with non-exporters. This conclusion is not in line with the findings of some previous studies in which the profit objective is major business goal for exporting (Alexandries 1971, Simpson 1973, Tesar 1975, Wiedesheim, Welch and Olson 1975, Bilkey and Tesar 1977, Buonafina

1985). The hypothesis that "firms which have younger managers are mostly exporting companies" is not supported by this study. The findings show that the age of decision makers does not play a determining role in exporting or not. Similarly no significant correlation exists between company capacity usage rate and export behavior. The same is valid for technology intensiveness criteria. Hightech firms are not necessarily exporting firms compared with non-exporters.

Conclusion and Implications

The findings of this study show that internal variables play a significant role in a company's export behavior in terms of being an exporter or not. Generally, exporters are larger in size in terms of number of employees and annual sales volume. The findings also show that foreign language proficiency and international experience of decision makers play an important role in the attitude of Turkish firms' toward exporting. Another finding is that firms which have more experience in the domestic market are more likely to export than less experienced companies. It has been observed that growth is the main objective of exporting companies as compared with nonexporting ones. In this study, contrary to the findings of other studies, manager's age, capacity usage and technology intensiveness are not motivating factors for selling abroad.

The major factor for exporting, then, seems to be that companies have to reach a certain size to meet the demand from overseas. Another supportive factor for larger firms' export behavior is that such firms are more subjected to incentive measures provided by the government on a larger scale than smaller firms. Therefore, incentive measures and assistance from the government should not be general, but exclusive and tailored to the needs of small firms. Small firms must be motivated in order to add more capacity in terms of human and production resources until they reach an "exporting size". Local trade organizations, like chambers of commerce, can encourage their members, and make a significant contribution toward the development of exports by organizing language courses, export training programs and trade visits abroad.

In conclusion, this research indicates that internal determinants such as company size, foreign language proficiency and international experience of decision makers, company experience and growth as a major goal are significantly related with being an exporter or not. Perhaps the question which researchers should investigate in the future is " How internal determinants can be stimulated in order to make non-exporters interested in exporting ? "

TABLE 1 : Structural Differences Between Textile Exportings and Nonexporter Companies (n=230)

		Exporting Companies (Percent)	Non Exporting Companies (Percent)	Sample Size (n)	TOTAL (Percent)
COMPANY SIZE					
Employees(*)					
Less than	11	17.86	59.32	90	39.13
More than	10	82.14	40.68	140	60.86
Sales Volume(*)					
\$ Under	50000	25.00	72.03	113	49.13
50000 and over		75.00	27.97	117	50.86
DECISION MAKER CHARACTERISTICS					
Age of Manager					
Under 40		49.11	34.75	96	41.73
40 and over		50.89	65.25	134	58.26
Foreign Language Proficiency(*)					
Low		22.32	61.02	133	57.82
High		77.68	38.98	97	42.17
International Experience(*)					
No experience		58.04	76.27	75	32.60
Experience		41.96	23.73	155	67.39
CHARACTERISTICS OF FIRMS					
Company Experience in Domestic Market(*)					
Less than 10 years		37.50	61.86	115	50.00
10 years and over		62.50	38.14	115	50.00
Major Goal (*)					
Growth		28.57	57.63	130	56.32
Other		71.43	42.37	100	43.47
Capacity Use					
Under 75 percent		35.71	40.68	88	38.26
Over 74		64.29	59.32	142	61.73
Technology					
High-tech		23.21	26.27	57	24.78
Labor nitensive		76.79	73.73	173	75.21

*Significant differences at p=.01 level, d.f. = 1 for chi-square tests

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ATTITUDES TOWARDS EXPORTING: DISCRIMINATING FIRMS WITH LOW AND HIGH LEVELS OF INTERNATIONAL OPERATIONS IN AUSTRALIA

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Abstract

This pilot study investigates attitudes towards exporting of 44 Australian export firms. Findings revealed that the most important variables which discriminate between firms of high and low levels of international operations pertain to (a) managerial responsive to exporting, (b) financial resources, and (c) standardization of products/services. Implications of the results and limitations were discussed.

Introduction

Australia export performance has been declining for years, is reflected in the ever increasing level of foreign debt. Australia is located in the world's fastest growing economic region. Asian living standards are increasing at a dramatic rate. If Australia is to maintain relatively high living standards, it needs to drastically improve its export performance. To achieve this, exporters need to overcome a range of barriers both at home and overseas. Literature on export marketing has indicated how these barriers affect performance of firms of various sizes (Karakaya and Stahl 1992, Ramasesham and Soutar 1992). However, the psychological barrier seems to have been neglected by both government agencies and academic institutions. Instead of focusing on barriers in the external environment, this study concentrates more on relevant psychological factors that affect export activities and performance.

Literature Review

The literature on export marketing reveals several main streams which influence the extent to which firms become involved in international marketing; these include:

- Export decision factors including managerial motives underpinning the decision to export.
- The process of exporting including firm structure, staffing, existence of an export division, financing export activity, market research and strategic planning.
- The measurement of export success which is generally based on financial criteria, market criteria and/or both.

With reference to the first of these, Cavusgil (1976)

identified the effects that exporting would have on the firm's growth, market development and profits, technology and development manager's attitudes to risk-taking, as export decision criteria. Taylor (1992), sees the size of the domestic market relative to firm's ability to achieve economies of scale and government policy initiatives to assist exporters as factors which influence managers in the export decision. Bourantas and Halikis (1992), in contrasting systematic and non-systematic exporters, relate the extent of export involvement to the following characteristics of managers (executives); educational levels, knowledge of languages, international experience and personal business goals. However, they acknowledge that firm size is also a relevant factor.

The second factor, that of the process of exporting, is considered by Mbah (1992) to discourage many small firms from adopting an international approach. This is further reinforced by Barker and Kaynak (1992) in their analysis of non-exporting firms who perceive the lack of foreign contacts, establishment costs, trade barriers and lack of information and staff as major barriers to exporting. They further point out that red tape, trade barriers and lack of incentives effect small firms more than large firms and firms with little export experience are concerned about the lack of competitiveness of their products.

Karakaya Caraway and Stahl (1992) classified twenty five barrier to market entry in consumer goods markets into three categories: incumbent structural advantage, incumbent market strength and entrant financial investment. The first one deals "with cost and structural advantages held by incumbents either directly or indirectly as perceived by executives (Karakaya and Stahl 1992) " in deterring market entry. The second is related to the importance of company recognition by consumers and company strengths while the last category deals with entry and market maintenance costs. However, this study is mainly cost-based and does not take into account barriers related to information and personnel. Barker and Kaynak (1992) filled this void by identifying the lack of information about exporting and the lack of personnel as the most important impediments to exporting for non-exporters. Bourantas and Halikis (1991) indicates that the promotion of market research, the planning of export activities, and the formulation of export marketing policies and strategies are export marketing activities that more serious exporters must develop in the process of exporting.

With respect to psychological barriers, Jaffe, Nebenzahl and Pasternak (1988), surveyed seventy-five small and medium-sized firms, isolated the perception of export risk of managers. However, it is more than just the risk factor that needs to be overcome. Cavusgil and Nevin (1981) indicate that managerial aspirations and commitment to export marketing would lead to firms' decisions to export or not. Nevertheless, they have not related such factors to export firms with different levels of international operations.

Measurement of export success can, according to Al-Aali (1990), in his analysis of Saudi-Arabian exporters, be based on the following criteria: sales growth, market share, profitability. From a different angle, there is return on investment. However, he indicates that a composite measure of the four criteria performed better than any individual measure.

Research findings as to whether firm size is related to export success are not consistent. On the one hand, Schlegelmilch and Crook (1986) showed that small firms are not constrained by size in going international. On the other hand, Oritz-Buonafina (1990) argued that size is an important variable "in predicting a firm's given stage in its export marketing development (p.33)." Jaffe and Pasternak (1988) supported his contention that export success is associated with firm size.

The three major streams so far identified reveal that several research areas remain to be investigated. One of these would be the psychological barriers, which constrain export managers in moving from passive to more active exporting. It will be interesting to find if these barriers will be perceived or experienced differently by firms of different levels of internationalization. Therefore, this pilot study will identify those attitudes toward exporting, which, if enhanced, would contribute to increased export activities and to commensurate success. The main objective is to examine if these attitudes toward exporting differentiate firms with high and low levels of international operations. To this end, export firms in Queensland, Australia will be examined.

Research Methodology

The Sample

The population was defined as all exporting firms in Australia, which had experience in international business. However, as a pilot study, exporting firms listed in the *Queensland Trade Directory 1989* were used as the sampling frame. One hundred and eighty companies were systematically sampled from the Directory. Five in-depth interviews were conducted with exporters located in Brisbane to ascertain their attitudes towards exporting and foreign exchange. A total of 180 questionnaires were dispatched. No follow-up mailing was conducted. As a result, 44 useable questionnaires were returned, resulting in a response rate of 24.44%.

Table 1 indicates a cross-section of respondents' age and experience in international business. Respondents tend to be middle-aged managers (43.59%) with more than eight years of experience in international business (77.3%). An analysis of the characteristics of responding firms revealed that they were mostly from secondary industry (59.18%), selling both consumer (43.4%) and industrial (45.28%) products to mainly Southmost Asia (21.05%) and New Zealand, Pacific Islands and PNG (21.93%). However, these were not large firms, most (70.04%) had less than twenty employees.

Questionnaire Design

The questionnaire was constructed based upon the literature on export marketing. The information obtained from in-depth interviews with export managers showed that the questionnaire was a satisfactory instrument despite some modifications that were undertaken with respect to question phrasing and response format.

The final version of the questionnaire consisted of two sections. The first section was concerned with export managers' attitudes towards exporting and foreign exchange. The second section was an inventory of demographic variables. In the study, only questions relevant to the objectives of this paper were used.

Measurement of the Variable: the Level of International Operations

This variable that measures the level or extent of international activities involved by the firms was constructed by combining the following two questions. In the first question, respondents were asked to indicate the size of the firm's international operations in proportion to its domestic operations using a category scale. In the second question, they were requested to indicate the size of the firm's international operations in proportion to its sales turnover using the same scale. Frequency distribution of each of these questions showed that a natural break clearly divides the firms into two groups. The first group we labeled "firms with low level of international operations" were firms with less than 75% domestic operations and the same proportion of domestic sales turnover. The second group was comprised of all other firms.

The Analysis

To analyze the data in this study, the stepwise discriminant procedure of the SPSS/PC+ Package was used. The level of international operations was used as the dependent variable and all attitudinal statements as independent variables. The statements were first standardized before the discriminant analysis was performed.

Table 2 presents the standardized discriminant function coefficients. These coefficients represent a variable's relative importance in differentiating between firms with low international operations and firms with high international

operations. The stepwise procedure of the program automatically selects variables to be included in the discriminant function if their contribution to the differentiation between the two group is found to be significant. Eventually, eight out of twenty three variables, significant at the level of 0.001, were selected.

The validity of the discriminant function is usually assessed by using a hold-up sample. However, given a small sample of 44 export companies, a hold-up sample was not used. The predictive accuracy of the derived discriminant function was tested using a confusion matrix of the initial observations. The results of validating the discriminant function with the analysis sample are presented in **Table 3**. The resulting overall classification accuracy (88.37%) is substantially high, with a slightly better results in the case of firms with low international operations (90.30%). In addition, this percentage represents quite a marked improvement over the maximum chance criterion which was found to be 59.8%.

Results

The results presented in **Tables 2** and **3** sustain an expectation in this study. That is, there are significant differences between firms with high and low levels of international operations and firms with high international operations in terms of psychological attitudes towards exporting. As the standardized coefficient of the discriminant function indicate, the variables that discriminate significantly between the two groups pertain to:

- responsiveness towards exporting
- financial resources
- standardization.

The specific individual variables which discriminate most between the two groups are:

1. It is easy to establish distribution networks overseas (responsiveness towards exporting).
2. We try very aggressively to export our product/services (responsiveness towards exporting).
3. I have read about the success of other firms in our industry in export markets (responsiveness towards exporting)
4. It is necessary to grant credit facilities to foreign buyers (financial resources).
5. Obtaining export financing is a complicated process (financial resources).
6. Exporting is not the major source of revenue in our company (financial resources).
7. My firm would reply to any inquiries from potential

foreign buyers (responsiveness towards exporting).

8. Different product standards and consumer habits make Australian products unsuitable for export (standardization.).

According to these variables, it is possible to outline the two different profiles of the firms with low and high international operations. In Australia, firms with low international operations, first of all, tend to be less responsive to opportunities to exporting. Specifically, it appears that they would not (1) reply to enquires and (2) have the confidence that exporting would lead to the success of their firms.

Firms with high international operations are more positive in their attitudes towards exporting. Managers of these firms, in comparison with their counterparts from firms with low international operations, are more aware of customerization in marketing products and services overseas. They are also conscious of the need for them as exporters to provide credits to foreign buyers or agencies.

Discussion and Implication

The objective of this paper is to examine if attitudes towards exporting can be used to differentiate between firms with high and low levels of international operations in Australia. The findings previously presented demonstrate that two distinctive but homogeneous groups exists. The most important variables which discriminate between these groups pertain to (a) responsiveness to exporting, (b) financial resources, and (c) standardization of products/services.

The findings of the present study are consistent with the results obtained by Bourantas and Halikis (1991), Karakaya and Stahl (1992) and Cavusgil and Nevin (1981). In addition, the results of the discriminant analysis provides additional evidence to support previous research in the same area. First, the evidence suggests that positive attitudes towards exporting is of the utmost importance if export activities are to be successful. Many authors have indicated that there are various obstacles to exporting (Karakaya and Stahl 1992, and Soutar, 1992, Oriz-Buonafina, Bourantas and Halikis 1991, Howard and Borgia 1990, Kedia and Chokar 1986, Taylor 1992, Armstrong, et al 1990, Mayo 1991, and Bilkey 1970). However, our findings seem to show that the psychological barrier is a stumbling block to successful export activities. In other words, there is a greater need to change the attitudes of the exporters themselves rather than external environmental factors in the short term. Such a psychological barrier is created within exporters themselves, as a result of a lack of self-confidence and a bias towards risk-aversion. Appropriate training and counseling should be used to overcome such psychological barriers.

Second, according to the findings of this study, firms with low level of international operations seem to be more concerned with product standards and thus the suitability of

exporting their products overseas than their counterparts. These firms have to realize that to customerize products for overseas markets, especially for those countries where product standards are lower than those of Australia, is not a difficult task to perform. These customerizations only require minor adaptation of the existing products.

In this study, "financial resources" was regarded as one of the discriminant factors that preclude firms with low level of international operations from exporting overseas. In fact, this attitude is not exclusive to managers of the firms in the sample. Discussions with marketing managers in in-depth interviews also revealed that financial resources were also a big worry to exporters. Furthermore, most of these managers accused the Australian government (and Austrade in particular) of not providing (1) timely financial assistance or subsidies and (2) expert advice to instigate an export venture. It seems that the needs for export incentives and the exporters' satisfaction with services provided by Austrade are two related areas that require further investigation.

Firms with low level of international operations tended to view the process of obtaining export financing as a complicated process. This should not be the case. An export firm would usually be able to have a documentary credit easily established in its favour. This finding indicates that a communication problem has existed between exporters and the banking industry in Australia. The Australian banking industry should take some measures to rectify the prevailing attitude by simplifying application and approval processes.

There are, however, some limitations that surfaced in this research. First, all interviews were carried out in Brisbane. Exporting firms included in the sampling frame were obtained from the Queensland Trade Directory. Thus, the findings of the study tend to bias towards Queensland exporters. However, if we keep these caveats in mind, the findings of the research are still useful, especially for paving the way to conduct a national survey of exporters in Australia. Secondly, this research can only identify exporters' attitudes towards exporting. It is suggested that the national survey should be extended to include non-exporters so that changes of attitudes towards exporting changes can be identified as firms evolve from non-export operations to export operations.

The main focus of this study was to examine the attitudes of Australian (Queensland) exporters towards exporting. Hence, emphasis has not been placed on Australia's relationships with other countries. As the Australian government begins to realize the importance of international trade and in particular, her trading relationships with Asian Pacific countries, it will be interesting to note if Australian exporters and non-exporters will focus their traditional marketing strategy away from the European and American markets and toward Asian countries. Future research projects in this area are likely to be fruitful.

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**TABLE 1
PROFILE OF RESPONDENTS**

Characteristics	N	%
Industry:		
Primary	13*	26.53
Secondary	29	59.18
Tertiary	3	6.12
Information/Technology	4	8.16
Market Type:		
Consumer Products	23*	43.40
Industrial Products	24	45.28
Services	6	11.32
Product Destination:		
USA	19*	16.67
Japan	12	10.53
Southeast Asia	24	21.05
Europe	17	14.91
Middle East	12	10.53
New Zetland, Pacific Islands and PNG	25	21.93
Others	5	4.39
No of Employees:		
Less than 10	21	47.7
10-20	10	22.7
21-49	5	11.4
50-100	4	9.1
Greater than 100	4	9.1
Age:		
Under 25	4	10.26
25-34	10	25.64
35-44	17	43.59
45-55	8	20.51
Years of Experience in International Business:		
Less than 2 years	1	2.27
2-4	5	11.36
5-7	4	9.09
8-10	9	20.45
Greater than 10	25	56.18

* total greater than 100% due to multiple responses.

**TABLE 2.
THE DISCRIMINANT FUNCTION**

Variable	Coefficient
Exporting is not the major source of revenue in our company	.5339*
It is necessary to grant credit facilities to foreign buyers	-.5518
I have read about the success of other firms in our industry in export markets.	-.4251
Obtaining export financing is a complicated process.	.7118
It is easy to establish distribution networks overseas.	-.4983
Different product standards and consumer habits make Australian products unsuitable for export.	.3895
We try very aggressively to export our products/services.	-.3571
My firm would reply to any enquires from potential foreign buyers.	-.3237

* All coefficients are significant at 0.001.

**TABLE 3.
THE CONFUSION MATRIX**

Actual Group	No. of Cases	Predicted	Group
		Firms with low level of international operations	Firms with high level of international operations
Firms with low level of international operations	31	2 8 (90.3%)	3 (9.7%)
Firms with high level of international operations	12	2 (16.7%)	10 (83.3%)
Total	43	30	13
% of cases correctly classified		88.4%	
% of cases correctly classified by maximum chance criterion		59.8%	

THE COMPETITIVE STRATEGIES OF CHINESE EXPORT

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Abstract

The Open Door Policy since 1978 in China has brought about tremendous progress in China's economic development. Not only the reform has brought about remarkable achievements in raising the national economy, in the expansion of foreign trade, and the improvement standard of living, the free market element has been installed in this originally centrally-planned economy. The decentralisation progress of delegating decision-making power to provinces, municipalities and state controlled industries has increased the national productivity and national output to a large extent, and also has stimulated the flow of trade across the borders. This paper tries to discuss the competitive advantages of certain exporting industries like food, textile, garment and toy industries.

Introduction

The basic unit of analysis of understanding competition is the industry. An industry (whether product or service) is a group of competitors producing products or services that compete directly with each other. Two central concerns in which competitive advantage is won or lost. The first is the industry structure in which the firm competes. The second central concern in strategy is positioning within an industry. Both industry structure and competitive position are dynamic. Industries can become more (or less) attractive overtime. Competitive position reflects an never ending battle among competitors. According to Michael E. Porter's The Competitive Advantage Determinants, the nature of competition in any industry is embodied in five competitive forces: (1) the threat of new entrants, (2) the threat of substitute products or services, (3) the bargaining power of suppliers, (4) the bargaining power of buyers, and (5) the rivalry among the existing competitors. This paper tries to discuss the competitive advantages of certain major exporting industries of China.

China has an area of 9.6 million km² (6.5% of the world surface area) occupied by more than 1.1 billion people who in turn take up 22% of the world population. The Gross National Product (1991) was US\$375 billion (RMB 1,985B) of which a worth of US\$72 billion products was sent aboard for export purpose. Since the Open-Door Policy was implemented in 1978, the economic system has been reformed gradually from the rural area and then extended to the urban area, together with the designation of Special Economic Zone, the opening of coastal cities, and the invitation of the foreign capital investment.

Some features of the economic development in China can be observed:

1. High economic growth

Within a handful of years China has improved her position to the eighth in the World Gross National Product. The average

growth rate between 1978 and 1992 was above 10% per annum. The Industrial Output Index jumped nearly 3 times, - making her one of the fast growing countries in last decade. The average annual growth rate for the primary sector was 3.5%, while it was 12.9% and 11.8% for the industry sector and the service sectors respectively. It was not surprised to see that the industry and service sector have outstretched the primary sector.

2. The expansion of export volume (and the non-proportional increase in export value)

Another interesting thing to know was the tremendous increase in foreign trade which reached a figure of US\$135 billion (1991). The export value was US\$72 billion while the import value was US\$63 billion. Chinese exporters were too eager to export their products in hunting hard currencies, particularly present policy allows some of the foreign currency earnings can now be retained and to be spent at their discretions. However many exporters ignored the international market absorption capacity, and did not understand the nature of elasticity of demand. During the years 1982-1985, The Chinese green tea was sold to overseas from a total volume of 3,100 tons to 11,400 tons (An increase of 2.7 times), but the price of the green tea dropped from an average of US\$4,300 per ton to US\$3,200 per ton (This represented a fall of 25% in unit price). As a result of this type of un-orchestral competition, the total external receipt only increased by 1.7 times.

3. The loss of control of State Exporting Authority over provincial or municipal export enterprises

The decentralisation of export rights to the enterprises only brought in chaos in the markets. In order to earn more foreign currency in their own accounts, the export enterprises competed each other by lowering the sales price to an un-reasonable level. In return they may provide a lower grade of products, or mix the high grade one with the low grade goods. Some may even breach the sales agreements, when they could not fulfill the contractual obligations. Further they exported excess goods to any interested body disregard the 'pre-set' quota to the export markets under certain 'illegal' arrangement. This mal-practice had done a lot of damage to the market players and hurt the reputation of Chinese exporters as a whole.

In some aspects, many of the exported goods found their way back to the domestic market where they were badly needed. The export enterprises were too eager to export and to earn foreign currency while inside the country many manufacturers had to purchase the materials from aboard. Some of these imported materials may be originated from China.

2. Major Export Industries

The rapid growth of China's exports must be an indication of the existence of competitive advantages in certain industries. Perhaps the best approach is to identify China's most successful export industries and test them against the relevance of Porter's model. **Table 4** shows a breakdown of China's export in 1991, with following industries dominating.

It should be noted that complex-factor products such as machinery and transport equipment accounted only a total of US\$7.2 billion (1991), or 5.56%.

The above-mentioned four industries are tested against Porter's "diamond" of determinants in order to determine whether there exists a determinant-competitive advantage fit.

2.1 The Food and Livestock Industry

The food and livestock industry is basically using agricultural products as raw materials in the manufacture process. China possesses the necessary physical and human resources for this industry. The long history in agriculture can be traced back to two thousand years, together with the constant education for the peasants and farm workers. These have helped the advancement of the agriculture. Furthermore as the economic reform policy is implemented from 1978, the peasants are allowed to manage a permitted farm area and to keep some of the harvests in their own pockets after surrendering the necessary quota to the State. This policy has a very favorable impact on productivity of the peasants.

Whilst domestic demand has negligible sophistication, demand from Hong Kong which has inhibited mainly of Chinese-origin consuming majority of the Chinese food and livestock. The Hong Kong consumers emphasises the freshness of all kinds of food. This freshness condition suits the Chinese food exporters very well because of the close proximity of the Hong Kong market, particularly there is lacking of cold storage and transportation facility.

The impact of government intervention, be it from the central or the provincial administration, if any, is seen to be negligible due to the nature of the industry. On the other hand, the industry would not look for the subsidy or assistance given by the government.

The food and livestock industry is not without hindrance. Threatened by the climate-dependent nature of this industry, together with the shortage of agriculture land and grassland, constant improvement in productivity is necessary. These include the up-grading of farming method, the

improvement in irrigation system and large scale of fertilization. Domestic demand for more and better quality of food from the ever growing population who are looking for a prosperous life should affect the supply to foreign markets in the future.

2.2 Textile Fibre and Fabric Industry

The textile industry is labour intensive, skill intensive and its competitiveness depends very much on the abundance of raw materials such as cotton, silk, wool and downs etc. It also requires a competitive washing and dyeing industry which consumes large amount of water and electricity. The industry is segmented in terms of quality grades and materials with a wide range of price brackets.

There is large concentration of textile industry around the Shanghai region which has a long tradition in textile production dated back to the 1930's. Skills have been retained through apprenticeship practice although most of the production facilities need to be modernized. China is endowed with all necessary raw materials and utility requirements with the exception of, perhaps, high grade wool. Lacking the technical expertise like the British and German, China has targeted its textile industry to cater for the medium-to-low quality with the corresponding price brackets. Like the food industry, the growing domestic demand due to population increase may strain the production capacity rather than inducing a scale economy.

Language usually is not a major problem in dealing with foreign businessmen as most factories in China are not allowed to deal directly with foreigners. Commercial negotiations are usually via the Foreign Trade Corporation (FTC) under the jurisdiction of the Ministry of Foreign Economic Relations and Trade (MOFERT), which provide for experienced and English speaking officials.

In recent years, seizing the opportunity of the open policy, many Hong Kong textile factory owners have shifted their operation into China and set up joint-ventures. Many Taiwan owners have followed suite, in order to capitalize on China's export quotas, low labour, land and utility costs as well as the relatively relax environmental requirements. This has created new business ventures with corresponding in-flow of technology and management expertise.

The most prominent government intervention in this industry is perhaps the fight for higher export quotas to the developed countries such as USA and ECC countries.

2.3 The Garment Industry

Situation is quite similar to the textile industry in that competitive advantages are derived mainly from the factor conditions such as cheap labour; competitive textile cluster industry; technology transfer, expertise

enhancement and business creation by the Hong Kong Joint Ventures.

While exports of medium-to-low price bracket garment from China is significant, the hope to move up-market to sell high value-added fashion and quality garments has yet to be materialized. Main reasons are: lack of information flow to keep alert with fashion trends; lack of a fashion culture hence updated designs; lack of high-quality textile cluster industry and the generally mechanistic organization structure too slow to gear up for the changing fashions.

2.4 Oil and Related Products

China has rich oil resource both in-land and off-shore. Prior to 1979, oil production was concentrated on the in-land oil-fields such as the Daqing and Zhengli oil fields. There were no off-shore explorations partly due to lack of expertise in this field and partly due to the reluctance to cooperate with foreigners in resources development. The determination to adopt an open policy in 1979 provided a platform to establish joint ventures and joint explorations with foreign oil companies to develop off-shore drilling and production around the Bohai Sea and South China Sea regions. Decisions were also made to allocate state funding into these ventures, at the same time vigorous measure were taken to acquire expertise in off-shore technology. The push to go off-shore was enhanced by the fact that in-land productions tended to level off.

Joint-ventures and outright turnkey purchase of petro-chemical plants and refineries have taken place to produce a range of products needed as raw materials for many industries. At the same time, domestic oil and petroleum consumptions have been forcefully held down so as to generate surplus oil for export. Thus the imported plants are paid off by foreign exchange savings through import substitution of petro-chemical products and by oil export proceeds.

Another source of competitive advantage of China's oil industry is in the marine transport of crude oil. The Chinese state shipping company, COSCO, runs a large fleet of relatively young ships, their operating costs are kept low by the use of Chinese fuel and labour.

Conclusion

The economic reform during 1979-1989 has brought about tremendous progress in China's economic development. Not only has the people's standard of living increased, but also China's role as a player in the international trade and politics is now more important than before.

The free-market element of China's distorted form of centrally-planned economy has stimulated foreign trades and has created competitive advantages for her textile, garment and oil industries, which are tested against Porter's "diamond" of competitive advantage determinants.

It is felt that Porter's theory is generally relevant to China's present form of economy. Perhaps it can be argued that the "Government" factor of Porter's model should be more importantly emphasized when applied to a centrally-planned economy. In this case the importance of government intervention is not so much on factor creation or facilitation, but on its ability to mobilize all necessary resources to concentrate on certain tasks or industries, and on its freedom to adopt certain drastic fiscal measures such as constraining domestic demand, imposing import bans, controlling the media and devaluating the currency etc. This is often referred to by the communist government as "the comparative advantage of socialism".

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Table 1
Position in World Output of Chinese Major Industrial Products

	1949	1957	1965	1978	1980	1985	1986	1987	1988
Steel	26	9	8	5	5	4	4	4	4
Coal	9	5	5	3	3	2	2	1	1
Crude Oil	27 ¹	23	12	8	6	6	4	5	5
Electricity	25	13	9	7	6	5	5	4	4
Cement		8	8	4	3	1	1	1	1
Suphate		14	3	3	3	3	3	3	3
Fertilizer		33	8	3	3	3	3	3	3
Chemical Fibre		26 ²		7	5	5	4	4	4
Fabric		3	3	1	1	1	1	1	1
Sugar			8	8	10	6	6	6	5
T.V. Set				8	5	3	3	3	1

Note 1: 1950 figure
2: 1960 figure

Source : China Industrial Statistic Annual (1990)

Table 2
Industrial Output Index
(1980 = 100)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
World	99.3	96.8	99.5	105.5	108.5	111.9	116.0	122.6	
China	104	112	125	145	176	197	232	280	304
U.S.A.	102	95	101	112	114	115	120	126	130
Japan	101	101	104	114	118	118	122	134	145
W. Germany	98	95	96	99	105	107	107	111	117
U.K.	96	98	102	103	108	110	114	118	119
France	98	98	98	99	99	102	102	108	113
Italy	98	95	92	95	97	99	103	108	
Canada	101	91	97	111	116	119	124	131	132
Australia	101	90	101	108	115	114	121	129	
U.S.S.R.	103	106	111	115	119	125	129	134	136
E. Germany	105	108	112	117	122	127	131	134	133
Czechoslovakia	102	104	107	111	115	118	122	124	124
Poland	87	86	91	95	99	103	106	111	109
Hungary	103	105	106	109	110	112	116	115	111
Rumania	103	104	108	116	122	131	137	142	
Burgaria	105	110	115	120	124	129	134	141	
Yugoslavia	104	104	105	111	114	119	120	122	137
India	109	113	117	128	140	149	165	178	

Source : U.N. Statistics Monthly - May/Apr 1990

Table 3
Forecast of Economic Growth

Real Change	89	90	91	92	93	94
GNP (%)	3.9	2.0	4.4	6.5	7.9	8.2
Fixed Investment (%)	2.0	1.0	3.0	4.0	7.0	8.0
Inflation (%)	17.8	9.0	13.0	15.0	18.0	18.0
Exchange rate (RMB/USD)	3.77	4.72	4.72	5.5	5.5	5.5
Merchandise exports (B.USD)	45.4	48.3	52.7	54.5	62.9	71.0
Merchandise imports (B.USD)	49.6	46.0	52.4	55.6	65.0	75.3
Industrial Growth (%)	6.0	3.7	6.1	8.5	10.0	9.4

Source : Global Forecasting Service, Published by The Economist Intelligence Unit, London
China: 2nd Quarter 1990

Table 4
Breakdown of Major Export (1991)

	B. USD	% of Export
Food & Livestock	7.23	10.1
Textile Fibre + Fibre	7.73	10.7
Oil & related products	3.97	5.5
Garments	8.99	12.5
Total Exports	71.9	100.00

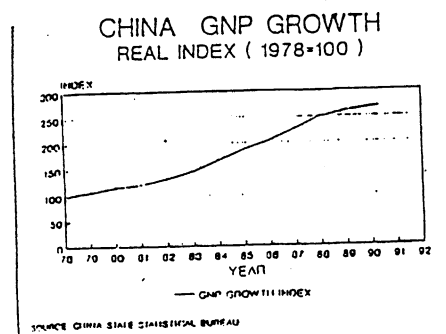


Fig. 1.

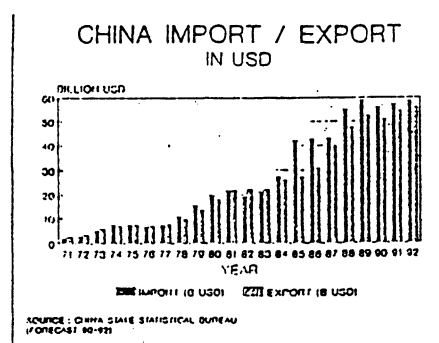


Fig. 2

EXAMINING THE ROLE OF AFTER SALES SERVICE
IN INTERNATIONAL MARKETING

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ABSTRACT

Customer service is considered as a basic pillar of the marketing concept. One dimension of customer service is the producer warranty which basically is an after-sales service element. The patterns of warranty coverage and duration have been tried to be explained by two theories in the literature: Exploitation theory and Signal theory. This paper discusses the implications of these for the international context. A number of implications with future research suggestions are included.

Customer service is generally recognized as an important contributor to product differentiation and essential to success of products in the marketplace. This paper examines questions and issues facing exporters as they try to determine the optimum level of consumer services to provide their worldwide customers. Customer service occurs before, during, and after the sale, and encompasses an array of activities. After sales service has a particular impact on customer loyalty and repeat purchases, and is the focus of this discussion. Warranties are among the most commonly offered after sales service elements and is the only dimension of after sales consumer service extensively studied in the marketing literature. This paper suggests approaches and questions appropriate for studying the level of customer service provided by exporters of U.S. products to their international customers through the study of warranties. A major question raised is whether product warranties offered by exporters in different markets around the world follow patterns that can be explained by either of the two principle product warranty theories: Exploitation theory and Signal theory.

Domestic versus International Marketing

In an effort to define the characteristics and distinguish between domestic and international marketing, Bartels (1968) emphasized the twofold nature of marketing processes: technical and social. Technical concepts include products, price, profits, costs, brands, differentiation, layouts, scales, channels, markets, institutions, flow, and processes. Social concepts refer to social systems, role, behavior, interaction, and management. It can be seen from these distinctions that social or human concepts of marketing, which include behavior and interaction in the market process, are more likely to differ across societies than technical concepts which appear to be more universal. Emphasizing the relationship between marketing and the environment in which it is performed, Bartels (1968) further states that:

"to the extent that either business managers or academicians perceive differences in foreign and domestic marketing, they will deal with them as distinct and different. To the extent that they perceive the inherent similarities, they will deal with them in more integrated marketing theory, business structure, and academic offering (p. 59)."

Therefore, it should be expected that international businesses perceiving differences in foreign environments particularly when compared to the domestic environment are likely to adjust their marketing practices in response to both technical and social aspects.

Adjustments of Marketing Practices and Consumer Satisfaction

Some marketing mix adjustments, especially those which are made with a short-sighted view of short-term profitability, may cause harm to those firms in the long run as they lead to the formation of various organizations and establishment of extensive regulations which exert negative influence on business (Hutt, Mokwa, and Shapiro 1986, Kangun et al. 1975, McCullough 1979, Pearce 1983). Besides the formation of agencies and a complex regulatory environment, business practices which do not satisfy consumers are likely to lead to lost potential sales rather than leading to overt complaint behavior (Diener and Greyser 1978, Harmon and Resnik 1982, Kendall and Russ 1975). In an effort to model the choices among alternative responses to dissatisfaction, Day (1984) listed the four groups of predictors of complaint behavior: significance of the consumption event, consumer knowledge and experience, difficulty of seeking redress or complaining, and likelihood of successful resolution of complaints. Attitude toward the act of complaining acts as a mediating variable between a group of predictor variables and the act of complaining. Thus, lack of complaints or low level of complaints may not indicate that consumers are satisfied with a firm's offerings (Richins 1983).

The basic underlying cause of lack of legitimate complaints has been determined to be the belief that the time and effort necessary to make a complaint are not worth the resulting gain (Gilly 1981, Gilly and Gelb 1982, Harmon and Resnik 1982, Landon 1977). It is well documented in the complaint and complaint handling literatures that consumer sin less developed countries are much less inclined to complain than are consumers in developed countries (Asugman and Stem 1990, Kangun et al. 1975, Kaynak and Wikstrom 1985). One important reason for this seems to be the level of perceived power by consumers (Asugman, Tansuhaj, and McCullough 1991). Findings of a study by Stem et al. (1991) indicated that consumers from developing countries who have lived in the U.S. for some time perceive the level of consumer power in the U.S. to be significantly higher than in their own countries which apparently influences their complaining behavior.

U.S. businesses which deal with international customers should pay attention to the consequences of their action in foreign markets since the responses of consumers are likely to be different than responses in the home market. The literature indicates this is especially true in cases of dissatisfaction. Since empirical evidence indicates that consumers who are dissatisfied choose negative word-of-mouth

(Richins 1983) and brand switching (Diener and Greyser 1978, Harmon and Resnik 1982, Kendall and Russ 1975) more often compared to complaining, international businesses need to be especially careful when dealing with customers in foreign countries.

One of the challenges for international business is identifying how to deal with customers in a satisfactory and acceptable manner under different environmental conditions. In fact, as emphasized by Kaynak and Wikstrom (1985), international business firms can attain competitive advantages, especially in developing countries, by extending consumer oriented marketing practices which they use in domestic markets instead of trying to take advantage of less educated, less informed and less protected consumers in developing countries (Dembo, Morehouse, Wykle 1990, Garrett 1986, Garrett 1987, Maynes 1972). By showing responsible behavior and offering appropriate marketing programs, international businesses can enhance their performance by developing positive country of origin effects instead of projecting negative images. In this sense, product warranties offered by exporters to customers around the world can be utilized as an element of competitive strategy (Udell and Anderson 1968).

Definition and Scope of Customer Service

Customer service is fundamental to the marketing concept which requires fulfillment of consumer needs at a profit (Rose 1979). In order to utilize the marketing concept fully, a firm should be able to both attract and keep customers which are directly influenced by customer service (Stock and Lambert 1987).

It is possible to define customer service in many ways depending on the mission of the firm. However, customer service can generally be defined as

"a set of activities which occurs at the interface between a supplier and its customers when the underlying purpose of that interface is delivery of the product" (Firth et al. 1988, p. 31).

More specifically,

"customer service is meeting the expectations of customers at reasonable costs" (Rose 1979, p. 280)

Customer service strategy elements can be analyzed in three broad categories: pre-transaction service elements, transaction service elements, and post-transaction service elements (LaLonde and Zinszer 1976). Among these, this work considers the post-transaction service elements and specifically warranties. As stated by Bowersox, Closs, and Helferich (1986),

"The post-transaction aspect of administration is concerned with the state of affairs that exists between buyer and seller after the ownership transfer is completed. This includes the ability to provide the actual

delivery date and to provide life cycle support such as warranty and postwarranty service such as parts and repair (p.76)."

Post-transaction customer service elements are also commonly referred to as after-sales service or product support in the literature. Emphasizing that post-purchase product support is necessary for customers to obtain the most value from product use after the sale, Lele and Karmarkar (1983) define the elements of product support in relation to product life cycle stages. According to these authors, in the early stages, product support consists of parts, service, and warranty. In later stages, such as maturation, due to increasing sophistication of customer needs, product support aims at the maximization of customer after-sales satisfaction and encompasses; parts, service, warranty, operator training, maintenance training, parts delivery, reliability engineering, and product design.

Elements of after-sales service affect the overall quality of a product by affecting customer perceptions (Takeuchi and Quelch 1983). As emphasized by Levitt 1983), a product is not a single item anymore but a whole bundle of benefits designed to satisfy buyers, in other words an augmented product. It is of crucial importance for marketers to pay attention to elements of the after-sales service in order to maximize customer satisfaction. Warranty provisions are among the factors influencing consumer perception of quality at the point of purchase and have effects on purchase decisions (Feldman 1976, Shimp and Bearden 1982, Takeuchi and Quelch 1983, Stock and Lambert 1987).

Product Warranty

"A warranty is an affirmation by the seller of the quality or performance of the goods he is trying to sell (Kendall and russ 1975, p. 36)."

An express warranty is such an affirmation in writing and according to Kendall and Russ 1975) has the advantages of encouraging legitimate complaints, reducing perceived risk, and providing product differentiation. In the United States the behavior of manufacturers regarding warranties have been regulated by the Magnuson-Moss (M-M) Warranty Act since 1974. According to the 1974 M-M Act, manufacturers are required to have simple and readily understandable language in warranties where all important provisions will be conspicuously disclosed. In addition, warranties will be displayed so that consumers will be able to inspect them prior to purchase of the product. All express warranties will be designated as either Full (if they match certain minimum standards) or Limited (if they don't match minimum standards) (Kelly 1986, Priest, 1981). This is not always true in the international market.

Product Warranty Theories

Exploitation Theory: An elaborate warranty theory has been developed in the context of laws about contracts (Kessler 1943). According to the

exploitation theory, since the seller drafted the terms of this standardized contract (warranty) and the consumer had to accept them even if they didn't like them, the seller has been viewed as having the bargaining power. Among the causes of the superior position of the seller were; being a natural monopoly, having patents, or typing arrangements. However, existence of multiple sellers didn't mean that consumer had the opportunity to shop around for better warranty terms since manufacturers colluded to come up with very similar warranties (Priest 1981). Kessler (1943) viewed this as a contract where the terms of the stronger party ruled the relationship. According to the exploitation theory therefore, manufacturers will try to limit their legal obligations to customers to the extent possible.

A possible implication of this theory regarding the present research question of level of after-sales elements across countries is that exporters who export their products to various countries where different market conditions exist regarding the power of sellers vis-a-vis the buyers will adjust warranties to the firm's advantage. This leads to the conclusion that the term and conditions of a warranty offered by an exporter in different countries for the same product will deteriorate as the exporter's perception of bargaining power increases. (Kelley 1986, 1988, Priest 1981). A test of this theory in the international setting seems to be particularly suitable since testing it in the U.S. setting where the legal minimum standards established by the Magnuson-Moss Warranty Act set limits to the behavior of firms.

Signal Theory: According to signal theory, a product warranty provides information to consumers about the mechanical reliability of the product since a more extensive warranty coverage will be an indication of lower costs of warranty coverage which is likely to accompany a more reliable product (Priest 1981). In this view, the utility of warranty is its information value. Research regarding the market signal theory of warranties have produced mixed results due to difficulties and differences in operationalization (Kelley 1988). Product reliability has been defined and measured in different ways and tried to be correlated with the extend of warranty coverage. These attempts tried to measure the objective product reliability such as frequency of repair measure provided by Consumer Reports and the correlate it with the accompanying warranty terms of the product to see if increasing reliability does in fact indicate better warranty terms. One shortcoming of such an approach is the fact that objective measures of product reliability as evidenced by usage records or perceived product reliability by consumers resulting from experience with the product do not affect the warranty terms offered by the seller when the product is first offered. Rather, the perception of the seller regarding the reliability of the product may affect the terms of warranty offered with it. Examining this concept further leads to the following propositions.

Exporters who perceive their product of higher reliability compared to that of competitors' are likely to offer better warranty terms compared to existing ones in a market (Kelley 1988). However, if an exporter's behavior complies with the Exploitation theory, then the exporter will not offer better terms than the competition.

Those exporters whose behavior regarding warranties complies with the implications of Exploitation theory are likely to offer similar terms with that of the competition even if they perceive their product of being higher reliability than that of the competitors.

Signal theory suggests that exporters whose behavior confirm the theory will be more likely to use warranties to differentiate and position their products (Kelley 1988). Exporters whose warranties appear to follow market signal theory will exert more control on the warranty services offered by dealers (Kelley 1988). Exporters whose behavior complies with the market signal theory are also more likely to believe in the importance of warranty terms in consumers' purchase decisions.

Kelley (1986) provides a comprehensive review of the literature regarding warranties and associated theory testing and points out the need for further testing for justification of existing theories or development of new theories.

Internationalization Process of Firms and Some Implications

While testing the behavior of exporters with respect to product warranties they offer in different markets, the stage of the internationalization process they are at may be important to consider. As proposed by Johanson and Vahlne (1977) the internationalization process of the firm "focuses on the development of the individual firm, and particularly on its gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets (p. 23)." Stages of internationalization include exporting to a country via an agent, then by establishing a sales subsidiary, and in some cases by beginning production in the host country (Johanson and Vahlne 1977). Cavusgil (1980) provided a similar differentiation between the stages of internationalization which include; domestic marketing stage, pre-export stage, experimental involvement stage, active involvement stage, and committed involvement stage. IN differentiating between an experimental exporter and a committed exporter, Cavusgil (1980) emphasized the kind of motives guiding each. While the motivating force behind an experimental exporter is increasing short-term sales, a committed exporter is interested in long-term presence in selected markets. Therefore, a committed exporter is likely to be more informed about market conditions of foreign countries involved as well as being more responsive to them. Implications of the internationalization process for the present study are that the behavior of committed

exporters regarding product warranties are more likely to resemble the Signal theory. The behavior of experimental exporters regarding product warranties are more likely to resemble the exploitation theory.

Conclusion

The concepts and theories discussed in this paper need to be tested empirically. This has not been done in the international environment. Future empirical research can focus on warranty coverage and duration of export products across international markets. Findings are likely to indicate the perceptions of international businesses regarding market conditions in various countries. Results can be useful to different parties such as consumer groups, public policy makers, and businesses.

Conceptual and empirical works in the area of after-sales services have been scarce. Although these issues may not be significant problems of consumers in developed countries where buyers' market conditions prevail, for consumers in Third world markets still considerable threats exist. Research in the area not only will enable academicians to develop theories and better understanding of issues but will also help practitioners in choosing better after-sales service strategy alternatives to penetrate and have long term success in foreign markets.

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WHEN GLOBAL MARKETS GET TOUGH: A CALL AS YET UNANSWERED

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ABSTRACT

Globalization has been a corporate rallying cry throughout the 1980s, and as marketers plan for the decade ahead, they will find it more effective "Think Global, Act Local." This paper provides a guide to managers of the major conceptual contributions in the literature toward understanding global advertising strategies and also suggests strategies for international marketers and practitioners.

INTRODUCTION

The globalization of advertising has been recurrent themes in both the academic and trade journals. The wisdom of applying identical or similar advertising approaches to many markets is still hotly debated. Since the earlier studies (i.e., Elinder 1965; Fatt 1967) first suggested a similarity in consumer tastes globally made uniform advertising approaches possible, there has been numerous studies investigating the viability of such a notion.

Cultural environment and the level of need a consumer seeks to satisfy are the major prerequisites for implementing a global marketing strategy (Holmes 1991). A simultaneous assessment of these factors will often determine whether the corporation should employ one globalized appeal, a patterned approach employing variations in the appeal's expression, or customized appeals directed toward the unique cultural norms of each market (Colvin, Heeler and Thorpe 1980; Hite and Fraser 1988; Quelch and Hoff 1986; Onkvisit and Shaw 1987).

Consumers around the world use Parker Brothers pens and smoke Marlboro cigarettes, McDonald's serves up hamburgers in Istanbul. While some standardized products are currently being offered worldwide, the extent they can be promoted without making changes to their advertising campaigns is not yet resolved. Proponents of globalization contend that differences between countries are more a matter of degree than direction and instead focus on the similar characteristic of consumers around the world (Elinder 1965; Fatt 1967; Levitt 1983). The consumers may therefore be satisfied with similar products or advertising campaigns. Proponents of customization argue that advertisers must consider differences among countries, including culture, stage of economic and industrial development, media availability, legal restrictions and other factors (Blackwell, Ajami and Stephan 1991; Delener 1992; Hite and Fraser 1988; Kanso 1992; Ricks, Arpan and Fu 1974). Given these differences, it becomes essential that advertisers customize campaigns for local markets.

Global marketing guru Theodore Levitt suggests that the world is becoming a common market place in which people desire the same products and

lifestyles regardless where they live. He strongly encourages companies to utilize the same advertising campaigns everywhere. But is this reasonable? Is he correct in asserting that "Different cultural preferences, national tastes and standards, and business institutions are vestiges of the past"? (p. 96). Levitt admitted that "barriers to globalization" exist and therefore left the door ajar so that some customization or adaptation may be implemented. But before deciding on which type of strategy advertiser will use in their markets, they must take into account some factors that may affect their campaign developments such as cultural sensitivities, economic concerns, legal and political considerations and the like in their markets. This paper addresses these issues by exploring the merits of both global and local advertising campaigns. Specifically, this paper provides a guide to strategists of the major conceptual contributions in the literature toward understanding global marketing. The focus is upon the application of these concepts to the development of global advertising strategies and the effective implementation of global advertising campaigns.

THE GLOBAL ADVERTISING CONTROVERSY

Researchers are still divided on the advisability of using globalized or customized advertising approaches in international campaigns. In the execution of international campaigns, the most frequently repeated phrase is 'good ideas tend to have a universal appeal'. It is also acknowledged that good ideas are not common and also not easy to come up with. Multinational companies should be prepared to draw on the similarities in different countries and not to emphasize their differences. This generates managerial intensity and focus, and puts an end to the dilution of efforts. Globalization means speed, aggressiveness and clarification for everyone. Faster product roll-outs are also stated in connection with the necessity of using international campaigns. Due to fast product launches all around the world, there is not enough time to develop specific national advertising campaigns (Rutigliano 1986).

Discussion below focuses upon the merits of globalization versus customization of advertising campaigns, ways in which alternative strategies might be managed, and factors affecting the suitability of globalization.

Arguments in Favor of Globalization

Proponents of globalization of international advertising such as Dunn (1966), Elinder (1965), Fatt (1967) and Levitt (1983) argued that companies have successfully transferred their advertising campaigns and that globalized themes have provided consistent corporate and brand

images worldwide. Advocates of globalization also claimed that although differences between countries would exist, the potential gains from globalization need to be factored into a company's international advertising decision process (Buzzell 1968). Levitt (1983) proposed that multinational companies needed to globalize their international strategies in order to be successful. He continued that technology would create a convergence in consumer preferences worldwide which in turn would facilitate globalization. Fatt (1967) stated that because certain appeals "know no boundaries," international advertising globalization was workable. Some empirical evidence has supported this contention (e.g., Dunn 1966, 1976; Marquez 1979; Peebles and Ryans 1984).

Arguments in Favor of Customization/Adaptation

Opponents of global advertising stress the differences across countries regarding language barriers, culture, religion, advertising legislation, media availability, and a lack of international advertising agencies. To support their view, proponents of adaptation pointed out blunders in global advertising occurred due to marketers' lack of understanding foreign cultures. For example, Amine and Cavusgil (1983) revealed that the globalized approach is particularly inappropriate in developing countries because of the magnitude of environmental differences.

Anecdotal evidence provided by Yovovich (1982) and Helming (1982) also suggests the problems encountered by companies that have tried to use globalized approaches. Killough (1978) studied the transfer of advertising resources from one country to another in a survey involving 65 senior executives in more than 120 international campaigns and concluded that complete globalization was not feasible. Boddewyn, Soehl and Picard (1986) tested empirically some of the assertions made by Levitt (1983) and revealed that advertising was very resistant to globalization in Europe. Recently, Shao et. al. (1992) examined whether or not it is feasible to promote products the same way everywhere. They concluded that the world is different enough to discourage attempts at advertising globalization. Kanso (1992) also investigated international advertising approaches used by U.S. corporations and suggested that the globalization of advertising is on the decline. Having reviewed some general arguments against international advertising, [Table 1](#) summarizes the logic behind them.

Table 1: Rationale for Globalization versus Customization/Adaptation

- [1] Economies of Scale
- There is no scientific data to support the cost savings aspects of international advertising for companies.
 - Cost reduction does not necessarily mean profit maximization, especially in international marketing where the general rule is that achieving economies of scale is critical and difficult (Terpstra 1983).

- [2] Converging Consumer Needs
- Technological advances in communication have created new choices that encourage cultural divergence not convergence in consumer needs.
 - The consumer is always local. Consumers acquire products often choosing among similar brands or consume services perceived as compatible with the cultures and subcultures (e.g., Holmes 1991).
- [3] Translation
- The literal translation of advertising copy is a minefield of potential linguistic-disasters. Companies should be warned about unqualified translators and direct translations.
 - Non-verbal communications (i.e., facial expressions, gestures, glances, colors, graphics, etc.) are another area in which local sensibilities should be taken into consideration.
- [4] Foreign Travel
- The size of tourists in a total population is small therefore it should be neglected.
 - In world markets, the global set is still restricted to a small minority. Consumers who do not belong to this global set spend very limited time in foreign markets, if they ever get a chance to travel abroad.
- [5] Advertising Legislation
- Different advertising legislation in different countries necessitate compulsory adaptations in global advertisements.
 - According to Boddewyn (1985) three major groups of countries that have their own individual approaches to advertisement regulation are:
 - Scandinavian countries apply a consumer-ombudsman approach.
 - Anglo-Saxon countries rely on self regulation.
 - Developing countries emphasize the protection of their cultural identity.
- [6] Local Management Support
- If a company globalizes too fast, local managers could lose their interest and motivation.
 - The 'not-invented-here' syndrome prevails in attitudes to advertising that has been imposed by headquarters.

CASES

Current literature reveals that it is not possible in most cases to use globalized campaigns. If they were used they could easily lead to detrimental consequences. This section explores a few cases of running international campaigns around the globe that were free of blunders.

First case is Coca-Cola's football-star campaign, where different stars were used in different countries. While the theme was kept constant, the pattern was adapted to fit each country. It was reasoned that 'Global advertising is not "Take It. Translate it. Run it. Don't Argue!" Not even in Coca Cola!' (Day 1985).

Global advertising should succeed in tapping fundamental common feelings in different countries, without attempting to change the product's persona.

Second example comes from an international company, Ursula Gruber Communications Internationale SA, based in France. The company prefers adapting rather than translating in 23 languages. It has 200 freelance copywriters and journalists each living in their own countries. Each communicator translates only into his or her own language. The general belief is that the advertising message reflects the cultural values, life styles and environment of the country where the product or service is being generated. It is therefore better to make use of the rich, native experience of local (Vardar 1992).

Another example is Gillette. This company has four major geographical segments around the globe. Pan-group projects are developed by lead countries in these segments and then introduced into the other countries belonging to the same geographical area (Vardar 1992).

Final example is the Marlboro Man. The Marlboro Man speaks 19 languages and has been altered in several markets. In Hong Kong, the cowboy wears a white hat, rides a white horse, and is never seen alone or sitting around the campfire. And the slogan "The tougher the life, the more you like it has replaced 'Come to the Marlboro country'" (Marketing News 1987). In England, Marlboro Man cannot appear in ads wearing his cowboy gear; instead, he is pictured as civilian dreaming of the wild West. In Columbia the government has mandated that the cowboy be portrayed by a Columbian actor. In most Arab countries, the Marlboro Man is heard on radio but seldom seen in print ads.

CONCLUSIONS AND STRATEGIC RECOMMENDATIONS

In practice, neither perfect globalized nor perfect localized advertising approach is used. Most brands would fall between two extremes if international advertising is seen as a continuum between totally centralized and totally decentralized local campaigns. A combination of the two approaches is used as a result of market conditions and corporate goals.

Corporate executives tend to take a broader view of this highly controversial area. On the other hand, some academics take the middle road on international advertising, who do not insist on either extreme. The middle road blends, to some degree, uniformity with individual country differences. In this case each market and country are viewed individually during the practice of transferring international advertising campaigns. The notion of transferring that advertising campaign should be dropped if the advertising campaign does not seem to be appropriate in anyway.

The factors below should be taken into consideration in determining the transferability

of advertising campaigns:

- the cultural values in different countries;
- the economic, technological and political climate in international markets;
- legal restrictions on the nature of advertising, trade codes and industry agreements;
- levels of consumer education;
- the nature of product;
- trademark and brand name acceptance;
- degree of nationalism;
- the extent to which consumerism is acknowledged;
- competence of personnel in foreign offices; and
- the characteristics, availability and acceptance of media.

Furthermore, it is important to adapt advertising components (i.e., language, models, scenic backgrounds and product attributes) to blend with the foreign culture. Understanding only culture will lead multinational corporations to succeed in foreign markets is an over simplification of what environments involve. Marketers must also examine economic, social, legal, political and technological forces to comprehend foreign environments. Still further, advertising strategies should be modified regularly, as the various cultural, economic, political and legal environments are changing and product offerings interact differently with external variables as they move through the product life cycle.

In conclusion, although consumer wants and needs are more or less universal, but the way to address these consumer wants and needs is not. Advertising strategies are determined, to a greater extent, by cultural values. Multinational corporations should consider each foreign market opportunity as a unique challenge if they wish to minimize advertising blunders. A global commitment to local vision is the key for successful international advertising. Such a trend should accelerate if multinational corporations desire to compete effectively in global markets.

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AN ALGORITHM TO ASSESS THE POTENTIAL FOR STANDARDIZING
INTERNATIONAL ADVERTISING MESSAGES

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Abstract

This paper develops a framework for determining whether advertising messages can be standardized across national boundaries. An algorithm to help make such decisions is proposed. Globalism and the driving forces behind it are discussed to provide background. Then the issues of standardization in international marketing, and in particular international advertising messages, are discussed. The managerial applications of the algorithm involve development of an expert system based on the algorithm using the PATHBUILDER expert system development shell. Finally, recommendations for needed future research are made.

The extent to which marketing communication strategy should be standardized across national boundaries has for many years been of great interest to the business world and researchers. But the controversy remains largely unresolved. The purpose of this paper is to develop a framework for determining whether advertising messages can be standardized across national boundaries and to suggest an algorithm to help decision making in that area.

The paper consists of five sections. In the first section, the concept of globalization, driving forces behind it and the differences between global and multidomestic strategies are reviewed briefly. The issue of standardization in international marketing is then briefly discussed. Next the schools of thought on the issue of advertising standardization are reviewed. Then an algorithm to be used as a decision support tool in advertising standardization is presented. Finally, some concluding remarks are made and directions for future research are suggested.

Globalization

Increasingly companies are taking the global marketing approach in response to the changing international competitive environment. There have been various factors that have acted as driving forces for globalization. Leontiades (1986:96) states "understanding the nature of the changes at work is crucial to understanding the forces behind globalization and what 'going global' entails." Quelch and Hoff (1986) suggest that the driving factor behind global marketing should be to make efficient use of good marketing ideas worldwide.

First of all, there are market drivers for globalization. Levitt (1983) argues that markets all over the world are becoming more and more alike; that customer needs and interests are becoming increasingly homogeneous worldwide. According to Levitt (1983:62), technology drives the world toward commonality and the result is "the emergence of global markets for standardized consumer

products on a previously unimagined scale of magnitude."

Customers worldwide, especially in the Triad regions, want the best products at the lowest possible prices (Ohmae 1990). Increasing international travel by consumers has also been one of the market drivers for globalization. Increasing numbers of consumers are exposed to products, brand names and advertising while they are in foreign countries (Ohmae 1990). It is also argued that differences in cultural preferences, national tastes and standards have been gradually diminishing.

The second set of driving factors for globalization is the need to achieve economies of scale to reduce per unit product development and other marketing costs (Buzzell 1968). New developments in transportation, logistics structures and networks have made a globalized approach cost effective.

Government related drivers for globalization include reduced tariff and nontariff barriers and common technical standards. Another major driver of globalization has been the improvement in communication technologies.

Standardizing International Marketing

There are two types of standardization: marketing program and marketing process (Sorenson and Wiechmann 1975, Miracle 1968). The first of these refers to standardizing various aspects of the marketing mix, whereas the latter refers to the process of developing and implementing the marketing program (Kreutzer 1988).

The focus of this paper is on advertising message standardization which is part of the marketing program standardization issue. Factors contributing to the trend toward standardization of messages are similar to the globalization drivers. The main factors are greater interdependence of world markets, increasing homogenization of world population in terms of product preferences, greater access to information and greater mobility of consumers, improvements in transportation and communication technologies, and lowering of trade barriers especially within trade blocs (Rau and Preble 1987).

On the other hand, there are also several barriers to standardization (Jain 1989). One is the difference in the physical environments of different markets. Differences in climate, for example, will have a notable effect on the product design and packaging. Differences in the stage of economic development of different countries also act against standardization, especially differences in income levels.

Cultural differences constitute another important barrier against standardization: different value systems, traditions, social norms, customer expectations and language. Furthermore, the legal environment, mandated product standards, tariffs and taxes can affect product designs, competitive practices, pricing and advertising.

Standardizing International Advertising Messages

There has long been controversy over standardizing international advertising. Three schools of thought can be identified in the literature: (1) standardization; (2) localization; and (3) an in-between position.

The Standardization School of Thought

This school of thought looks for common denominators. Proponents argue that fundamental consumer motives and needs are the same everywhere (Levitt 1983). Hence, the same products can be sold with similar promotional appeals in different countries (Fatt 1967). The motivations for standardization are cited as cost savings, building of international brand and corporate image, simplification of coordination and control, and exploitation of good ideas (Rutigliano 1986). This school also assumes that there is a convergence of art, literature, media availability, tastes, thoughts, culture, living conditions and consequently advertising due to better and faster communication (Onkvisit and Shaw 1987).

The Localization School of Thought

This school of thought challenges the standardization school by pointing out that there are dissimilarities between countries and even between regions in the same country. Even when consumer needs are basically the same across countries, for example hunger, the ways in which consumers satisfy their needs may be different, for example preference for certain foods. It is also important to consider the NIH (not invented here) syndrome by subsidiaries.

Stewart and McAuliffe (1988) cite the following reasons for localizing advertising: (1) ensuring that the copy is consistent with the local culture, customs and product variations and (2) avoiding problems often associated with differences in language and symbolism. Ricks, Arpan and Fu (1974) report that most international advertising blunders occur because of a failure to understand the foreign culture and its social norms. The findings of another study show that consumers' perceptions of the same products differ from country to country (Colvin, Heeler and Thorpe 1980). Hornik (1980) notes that while concepts like product attributes and function may be similar across countries, the perception of those attributes may vary considerably.

Whitelock and Chung (1989) argue that the use of media requires international adaptation since media availability varies from country to country. For example, time for television commercials is severely limited in Germany, and advertisers are required to buy time months in advance; although comparison advertising is a

common practice in the USA, it is not allowed in Turkey.

The In-Between School of Thought

This school of thought represents a compromise view. Proponents include Boddewyn, Soehl and Picard (1986), Hite and Fraser (1988), Killough (1978), Miracle (1968), and Sorenson and Wiechman (1975). They argue that some degree of uniformity in advertising theme may be desirable but that the differences must also be recognized.

Peebles et al (1978) note that advertising standardization is not a simplistic concept and that it should be considered as one of degree rather than in absolute terms. "There are points in between the bipolar positions that represent combinations of standardized and localized approaches" (Moriarty and Duncan 1990: 317). Thus, the question is not whether to standardize, but rather under what circumstances one should consider standardizing (Miracle 1968).

Although national, regional or even local differences exist, there are some similarities both within and across national boundaries (Eshghi and Sheth 1985) that would enable some degree of standardization. Customer segments with similar characteristics, motives and needs can be identified in different countries that form "transnationally homogeneous target groups" (Kreutzer 1988). Music fans, do-it-yourself workers, teenagers with skin problems are some examples of such groups. Industrial buyers can also constitute one such group since they are concerned especially with the "best value for money" (Boddewyn, Soehl and Picard 1986). Moreover, industrial products and services are much less culturally-bound than consumer products.

There are various determinants of the degree of international advertising standardization suggested in the literature. Hornik (1980) suggests that standardization is possible when: (1) the advertising strategy is geared towards an international appeal (e.g. an international celebrity), (2) a world-wide corporate image exists or (3) the international connotation of the appeal is common (e.g. appetizing appeal). The findings of a study done by James and Hill (1991) suggest that there is more potential for standardization in less affluent countries than in affluent countries.

The stage of the product in the product life cycle, level of consumer education, degree of nationalism, transferability of the slogan, rate of economic growth, and recognition of the brand name are also pointed out as important determinants of the level of advertising standardization (Hite and Fraser 1988). Type of product and target audience characteristics also affect the degree of standardization (Miracle, 1968; Onkvisit and Shaw 1987; Mueller 1991). Additional factors identified by Moriarty and Duncan (1990) include the creative strategy used, positioning, branding, and media availability.

An Algorithm to Decide on Advertising Message Standardization or Non-standardization

An algorithm to assess the potential for advertising standardization is presented in Figure 1. The algorithm consists of seven stages corresponding to the criteria being applied. Two assumptions are made regarding the prior work that needs to be done before using the algorithm to assess the potential of a previously used advertising message strategy or execution in a foreign market: (1) the target audience has been identified, and (2) the analysis of the legal environment has been done and that the advertisement and the product meet legal requirements in the target market.

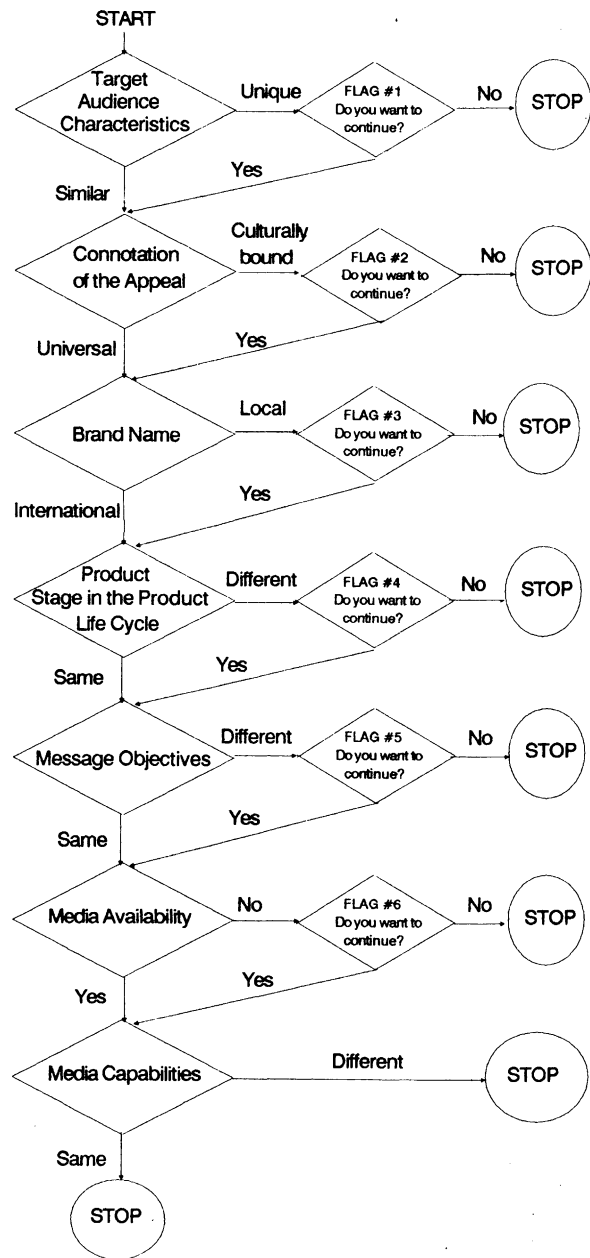
The analysis starts with the target audience characteristics. This includes the size and extent of the market as well as its demographic or psychographic characteristics, and consumer perceptions of product attributes and function(s). The more similar the characteristics of the target audience are to those in the markets where the advertising had been used previously, the higher the potential to standardize. The second criterion is related to the product appeal(s)--whether they are universal or culturally bound. A universal product appeal favors standardization. Next, the international recognition of the brand name is considered. If the brand name already is internationally well-known and accepted, there will be more opportunity to standardize the advertising message.

The fourth consideration is the stage of the product life cycle in the target market. The stage of the PLC includes specification of the number and types of competitors, and their competitive strategies. There will be more potential for standardization if the product is in the same life cycle stage in the target market as it is in the home market or in other markets where the advertising has been used. Message objectives are considered next and the objectives in the home market and the target market are compared. The objective may be to achieve awareness, knowledge, liking, preference, conviction or intention to purchase. Depending on the desired effect, different message strategies may be used such as negative or positive appeals, use of a spokesperson, comparisons, image versus factual advertising, and so forth. Hence, there will be more potential for standardizing the strategies and executions if the message objectives in the home and target markets are the same.

Stages six and seven are related to the media in the proposed market. If media availability and media capabilities to reach and to influence consumers in all markets are similar, there will be more opportunity to standardize.

As shown in Figure 1 there are eight possible endpoints in the algorithm, denoted by the "STOP" signs. Each flag point in the algorithm indicates an unfavorable situation for advertising standardization. Therefore the potential for standardization decreases along a continuum as one passes through the "flags". In other words, the more flag points passed, the less favorable

FIGURE 1
ALGORITHM TO EVALUATE THE POTENTIAL TO STANDARDIZE ADVERTISING MESSAGES



are the circumstances for advertising standardization. The circumstances are the most favorable when one goes straight down in the algorithm without going through any flag points.

Conclusion

Since advertising standardization across national boundaries is dependent on a number of factors, there will be different levels of standardization possible under different conditions.

The standardization potentials of different messages can be compared using the algorithm. Thus it can be used as a framework to guide managerial decision making.

A current application of the algorithm involves the development of an expert system using an appropriate expert system shell. The expert system shell chosen, called PATHBUILDER, allows one to structure the algorithm along a decision tree. There are a total of 255 different routes that might be taken in the algorithm until reaching a stop point. This shell enables a recommendation to be tied to each flag point as well as to each stop point. Future research will focus on developing these recommendations. In particular, the critical routes will be identified and more comprehensive recommendations at the end of each route will be provided.

The algorithm has the potential to be developed to build a quantitative model. One approach to do that might be to assign weights to the seven criteria and scores to the responses. Then, a linear model can be used whereby the weighted average of the criteria will result in an overall score for advertising standardization potential based on a particular scale.

Assigning weights to the criteria is another area of future research, namely that the relative importance of the criteria need to be researched, and the results compared.

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A CROSS-CULTURAL COMPARISON OF INDIVIDUAL TIME ORIENTATIONS

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Abstract

This paper presents a cross-cultural extension of a "time-styles" scale, designed for capturing individual time orientations (economic time, unorganized time, orientation toward the past, orientation toward the future, mastery of time, usefulness of time and time anxiety). The scale has been tested in the case of a developing country, Tunisia, where people have a basic Arabic/Muslim culture and a French "operating" culture. The scale exhibits a fairly high predictive power in the sense it can predict the "operating" culture over 70% using either the dimension or the segment level. Lastly, we introduce the concept of "ambivalent cultural identity" which corresponds to the fact that some individuals do not conform to the "operating" cultural background to which they belong.

Introduction

Perception of time is central to many marketing issues, especially for consumer behavior, and comparative and international marketing. This paper builds on previous researches (Usunier and Valette-Florence, 1991 ; Valette-Florence and Usunier, 1991 ; Usunier, Valette-Florence and Falcy, 1992) which have led to the development of a psychometric scale specially designed to capture individual time orientations (which we call "time-styles"). Our main objective is now to investigate the cross-cultural validity of this time perception scale. Tunisia, a North African developing country, has been chosen for this empirical investigation. It is an Arabic/Muslim culture, which has long-standing relations with Europe, mostly France. Since preliminary results have already been reported elsewhere (Usunier and Valette-Florence, 1993), we first briefly recall the principal temporal orientations which are related to consumer behavior and which are prevalent in developing countries. Then, we focus our research on the scale ability to predict the cultural group to which interviewed people are supposed to belong (French or Arabic cultural group).

Some Dimensions Of Time-Related Consumer Behavior

Dimensions of Time Orientations

In building the Usunier and Valette-Florence scale (1991), emphasis has been given to dimensions of time perceptions which have been described both by anthropologists and experimental psychologists (Kluckhohn and Strodtbeck, 1961, Calabresi and Cohen, 1968, Hall, 1959, 1976, 1983). Their combination in a scale gives rise to a concept of time which is partly *internal* and partly *external* to the individual. It is multidimensional, individual based, but also framed by prevalent patterns in a definite society and environment. These dimensions are :

- **economicity of time** and the *monochronic* versus *polychronic* use of time (as seen mostly by anthropologists, but more recently also by consumer behavior specialists, such as Kaufman, Lane and Lindquist, 1991). The organized-linear-economic time has also been described at the individual level, with a word which is mostly "structure" (Alreck, 1976 : "structured rou-

tine" ; Feather and Bond, 1983). This relates to individual orientation to planning and scheduling daily activities ;

- **temporal orientations**, and especially *projection toward the past* and *projection toward the future* (as seen by anthropologists and also by experimental psychologists, and also by the literature on time and consumer behavior). Time perceptions tend to be related to temporal orientations *vis-à-vis* the arrow of time (Kluckhohn and Strodtbeck 1961). Usually, the research question is to discover how people locate their consciousness over the spectrum of time (Settle, Alreck and Glasheen, 1978) ;

- **psychological dimensions**, which emphasize how people do individually cope with time (as an external and constrained economic resource, and as a social and culture based process of synchronizing themselves with others). They may be broken down into two main headings :

- *the motivational aspect* : especially capacity to undertake projects or tasks for which the rewards will not be received until the passage of long time periods (described often as persistence, or tenacity as in Settle et al, 1978) ;

- *anguish in front of time* : life is seen as aimless, social time frame is viewed as a stressing constraint, and anguish is resented when facing the long time horizons and the constraint of time in daily activities (Calabresi and Cohen 1968).

Time Patterns in Developing Countries

Generally speaking, temporal patterns in many developing countries seem less economic oriented, less future oriented, more event-driven, more people driven, more related to nature and less to project and formal scheduling (Hall, 1983, Graham, 1981). R.J. Graham (1981, p.336) has tried to represent a synthesis of time perception dimensions. He contrasts Western, European and North-American time, which he describes as being "*linear-separable*", with "*circular-traditional*", the time pattern of most Latin American countries. Graham proposes a third model, "*procedural-traditional*", in which the amount of time spent on the activity is irrelevant, since activities are procedure driven rather than time driven. In this specific perception of time, the temporal phenomenon is completely dependent on the reality of the place (space) where the event springs up.

Naturally, certain persons may share different cultures and move from one time model (or "time-style") to another, depending on the other people involved, the particular situation, and then use different types of "operating cultures" (Goodenough, 1981). In fact, rather complex patterns of time may be used by people sharing several cultural backgrounds, one of them being the original in-depth one, the other one(s) being much more "veneered". Furthermore, the original cultural background may be undervalued for many reasons : its "*inefficiency*", its "*bone-in-the-nose*" look, or the simple fact that it is completely unknown to foreigners. As a consequence, people originating from non-Western cultures will have a tendency to simply ape the cultural way, which they tend to favor as the "*one best way*" (i.e. linear-separable economic

time). Nonetheless, people involved in such an ambiguous cultural borrowing most of the time experience difficulties to follow the cultural and social values linked to the practical aspects of economic / monochronic / linear / separable time patterns.

Research Procedure

Presentation of Tunisia Main Characteristics

Tunisia is an 8 million inhabitant North African country. It is located between Algeria and Lybia. Tunisia is a developing country, with limited natural resources (some oil and phosphates), but a good level of education. Tunisian economy is largely based on services (56%), including large tourism activities. GNP per capita is \$ 1.284 (1990).

Tunisia has been colonized by France, with which it has maintained good relationships. The country is also very near to Italy, since the southern part of Sicily is one hundred miles far from Tunisia. The French influence has always been strong as well as the Italian influence. The country has always remained Muslim-Arabic : 99% of the population are Sunnite Muslims ; 99% are Arabic speaking. Many Tunisians speak fluent French. The French language is in wide use in the school system, the public administration, and in business transactions. Tunisians tend to share a twofold cultural background : a basic Muslim-Arabic basic culture, and an "operating culture" (Goodenough, 1981) based on the French influence.

The "Time-Styles" Scale

Our main objective being to develop a comparison across cultures on the temporal dimensions quoted above, we have chosen to develop a specific item-base which is built from several existing scales and item bases. Among the available studies, we chose a large item base (around 180) using five studies, for the purpose of representing different cultural backgrounds, and their specific way of "wording" time-related issues : Bond and Feather (1988) [26 items], Alreck (1976) [64 items], Usunier and Prime (1988) [37 items], Calabresi and Cohen (1968) [39 items], Usunier (1991) [17 items].

All the necessary methodological precautions have been taken, so that this total item base should be able to cover the various national cultures envisioned (Frijda and Jahoda, 1966, Sekaran, 1983, Poortinga, 1989). Specifically, items have been translated, then they have been verified by using a back translation process (Mayer, 1978). Nevertheless, it was not sufficient to ensure a true equivalence of the questionnaires (Deutscher, 1973). Natives have checked for a true equivalence in meaning (procedure suggested by Strauss, 1969).

Then, appropriate scale building procedures have been used (Churchill, 1979) and the scale validated in a French context (600 respondents). Six distinct dimensions have been identified with high internal consistency reliability estimates (alphas were in the .68/.88 range : Usunier and Valette-Florence, 1991 ; Usunier et al, 1992 ; Valette-Florence and Usunier, 1991) : *preference for economic/organized time, preference for unorganized time, orientation toward the past, orientation toward the future, mastery of time, and time usefulness.*

We have further developed the scale by adding two motivational dimensions, which did not

appear in the previous studies quoted above. We called these two sub-dimensions of the motivational aspect (coefficients alpha were in the .8 range for both sub-dimensions) : *tenacity and preference for quick return.* Globally, the scale we used is made of 29 items. Hence, each of the aforementioned dimensions is measured by three or four items. Some examples of the items are provided in [table 1](#).

Table 1 : Examples of selected items

Dimensions	Items
1 Preference for organized / economic time	"It is better to split-up one's work-day in such a way as to plan time for each task."
2 Preference for non-linear / unorganized time	"I hate to follow a schedule."
3 Orientation toward the past	"I think quite often about my life as it used to be."
4 Orientation toward the future	"I often think about the things I am going to do in the future."
5 Mastery of time	"I am almost never late for work or appointments."
6 Usefulness	"I sometimes feel that the way I fill my time has little use or value."
7 Tenacity	"Once I've started an activity I persist at it until I've completed it."
8 Preference for quick return	"I would rather try to get two or more things done quickly than spend my time on one big project."

Sampling

The questionnaire (items with a seven point Likert scale) was administered in Tunisia in two different versions :

- in French to half of the sample,
- in Arabic to the other half.

The demographics are about the same for both convenience subsamples. We interviewed young people in their twenties and one of their parents ; interviewees are middle-class urban people. It is a convenient way of controlling the influence of age within each sub-sample. Each sub-sample is roughly divided in half between men and women⁽¹⁾. The Arabic speaking subsample is composed of 51 men and 63 women ; the French speaking subsample is composed of 45 men and 53 women. The average age is 33 years with a standard deviation of 15 years. Then, the 8 sub-dimension "time-styles" scale was tested on both sub-samples of the Tunisian data separately, and ultimately on a pooled sample of both the Arabic speaking and the French speaking part of the whole Tunisian sample.

Data Analysis and Results

Relying on the same data set that a previous published study (Usunier and Valette-Florence, 1993), the main objective of this research is to go one step further, since it aims to showing the time-styles scale ability to predict the cultural group to which the respondents belong. First, the methodology will be briefly outlined. Then, the main results will be discussed into details.

(1) The sample tries to represent the general adult population. We nevertheless acknowledge the fact that it is a convenience, non-probabilistic, sample.

Methodology

Our analysis has been divided into five successive steps :

- first, confirmatory factor analyses (PLS) (2) were performed on each sub-sample taken separately and were compared ;
- second, we performed the same kind of confirmatory factor analysis (PLS) on all the data pooled together ;
- third, a two-group discriminant analysis was performed in order to differentiate the two Tunisian sub-samples according to their scores on the eight temporal sub-dimensions ;
- fourth, a cluster analysis was performed for the whole sample on the eight temporal dimensions in order to identify specific time-styles segments ;
- fifth, a simple two-group logistic regression was undertaken in order to discover if these time-styles segments were able to predict the "operating" culture.

Confirmatory factor analyses

The results displayed in **table 2** and **3**, show that, for each a priori specified dimension, the loadings are fairly high and statistically significant. Furthermore, the reliability estimates remain acceptable according to Nunally's standards (1978). However, a more stringent test of convergent validity⁽³⁾ (Fornell and Larcker, 1981) reveals that, on a global basis, convergent validity per se is only met for the French sample. This simply means that for the Arabic speaking Tunisian sample each wording of the original item retains **more specific information**, from a semantic point of view, than it shares in common with other items even linked to the same dimension. In other words, the semantic coherence of the Arabic speaking Tunisian sample is weaker than the semantic coherence of the French speaking Tunisian sample.

Nevertheless, one can notice that the overall structure of the scale remains stable, even for the Arabic speaking Tunisian sample, where all loadings are above .50. Hence, we performed a third analysis with **all the data pooled together**. The results, displayed in the third column of **table 2**, show figures which are at an **intermediate level** between those of the French speaking Tunisian sample and those of the Arabic speaking Tunisian sample. Again, all loadings are above .50 and statistically significant, but convergent validity is only met for part of the temporal dimensions.

Since the overall temporal structure of the scale remains fairly acceptable, we then computed factor scores for each observation on each dimension in order to compare the means between the two Tunisian samples. The results, displayed

Table 2 : Confirmatory factor analysis results

Items	French Loadings	Tunisian Convergent validity	Sample α	Arabic Loadings	Tunisian Convergent validity	Sample α	Full Loadings	Tunisian Convergent validity	Sample α
Eco 1	0.76			0.81			0.85		
Eco 2	0.77	0.60	0.86	0.52	0.48	0.78	0.57	0.51	0.80
Eco 3	0.76			0.84			0.81		
Eco 4	0.82			0.54			0.57		
Uno 1	0.76			0.75			0.59		
Uno 2	0.81	0.60	0.82	0.73	0.45	0.70	0.65	0.44	0.70
Uno 3	0.76			0.50			0.74		
Past 1	0.80			0.61			0.70		
Past 2	0.84	0.66	0.88	0.56	0.38	0.71	0.58	0.47	0.77
Past 3	0.81			0.60			0.68		
Past 4	0.80			0.70			0.77		
Fut 1	0.71			0.51			0.65		
Fut 2	0.77	0.53	0.82	0.71	0.40	0.72	0.76	0.43	0.75
Fut 3	0.78			0.71			0.65		
Fut 4	0.65			0.56			0.55		
Mas 1	0.73			0.68			0.52		
Mas 2	0.71	0.51	0.81	0.65	0.38	0.70	0.52	0.44	0.75
Mas 3	0.72			0.57			0.76		
Mas 4	0.69			0.54			0.81		
Unu 1	0.67			0.50			0.56		
Unu 2	0.70	0.50	0.79	0.63	0.38	0.71	0.50	0.44	0.75
Unu 3	0.78			0.75			0.76		
Unu 4	0.67			0.58			0.80		
Ten 1	0.86			0.65			0.78		
Ten 2	0.85	0.67	0.86	0.71	0.46	0.72	0.82	0.59	0.81
Ten 3	0.74			0.68			0.70		
QR 1	0.87			0.52			0.74		
QR 2	0.74	0.65	0.84	0.77	0.48	0.73	0.72	0.54	0.78
QR 3	0.80			0.76			0.75		
Mean	0.76	0.59	0.83	0.64	0.43	0.72	0.69	0.48	0.76

NB : All loadings are statistically significant (Jackknife estimates, $p < .01$).

Key : Eco : *Economicity of time*
 Uno : *Tendency to prefer unorganized*
 Past : *time*
 Fut : *Orientation toward the past*
 Mas : *Orientation toward the future*
 Unu : *Mastery of time*
 Ten : *Usefulness of time (Unuseful)*
 QR : *Tenacity*
 Preference for quick return

in **table 3**, show that the means⁽⁴⁾ for all but the two first dimensions and the last one differ significantly between the two groups. As an average, **individuals** in the Arabic speaking Tunisian sample tend to be more oriented toward the past and toward the future ; they have less control on time and they feel it is less unuseful ; finally, they prefer quicker returns than **individuals** in the French speaking Tunisian sample. Also, it appears that the results are **more homogeneous** (lower standard deviation) for the Arabic speaking Tunisian sample than for the French speaking Tunisian sample. A possible explanation could be that for the French speaking Tunisian sample, **individual variability** is **greater**, even though the semantic coherence seems better than for the Arabic speaking Tunisian sample. On the other hand, the Arabic speaking Tunisian sample exhibits a lower semantic coherence, but a **stronger cultural coherence** (i.e. : a lower individual variability).

Two-group Discriminant Analysis

Since the previous analysis did show temporal differences between the two cultural groups, we then performed a two-group discriminant analysis in order to differentiate the two Tunisian sub-samples according to their scores on the eight temporal sub-dimensions. The results prove to be very satisfactory since 77,5% of the respondents are correctly allocated to the cultural group to which they belong. Moreover, the analysis also identifies a **third group** whose individuals (those not correctly affected) exhibit an **ambivalent cultural identity**. In other words, their temporal orientations do not conform to the pat-

- (2) Due to our limited sample size and the non-normality of the observed variables, we chose to perform confirmatory analyses by means of the partial least squares approach (PLS method) (for further details regarding the choice of this method, see Usunier and Valette-Florence, 1993).
- (3) Convergent validity is met when, for each observed dimension, the extracted variance is above .50%.
- (4) All the factor scores have been standardized (mean = 0 ; variance = 1).

Table 3 : Temporal Scales (standardized values)

DIMENSIONS	FRENCH SPEAKING Tunisian sample		t test		ARABIC SPEAKING Tunisian sample		
	Mean*	Sdt dev.	Raw scores	(p value)	Mean *	Sdt dev.	Raw scores
Economic time	-13,0	1,07	(4,44)	1,58 (NS)	9,5	0,94	(4,94)
Unorganized time	-8,4	1,13	(4,04)	1,01 (NS)	6,1	0,89	(4,45)
Past orientation	-	1,06	(4,39)	2,01 (0,04)	12,0	0,94	(4,75)
Future orientation	-	1,05	(4,90)	3,59 (0,00)	21,0	0,91	(5,23)
Mastery of time	46,5	1,00	(5,02)	6,08 (0,00)	33,7	0,86	(4,44)
Time usefulness	-	1,00	(3,48)	4,72 (0,00)	27,0	0,92	(3,78)
Preference for quick return	-	0,99	(3,93)	4,02 (0,00)	23,4	0,94	(4,63)
Tenacity	-9,1	1,08	(4,13)	1,10 (NS)	6,6	0,94	(4,29)

* All values have been multiplied by 100 (for easiness of illustration). Statistically significant differences are indicated in bold.

terms of the group to which they are supposed to belong, but are closer to those of their cultural counterpart.

Cluster and Logistic Regression Analyses

For the whole sample, a cluster analysis (K-Means algorithm) was then performed on the eight temporal sub-dimensions. The results are displayed in **table 4**. Although we refrained to label the six time-styles segments we got, one can notice specific temporal orientations. For instance, **segment A** bears the strongest economic orientation, but seems to be always under pressure (no projection toward the past, no projection toward the future and no mastery of time). **Segment F** lies on the opposite side as for the economic time and the un-organized time, but shares the same pattern that segment A on the other dimensions. **Segment B** appears to stand mostly in the present time, whereas **segment C** seems to have a rather rational approach of time. Finally, **segment E** clearly has a strong destiny orientation, whereas **segment D** has a rather ambiguous attitude toward time : it has a strong orientation toward the past and toward the future and also a surprising high degree of mastery of time associated with an even higher degree of time usefulness. Lastly, a cross-tabulation (**table 5**) between these time-styles segments and the two cultural sub-samples shows a clear connection between them. The arabic sub-sample is mostly associated with segments C and D, whereas the french sub-sample is mostly associated with segment A. Segments B, E and F also exhibit an association with one of the cultural sub-groups, but this association is not so important than for the previous segments. Nonetheless, it seems there is a close connection between the time-styles segments and the two cultural sub-groups. This is further evidenced by a logistic regression analysis.

Hence, due to the nominal nature of our variables, we performed a two-group logistic regression analysis in order to investigate if the time-styles segments were able to predict correctly the two sub-cultural groups. Again, we obtained a very good prediction (almost 77%) showing there is a rather close connection bet-

Table 4 : Time-Styles Segments

Segments	Size (%)	Economic time	Un-organized time	Past orientation	Future orientation	Mastery of time	Time usefulness	Quick return	Tenacity
A	15,5	87*	-139	-1	0	-100	-75	63	43
B	20,5	-87	44	-19	-135	41	1	24	-113
C	18	47	2	-66	23	34	-55	-50	32
D	25	53	26	84	75	50	65	-73	48
E	11,5	-77	-39	-35	12	-22	94	79	-54
F	9,5	-88	107	-12	35	-95	-61	35	52

* All values have been multiplied by 100 (for easiness of illustration).

Table 5 : CROSS-TABULATION RESULTS (%)

TIME-STYLE SEGMENTS	A	B	C	D	E	F
ARABIC SUB-SAMPLE	19,4	39	80,6	86	73,9	26,3
FRENCH SUB-SAMPLE	80,6	61	19,4	14	26,1	73,7

ween the time-styles segments and their related "operating" culture. Incidentally, one can also notice, for almost 23% of the respondents, the existence of a third group whose individuals seem to have an ambivalent cultural identity since they do not conform to the "operating" cultural background to which they belong.

Conclusion

Our temporal scale, initially developed on a French sample, fits well with the French speaking questionnaires administered to Tunisian respondents. The convergent validity criterion is satisfied for all the eight sub-dimensions of the "time styles" scale. As far as the Arabic speaking Tunisian sub-sample is concerned, the scale, even though it remains valid, fails to satisfy the convergent validity criteria (i.e. : above .50). Moreover, when both sub-samples are pooled together, only the first (economicity of time) and the seven and eight dimensions (tenacity and preference for quick return), satisfy the test of convergent validity. This result is not surprising. We tend to be nearer to the Muslim-Arabic temporal orientations when administering the questionnaire in Arabic. Nonetheless, since the overall structure of the scale remains unchanged, we can undertake comparisons between the two Tunisian sub-samples. Due to our convenience sample, replications are deemed necessary. However, on a global basis, our results deserve the following comments :

- first of all, whether they use their French operating culture or their Arabic operating culture, the Tunisians have the **same temporal orientations** with regard to *economic/organized time* and to *un-organized time*. The same result applies to the orientation called *tenacity* ;

- on **all the remaining dimensions**, Tunisians exhibit some differences when they are interviewed in Arabic, the language of their original native culture ;

- even more interesting, is the ability of the scale to **discriminate** the two Tunisian sub-samples, since a two-group discriminant analysis indicates that 77.5% of the respondents can be correctly affected to the cultural group to which they belong, according to their scores on five of the temporal orientations (i.e. : *orientation toward the future and toward the past*, *mastery of time*, *time usefulness* and *preference for quick return*). Moreover, this analysis iden-

tifies a third group (those who are not correctly affected), which represents people who have an **ambivalent cultural identity** (i.e. : their temporal patterns correspond in fact to the patterns of their cultural operating counterpart) ;

• besides, the same result arises when the analysis is performed at the segment (time-styles) level. Although there is a fairly good prediction (almost 77%) of the "operating" culture, the analysis also reveals the **existence of a third group** (those not correctly affected) whose individuals exhibit the same kind of "ambivalent cultural identity".

Indeed, these results confirm those of Usunier (1991) showing the strength of the cultural borrowing of economic time patterns in developing countries, where people have imitated cultural traits of the West as far as the linear-separable model of time is concerned. The adoption of foreign culture-based attitudes, here individual time orientations, is most obvious when the language used is the one which fits with those cultural attitudes.

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Abstract

The effects of industry origin and national origin on the complexity of alliance agreements is investigated. Hypotheses are formulated and tested with a sample of 598 domestic and international alliance agreements across 5 different industries. Results show that cross-industry and international alliances are far more complex than within-industry and domestic alliances. Further, such complex alliances are safeguarded against opportunism through the judicious use of equity investments.

Framework and Hypotheses

A strategic alliance between two or more businesses is a form of interorganizational cooperation for mutual benefit characterized by high levels of commitment on all sides and a common strategic objective to gain competitive advantage. While businesses are forming alliances with increasing frequency, it is not clear that these attempts are always successful (Grossman 1992). Hence, there is a need to further our understanding of this phenomenon in order to make alliances work better.

Alliances are differentiated from each other in form and function. In legal form, we can make a distinction between four types of alliances: non-equity, minority equity, joint ventures, and consortia (Teece 1990). Non-equity alliances are cooperative agreements between firms which do not involve the purchase of equity stakes by any party in the alliance. Minority equity alliances are those in which one of the parties purchases a non-controlling equity stake in one of the partners but no separate corporate identity is created for the alliance. In a joint venture, a separate corporate identity is created for the alliance and all partners share equity in the venture. Consortia are alliances involving larger numbers of partners. These are usually groups of firms within an industry which decide to cooperate on specific issues such as the development of standards or a new technology. Consortia may or may not involve equity participation by firms.

In terms of function, alliances could involve cooperation along the entire spectrum of business activities in the value-added chain (Porter 1985), from upstream functions such as technology transfer, research and development, supply and production to downstream functions such as distribution and marketing. Complex alliances involving multiple functions are also fairly widespread. For instance, in 1983, AT&T purchased a 22% equity stake in Olivetti as part of a supply agreement to purchase Olivetti's IBM-compatible personal computers for the US

market. In return, Olivetti agreed to market AT&T's PBX communication controllers and minicomputers in Europe. The alliance, involving supply, marketing and equity, lasted six years (Hudson and Colby 1989).

The two exogenous characteristics of alliances considered here are *industry origin* and *national origin*. Industry origin defines whether the partners in the alliance come from the same industry group or not. If the partners have similar technology or products and they compete with each other in domains outside the alliance, then they have the same industry origin. If the businesses participating in the alliance are headquartered in the same country, we define them as having the same national origin. The unit of analysis of interest in this study is the Strategic Business Unit (SBU), the organizational unit that is responsible for its own strategies and profits. This, rather than the parent corporation, is the relevant unit for deciding on industry origin and national origin because decisions on entering alliances are usually made at the SBU level.

A number of scholars have documented that a basic motive for formation of strategic alliances is to gain access to complementary skills and resources. Teece (1986) has argued that quasi-integrated modes of governance may be used by firms to gain access to complementary assets such as manufacturing, reputation, marketing and after-sales support when commercializing a new technology. Harrigan (1985) found that joint ventures were more likely to succeed between firms that had complementary resource capabilities and strategic missions. Hamel, Doz and Prahalad (1989) posit that the most important reason firms enter into alliances is to learn about those partner capabilities that they themselves lack. Thus, complementarity in skills, resources or knowledge is a major driving force for alliance formation.

We believe that complementarity in skills, resources and knowledge would be higher when the partners in an alliance have differing industry origins and national origins. Businesses from different industry groups are likely to be well-versed in the unique products, technologies and markets that they serve whereas firms from the same industry group are likely to overlap in skills, resources and knowledge. The pooling of capabilities across industries has created some attractive business opportunities. Telecommunications and print media companies together are offering consumers a variety of telephone information services (Wall Street Journal 1992). Because the complementarity is high among businesses of differing industry origin, we hypothesize that this will lead to greater functional cooperation among such alliance partners. Thus:

Hypothesis H1

Alliances between businesses from different industries are likely to have greater functional scope than those from the same industry.

Harrigan's (1988) data showed that more joint ventures were being formed by partners of differing national origin after 1975 than before. In entering overseas markets the first time, it is less risky to distribute products through contracts or joint ventures with local foreign partners rather than make direct investments in distribution. The high cost of developing new technologies coupled with the need for access to critical global markets may be driving the formation of international alliances (Blustein and Burgess 1992). Teece (1990) observes that technological competence has become globally dispersed since the end of World War II. While American firms were dominant across a broad number of technologies prior to 1945, in the last four decades they have been challenged and beaten by European and Japanese firms in specific industries (San Francisco Chronicle 1988). This global dispersion of technological competence leads to complementarity of skills, resources and knowledge between businesses with differing national origins. Therefore, we expect that when businesses differ in their national origins, they will cooperate in a greater number of functional activities.

Hypothesis H2

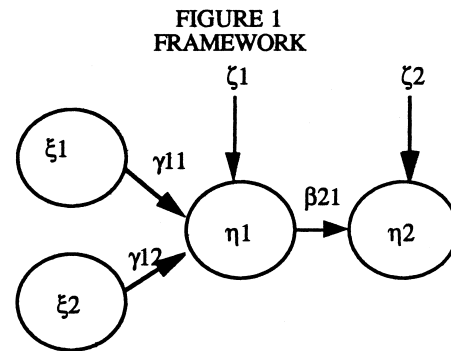
Alliances between businesses from different countries are likely to have greater functional scope than those from the same country.

Partners in alliances which have expanded functional scope are highly interdependent on each other. In an environment characterized by specialization among firms and scarcity of resources, the condition of interdependence gives rise to uncertainty over access to resources (Pfeffer and Salancik 1978). Firms try to reduce this uncertainty by coming closer together. This bonding may be accomplished through equity positions, either in joint ventures or in one another. Pisano and Teece (1989) point out two benefits of equity stakes. First, they create incentives for the investor not to act opportunistically against the investee. This is very necessary in alliances with expanded scope which are more strategically important to both partners. Second, equity stakes provide a direct communication channel between the investor and investee by providing a seat on the investee company's Board of Directors. For these reasons, we hypothesize a positive relationship between functional scope and equity participation in alliances.

Hypothesis H3

The greater the functional scope of alliances, the more likely they will involve equity participation.

In order to test hypotheses H1-H3, we formulate the conceptual model shown in Figure 1. If the coefficients γ_{11} , γ_{12} and β_{21} turn out to be positive and significant, we have support for our hypotheses.



ξ_1 = Industry Origin, ξ_2 = National Origin,
 η_1 = Functional Scope, η_2 = Equity Participation.

Data

The data collection methodology in this study is similar to others that have created databases of alliances from leading business publications (Ellram 1992; Ghemawat, Porter, and Rawlinson 1986). Data used in this study was compiled by researchers at Futuro Organizzazione Risorse (F.O.R.) in Rome, Italy from alliances that were reported in the business press between 1980-1985 and has been used in previous unrelated research (Pisano and Teece 1989)¹. This textual database reported alliance activities at the level of a strategic business unit (SBU) and contained the following information with regard to the two main partners in each alliance: the name of the SBU, the country in which it was headquartered, and its industry. In addition, the following characteristics of the agreements were reported: the year in which the agreement was entered, the legal form of the agreement (non-equity, minority equity, joint venture, consortium) and the general motivation or functional areas of cooperation in the agreement (technology transfer, research and development, supply, production, and distribution/marketing). Finally, there was a brief description of the

¹I thank Gary Pisano for providing the data.

collaborative activity. Examples of the raw data records are shown below.

1. General Motors, United States, Automotive with Fujitsu, Japan, Computers. Date: 1982. Legal form: 50%:50% Joint venture. General motivation: R&D, production, distribution and marketing. The joint venture, GM-Fanuc, produces and commercializes robotic systems in the United States.
2. Bayer, Germany, Chemicals with Genentech, United States, Biotechnology. Date: 1984. Legal form: Non-equity. General motivation: Technology Transfer. Bayer has acquired the license for "Factor-8", a blood clotting protein for hemophiliacs.
3. IBM, United States, Computers with Tandon, United States, Computers. Date: 1985. Legal form: Non-equity. General motivation: Supply agreement. Tandon has an agreement to supply IBM with disk drives.

The raw data was screened to eliminate records that did not seem to be valid alliances. This resulted in a sample of 607 alliances from a cross-section of different industries. The textual data were coded into numerical values for the purpose of this study. Codes were assigned for each SBU's industry and headquarters country. Two variables were defined. **Industry Origin** was coded '0' if both partners belonged to the same industry and '1' if they belonged to different industries. Similarly, **National Origin** was coded '0' if both partners had SBUs headquartered in the same country and '1' if SBUs were headquartered in different countries. **Functional Scope** of the alliance was defined as the simple sum of the five different areas of cooperation outlined in the agreement (technology transfer, research and development, supply, production, and distribution/marketing). The legal form of the agreement was used to arrive at a measure of equity participation. **Equity Participation** was coded as '1' if the agreement involved some equity investment and '0' if it did not involve any equity investment by any of the parties. Thus, industry origin, national origin, and equity participation are dichotomous ordinal variables and functional scope is a continuous variable. Functional Scope has a mean of 1.197, standard deviation of .435, minimum value of 1, maximum value of 3. After eliminating records with missing values on these four variables, we were left with 598 records to test our hypotheses.

Results

The conceptual model in Figure 1 is a recursive systems of equations. Since three of our variables are ordinal, we used the Weighted Least Squares (WLS) estimation

procedure in LISREL (Joreskog and Sorbom 1989). Estimation results are presented in Table 1.

TABLE 1
FIGURE 1 ESTIMATES

Parameter	Estimate (T-value)
β_{21}	.202 (3.85) ^a
γ_{11}	.166 (3.20) ^b
γ_{12}	.164 (2.98) ^b
ϕ_{11}	1.0 (17.28) ^a
ϕ_{22}	1.0 (17.28) ^a
ψ_{11}	.946 (15.05) ^a
ψ_{22}	.959 (15.59) ^a

^asignificant at p=.0005

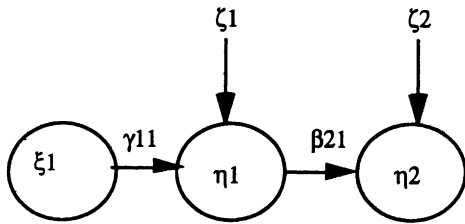
^bsignificant at p=.005

Goodness of Fit: $\chi^2(3)=2.33$ (p=.508);
AGFI=.994; RMSR=.032.

From Table 1, we see that all estimated coefficients have the right sign at robust levels of significance, providing support for our hypotheses (H1, H2, H3). The goodness of fit indices all provide strong support for overall fit of the data with our conceptual model in Figure 1. We may, thus, infer that when the two firms in an alliance are from different industries, they tend to cooperate in a larger number of functional activities. Also, international strategic alliances where both partners are from different countries result in agreements of greater functional scope than domestic strategic alliances. In general, alliance agreements that have higher functional scope have a greater extent of equity participation than those lower in functional scope.

Model 1 provides significant reductions in χ^2 over a null model ($\chi^2(6)=64.23$) but has comparable fit to a saturated model ($\chi^2(0)=0$) showing it is an adequate theoretical model that fit the data. It provides support for main effects of industry origin and national origin on functional scope. It would be interesting to investigate whether these two exogenous variables have an interaction effect on functional scope. We cannot add an interaction effect variable to Model 1 because the high multicollinearity between the interaction term and the original exogenous variables causes estimation problems. So we formulate a separate model for interaction effects as shown in Figure 2. The interaction effect variable, Industry Origin x National Origin is a simple product of the two exogenous variables. As a result of the coding scheme, the interaction effect variable is '1' when the two partners are from different industries and different countries and '0' otherwise.

FIGURE 2
INTERACTION EFFECT



ξ_1 = Industry Origin x National Origin, η_1 = Functional Scope, η_2 = Equity Participation.

TABLE 2
FIGURE 2 ESTIMATES

Parameter	Estimate (t-values) ^a
β_{21}	.198 (3.78) ^a
γ_{11}	.241 (4.44) ^a
ϕ_{11}	1.0 (17.28) ^a
ψ_{11}	.942 (14.93) ^a
ψ_{22}	.961 (15.65) ^a

^asignificant at $p=.0005$

Goodness of Fit: $\chi^2(1)=0.04$ ($p=.834$);
AGFI=1.0; RMSR=.006.

The estimate of γ_{11} in Table 2 tells us that the interaction effect, Industry Origin x National Origin, is significant and positively related to functional scope. Further, the significant positive β_{21} tells us that the relationship between functional scope and equity participation remains unchanged. This means that those alliances in which the two partners are from different industries *and* different countries involve more functional cooperation than others. The graphical representation of this is shown below. Mean values of functional scope are plotted on the y-axis for different conditions of industry origin and national origin.

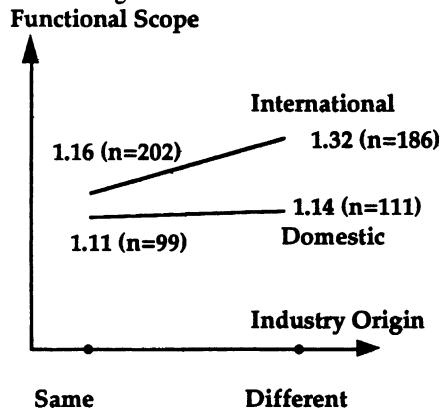


Table 2 and the figure above clearly show that cross-industry and international alliances have higher functional scope than other alliance agreements. It would be interesting to explore what types of functional cooperation is involved in these alliances. In Table 3, we consider the sub-sample of 55 alliances which are both cross-industry and international, *and* involve multiple functional activities. We classify these in terms of type of functional cooperation. An alliance is classified as “Purely technical” if it involved either technology transfer or research and development or production. Alliances that involve distribution or marketing in addition to either of the technical functions are classified “Technical plus marketing”. The frequency distribution below shows that more of these cross-industry and international alliances involve technical plus marketing functions (64%) than purely technical functions (36%). They tend to include cooperation in both upstream and downstream functional areas. This would require greater coordination between partners making the task of managing such alliances more complex.

Functional Cooperation	Frequency	%
Purely technical	20	36
Technical plus marketing	35	64
Total	55	100

Discussion

This study suffers from the limitations of secondary data. Since the data was not collected specifically for this study, we have only a limited number of variables to work with. It is possible that variables have been omitted from our conceptual framework that may have an impact on the functional scope and equity participation of alliances. We hope that these omitted variables are uncorrelated with industry or national origin so that there is no bias in our coefficient estimates. In addition, the original press reports of these alliances may be biased towards alliances between larger firms that are newsworthy.

Nevertheless, the large sample of alliances studied across a broad cross-section of industries and the strong empirical results do warrant attention to study findings at this early stage of theory development on alliances. The main finding is that complementarity between alliance partners (as inferred from differing industry and national origins) leads to greater functional complexity. Further, more complex alliances seem to be safeguarded against partner opportunism with closer bonding through equity participation.

The study findings reinforce those of other studies. Pisano and Teece (1989) found that when collaborations in the telecommunications industry couple technology with downstream marketing activities, there is a preference for equity based governance over non-equity base contracts. While confirming this, the present study goes beyond by investigating the antecedents of functional scope. It shows that differing industry and national origins lead to more complex collaborations involving both upstream and downstream functions.

The finding that international alliances, where partners have differing national origins, lead to greater functional scope than domestic alliances is an interesting one. One might surmise that there is greater cultural dissimilarity between partners in international alliances. This should inhibit communication and cooperation (Rogers 1983). While this may be happening at the level of individual interpersonal relationships, it is clear from our findings that at the level of interfirm alliance relationships, the need for globally dispersed complementary resources outweighs the inhibiting effects of cultural dissimilarity and promotes cooperation.

Managers, therefore, should not fight shy of cross-national alliances if resource complementarity exists with international partners. Perhaps partner compatibility in organizational goals, operating philosophies, and management styles is more important than similar national origin. Our study also suggests that international alliances are intrinsically more complex than domestic alliances. Therefore, they need safeguards such as the judicious use of equity investments. Equity investments by the more powerful firm in the less powerful partner may help balance the relationship. Although this could not be tested with the present dataset, it is an interesting question for future research².

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DEVELOPING COUNTRY BUSINESS STRATEGIES FOR PARTNERSHIP IN TRANSNATIONAL STRATEGIC ALLIANCE NETWORKS

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Abstract

The purpose of this paper is twofold. First, it aims to examine the organizational and managerial implications of transnational strategic alliances (TSAs); and, second, it attempts to identify distinct business strategies for the firms of developing countries for partnership in transnational alliances. The authors argue that the effectiveness of transnational strategic alliances involving the partners of the developing countries will depend on the ability of the partners in making appropriate strategic choices and in meeting the organizational and managerial requirements of such alliances.

Introduction

The field of international business, long dominated by the studies of multinational corporations (MNCs), is now characterized by rapid growth of transnational strategic alliances (TSAs). The phenomenal rise in the number of TSAs has frequently been accompanied by the development of a network organizational structure. Network structure has facilitated the formation of alliances among many autonomous partners from different countries to exploit their strengths in accomplishing common objectives. Effective management of TSAs and their network organizations require a new array of managerial characteristics.

The TSAs, mostly formed by the American, European, and Japanese corporations during the 1980s, have more recently been joined by the corporations of the newly industrialized and developing countries. The recent collapse of the Soviet Union, the opening of the economies of the ex-Soviet republics, Eastern Europe, Central Asia, and China to the world trade, and the growing role of the developing countries in international business have made the companies of the developing countries significant partners in TSAs. Nevertheless, lack of knowledge and experience of the partners from developing countries concerning their strengths and weaknesses and alternative strategic choices have frequently caused frustrations and failures.

The purpose of this study is to develop a business strategy matrix, using Porter's generic competitive strategies, for the partners of TSAs and to identify alternative business strategies available to the partners of developing countries. The study has a manufacturing bias and does not attempt to develop generic strategies for all types of transnational alliances. It is the contention of the authors in this paper that the importance of the role played by the partners in developing countries of TSAs will continue to increase and that the success of such alliances will depend, to a large extent, on the ability of the developing country partners to make the appropriate strategic choices and meet the organizational and managerial requirements of such alliances and network organizations.

After a brief discussion of the different dimensions of TSAs, the paper explores the interrelations of network organizations and strategic alliances. This discussion is followed by the description of the business strategy matrix and a discussion of the recommended strategic choices for the partners in the developing countries. The last section of the paper examines the managerial requirements for the implementation of the recommended strategies by the developing country partners.

Strategic Alliance as an International Business Strategy

Since the early years of the 1980s, under the ever increasing pressures of international competition, many companies of the Triad (North America, Europe and the Pacific Rim) have formed transnational alliances to augment their competitive advantages. Many MNCs have been compelled by the forces of international business environment to cooperate and share resources toward development of new technologies, new products and new markets,

and achievement of economies of scale and synergy. The old forms of multinational operations are steadily being replaced by the new modes of global cooperative arrangements. Today, forming strategic alliances is one of the most popular international competitive strategies as they outnumber fully owned foreign subsidiaries (Gugler 1992).

TSAs are international cooperative arrangements, partnerships, or business ventures between two or more partners (corporations, firms or individuals), usually headquartered in different countries, to attain common strategic objectives (Harrigan 1988; Narod 1988). Although they have appeared in many forms (Contractor and Lorange 1988), joint ventures, consortia, and licensing agreements are the most popular forms of TSAs. Joint ventures have mostly been created to share development and production costs, distribute products, penetrate new markets, and/or develop new technology (Lei 1989). The cost considerations have gradually stimulated groups of firms to form consortia for undertaking large production and technology projects. The licensing agreements usually serve the purpose of profitable sales through the diffusion of technology (Lei & Slocum 1991).

In forming TSAs, a great deal of attention is given to complementary strengths, compatible strategies, and a strategic fit (Harrigan 1988). They are formed to achieve a variety of strategic objectives. The most common objectives are risk reduction, economies of scale, rationalization, technology exchange, coopting or blocking competition, overcoming government mandated trade or investment barriers, facilitating initial international expansion of inexperienced firms, and access to materials, technology, labor, capital, regulatory permits, distribution channels, benefits from brand recognition, establishing links with major buyers and drawing on existing fixed market establishment (Contractor 1986).

Although most of the TSAs have been formed among the companies of the Triad countries, a significant and growing number of the partners in such alliances are the smaller and less competitive local firms in the developing countries. During the last several years, the world has witnessed numerous joint ventures, licensing agreements, management contracts, countertrade agreements and other forms of cooperative arrangements involving the companies, enterprises, and/or the governments of many developing countries (Teagarden & Von Glinow 1990; Oman 1988; Dymsha 1988; Lecraw 1988).

Network Organization

The competitive pressures of international markets have also created a new form of organization to accommodate the needs of TSAs. Such needs of international markets as rapid response, continuous innovation, and ready cooperation have made the traditional organizational forms obsolete. The vertically integrated, hierarchical and centralized organizational structures, short of meeting the needs of dynamic environments of TSAs, have come to be replaced by "network organizations" (Merrifield 1992).

Network organization, also called "hollow organization," "virtual corporation," "borderless or boundryless organization," "value-added organization," and "stateless organization," is a relatively small, vertically disaggregated, less costly, more focused, lean and horizontal structure with greater ambiguity, flexibility, adaptability, and agility. Network organization is characterized by a free flow of resources among many companies across the national boundaries, driven by the market forces (Snow, Miles & Coleman 1992; Morita 1986; BusinessWeek 1986 and 1993).

Network organization is a temporary alliance of partner companies that contribute their strengths, share costs, skills, and other resources in taking advantage of global opportunities. The synergy of their strengths enables them to achieve "excellence" in their worldwide activities. The partners in network organizations share

a sense of "co-destiny," and need to depend on and trust one another more than ever before (BusinessWeek 1993). Network organizations can be viewed as "global heterarchies" with many centers of different kinds located in many countries around the world (Hedlung & Rolander 1990). The employees are mostly the subcontractors, partners, work teams, or task forces. They work and act on their own and are loosely connected. Firms and individuals may join or leave the network on a permanent or temporary basis. The autonomy of the partners entitles them to develop and maintain their unique cultures without being oppressed by the headquarters.

Networking is a corollary of strategic alliances. In fact, the terms "networking" and "strategic alliances" are sometimes used interchangeably. For example, Thorelli (1990) defines the term "networks" as "arrangements promoting long-term strategic cooperation" (p. 73). The effectiveness of strategic alliances depends, to a large extent, on their ability to develop and utilize network organizational structures.

Business Strategies for Partnership in Strategic Alliances

Using Porter's generic competitive strategies, we have developed the following business strategy matrix to identify the possible strategic choices available to the partners of both the developed and developing countries. One of the dimensions of the business strategy matrix identifies the four strategic choices for the partners of the Triad countries while the other does the same thing for the partners from developing countries. The four strategic choices are: (1) cost leadership, (2) differentiation, (3) focus strategies (cost focus and focused differentiation), and (4) stuck in the middle (Table 1).

Business Strategies for Developing Country Partners

1. When both potential partners are successful cost leaders, networking may improve value creation especially if it results in market expansion for both partners. Developing country partner (DCP) will be better served if it negotiates to be on equal footing with the Triad country partner (TCP) for the former too has distinctive competencies that can provide valuable synergies.

TABLE 1
BUSINESS STRATEGIES FOR PARTNERSHIP IN STRATEGIC ALLIANCES

		TRIAD COUNTRY			
		Cost Leader	Differentiator	Focuser	Stuck in the Middle
D e c o u n t r y P a r t n e r s	Cost Leader	1. Equal Partner	5. Avoid	9.a. Eq. Part. 9.b. L.F.O.P.	13. Senior Partner
	Differentiator	2. Junior Partner	6. Look for Oth. Partners	10. Equal Partner	14. Senior Partner
	Focuser	3. Equal Partner	7. Equal Partner	11. No Potential Synergy	15. Avoid
	Stuck in the Middle	4. Captive Company	8. Captive Company	12. Indeterminant	16. Avoid

Typically, DCP has lower labor costs and quite possibly lower raw material and property costs that may lead to considerable savings downstream in the value chain. These cost reduction potentials are highly valued by TCPs and the DCPs will do well if they trade them for TCP's process technology knowhow and seek to become equal partners in the network. Recommended networking arrangements should include production sharing for expansion into third country markets. Such expansion is likely to increase capacity utilization for both partners, thus further reducing the cost of goods sold while boosting the sales revenues and profitability. To the extent that DCP can facilitate TCP to develop markets that are until now not served by the TCP and thus avoid competition in both partners' home market may enable the network to practice price discrimination to increase the contribution margin even further. This enabling capacity is another base on which the DCP can insist on equal partnership. Obviously, the DCP's power to negotiate equal sharing of network profits will depend on its ability to keep its costs down not in terms of the domestic market but in global competitive terms.

2. When the DCP's distinctive competence is to identify several market segments and to serve them with differentiated products, the primary reason that a TCP may be attracted to a networking arrangement is the DCP's superior knowledge of these markets and its natural affinity to do business in its home environment. Such DCPs do not typically have significant cost advantages because of high product development costs compounded by higher costs of shorter manufacturing runs and heavy investments in marketing. They can only add value to a TCP to the extent that TCP can sell its products in the DCP's existing home market segments and if DCP can help TCP enter new markets in DCP's home front. If some of the existing markets of the DCP may be served by the current product line of the TCP, the DCP may relinquish these segments and concentrate on the others. This partnership creates additional value for both network members because first, the DP can expand its market without incurring market and product development costs. Second, the TCP is likely to enjoy positive market receptivity because of the high prestige and status attributed to the origin of its products. This receptivity will obviously be increased by the absence of a strong competitor (DCP) with whom the TCP would have had to compete if there were no network arrangements. Second, the DCP may gain from being a junior partner if it can facilitate import to the host country and access to the distribution chains. To the extent that DCP can provide access to markets by being an "agent" or a "representative" of the TCP, the profit margins, when shared by the partners, could be lucrative indeed. Often the low cost structure of the TCP becomes the key asset of the partnership because the markets in developing countries may not be able to bear the high prices of the fancy products that a differentiator charges. It should also be noted here that the DCP may gain very valuable knowledge in cost containment from the TCP especially in manufacturing and process technology.

3. If a focuser in a developing country has concentrated in one or few market segments and developed adequate brand loyalty, it charges premium prices. It is likely that such focuser is relatively uncontested in its market either because it may be too costly for the domestic firms to enter them or because its markets may be protected from foreign competition by government policies of import substitution and "infant industry" arguments. Hence, often a focuser may be enjoying "natural monopoly" advantages that usually include uncontested premium prices for technologically second-rate products without having to incur substantial marketing costs to hold and maintain its market share. The primary uncertainty for a focuser in a developing country, then, is the duration of time that it will be able to protect its market from the low-cost producers in the Triad countries. Such a "niche player" may adopt a pro-active strategy and seek an equal partnership status in a network arrangement with a low cost producer from a developed economy. This strategy may be advisable especially in the light of the fact that the governments developing countries are becoming increasingly disenchanted by the protectionist policies that insulated domestic companies from global competition. Sensing this potential threat, a recommended strategy for a focuser is to offer its virtual monopoly position, established brand loyalty, knowledge of the market and logistical advantages for an equal partnership with a low-cost TCP whose product line is suitable for the markets of the focuser. For the cost leader TCP this represents an opportunity to spread product development and other fixed costs over a larger sales volume and, additionally, a chance to increase economies of scale. The net effect for the low-cost TCP would be further reduction in unit costs and enlarged sales volume. Marginal profits of such an expansion are likely to be highly positive. The DCP focuser protects its markets, quite paradoxically, by offering it to a low cost TCP in a way controlled largely by the DCP. The prestige and status attributed to the TCP's products may help increase prices in the DCP's markets and also may help the DCP learn some core value creation technologies in efficient manufacturing and cost reduction.

It should be noted here that the size of the focuser's markets is the key to the bargaining power of the DCP. A low cost TCP will only be interested in this partnership if reductions in per unit cost obtained by entry into a foreign market exceed the costs of such an expansion. Given the risks of operating in developing countries, a TCP would only be enticed by solid prospects of substantial sales growth. To the extent that the DCP focuser can absorb this key uncertainty for the TCP, the DCP should bargain for an equal partnership.

4. An DCP that has not developed a distinctive competence does not have much to offer to a cost leader TCP. It is unlikely that such a DCP has any substantial competitive advantage in value

creation activities either downstream or upstream. It has no clear and sustainable strengths in manufacturing or marketing. The best that such a DCP can hope for in a network with a low cost DCP is to be able to offer low cost supplies, including labor, to the TCP at TCP's specifications. In such an arrangement the TCP dictates the terms of agreement in quality, price, product specifications, delivery schedules, and the like. The DCP's ability to remain in the network is contingent on its capability in delivering the terms of the agreement in a dependable fashion.

The DCP's negotiation strategy should be focused on securing the longest possible supply contract from the TCP. After all, the only real motivation that DCP has for this partnership is to reduce the uncertainty in its demand by having a long term buyer. A long term supplier relationship may protect the DCP from its competitors in the short run and may buy the time it needs to develop sustainable competitive advantages. Actually, although the DCP gives up all of its strategic management prerogatives, it may end developing a competence for low cost manufacturing of supplies, parts or subassemblies. It is worth noting here that the DCP's environmental scanning should definitely include the competitive moves by likely rival suppliers and the technological advances that may make its supplies obsolete. Failure to detect these usually leads to the breakdown of the "captive company" strategy pursued by a DCP with no distinctive competencies.

5. Generally speaking, the DCPs that have been successful cost leaders are ill advised to seek network partnership relations with differentiators from developed countries. The culture clash of these two modes of creating competitive advantage will make it too problematic to generate synergies for the network. It is highly likely that the DCP's market will be unable to bear the premium prices that the differentiator TCP has to charge to cover its product differentiation and market development costs.

The only possible condition under which it may be advisable for a low cost DCP to consider a partnership with a TCP is when the products of the DCP are either at the end of the maturity stage or at the beginning of the decline stage. This condition calls for development of next generation of products for DCP. TCP's success in product development may be highly instrumental at this stage for DCP to avoid heavy investments in product and process design if the DCP can entice the TCP into a limited term licensing agreement to sell the TCP's products with minimal involvement in their production. Once the DCP acquires the basic technology of the TCP, then it can invent around the product, possibly utilizing the well-known methods of reverse engineering. DP would only be involved in this network arrangement and leave its know-how relatively unprotected if its product is itself approaching the decline stage and if it desperately needs market expansion to implement harvesting strategies for recouping as much of the heavy initial investments as possible.

6. There is no forceful reason for successful differentiation in developing countries to team up with similar companies in the Triad countries. Both have been successful in differentiating their products to serve their target market segments. Both have developed brand loyalty based on continual customer satisfaction enough to charge premium prices. Moreover, the differentiator TCP's prices may just be too high in the market segments that DCP is serving. However, there may be market segments that both the TCP and the DCP may not be present in their respective industries. If the DCP can begin to expand into these hitherto neglected market segments with products of the TCP, it has a chance to improve its profitability with additional sales growth. Similarly, if the TCP can grow horizontally into niches that it did not have a presence in via a partnership with a DCP that possesses strengths in these markets, it too can increase market shares. Since the TCP will not be incurring product development expenditures, it stands a good chance to gain market entry at a lower cost.

A recommended strategy for a differentiator DCP under the "mix and match" conditions discussed above is countertrade. Relatively simple forms of countertrade, such as counter purchase or plain barter, would serve the purpose of horizontal growth. These forms of networking would provide the means of required transfer of goods and maintain the arms length relationship that both partners need.

7. Two different strategies must be considered by a focuser DCP involving in an alliance with a differentiator TCP. The first one is to substitute the DCP's product with that of the TCP if an exact product-market match is evident. The objective for the DCP is to

take advantage of the superior product features, higher prestige, and possibly snob appeal of the TCP's product. This improvement in the perceived product quality and status may be just what the DCP may need to consolidate its hold in a market segment and become a natural monopoly by virtue of its partner's product strength. DCP can also obtain some indirect advertising and promotion benefits from the TCP's typically sophisticated marketing programs if such are readily accessible in the DCP's home country media.

The TCP, on the other hand, gains access to another market without much marketing and development costs, and therefore may take advantage of increased economies of scale while riding down on the learning curve. Since this is an equal exchange, equal partnership should be sought by the DCP in a loose franchising or licensing arrangement.

The second possibility for the focuser DCP is to sell off to the differentiator TCP and remain in the management of the wholly owned subsidiary of the TCP with a long-term management contract. The TCP may be motivated for such an agreement because it expands its market without having to protect its intellectual property investment embedded in the product while enjoying the local expertise with a successful track record in a foreign country. Since the product-market match is already established, the DCP's production facilities may be utilized with minor modifications, reducing the initial investment to the purchase price of DCP. The DCP owners become the managers of the wholly owned subsidiary of the TCP, but with the proceeds of the sale of DCP they may now proceed to make other investments.

8. This is essentially the same as the cell number 4. A captive company strategy is about the only option available to the DCP that is stuck in the middle. The alliance may be beneficial for the DCP if it provides reasonably assured sales revenues for at least few years. The DCP is naturally best served if it makes a sustained effort to change the nature of the partnership by building a distinctive advantage over the course of the time that the TCP provides sales guarantees. The DCP's partnership with a differentiator TCP gives it an advantage in its home market that other firms may not have. The DCP's strategy of choice, then, may be to put this distinction to use while attempting to develop a competitive advantage. The differentiator DP typically contains strengths in areas of product development and marketing. If the TCP makes a concerted effort to learn from its partner some of their skills in these areas it can grow out of its current disadvantaged position. Since the tangible strengths are usually easier to emulate, the DCP may first attempt to learn the TCP's superior techniques of product and process design as well as materials handling and actual manufacturing processes. The more down stream value creation activities, such as market segmentation, may be attempted later.

9. A DCP that has been able to serve a large market with a standard product that it produces at a low cost and sells with a respectable margin does not need a partnership with a focuser TCP if the latter's strengths are the same as the former's. Therefore, this partnership is not likely to create additional value for either party and should be avoided.

But if the TCP is a high quality, high price and high cost focuser, then, there is the distinct opportunity for the DCP to engage in a sourcing agreement with the TCP, especially if a product/market match in the developed country market may be developed without prohibitive expenditures by the DCP. This is an excellent tactic for the focuser to protect its market by being able to withstand the pressures from the low cost producer in the developed country. These pressures usually take the form of head on price competition and the high cost-high price focuser is normally quite vulnerable. By teaming up with a low cost producer in a developing country the TCP may be much better prepared for a price war if one breaks out and/or improve its profit margins if not competed in its market.

The DCP in this network arrangement is in a rather strong position to bargain for favorable terms in the sourcing agreement. It should use this relationship to get a foothold in a market of a developed country, to learn the distinctive features of that market while being cushioned by the brand loyalty already developed by the focuser TCP. Expansion in a new market rather effortlessly may help the DCP to reduce its unit costs even lower with increased economies of scale. Concurrent with this advantage, however, is the chance for the DCP to use its indirect entry to the

new market to look for opportunities to begin its own operations in this high value added market. This new phase of international expansion may be attempted with the TCP in the original alliance if the TCP intends horizontal growth or the DCP may attempt this global expansion move on its own.

This partnership is recommendable only if the cost leader's product can be upgraded to meet the requirements in the focuser's market. Since the customers in this market are typically accustomed to be serviced with product that are fashioned after their needs, the DCP's product(s) may have to be modified and/or improved to the TCP's specifications. The cost of such alterations may be prohibitive in the light of the fact that the DCP's competitive advantage rests on its ability to keep the costs down. A careless DCP may be lured into this partnership and may be asked to travel down the risky road to "being stuck in the middle" in its quest to expand internationally in a strategic alliance network with a focuser.

10. A successful differentiator in a developing country would normally be not interested in an alliance with a focuser TCP if the latter is a low cost niche operator. It may only be interested in a partnership with a focuser TCP under the following three conditions. First, one of the market niches of the differentiator DCP must be quite similar to that of the focuser. Second, the DCP should have a significant comparative advantage over the focuser in at least one aspect of the main value creation activities (i.e., low labor or raw material costs in manufacturing). Third, the focuser should be operating at the high end of the market. When these conditions are met, the differentiator DCP, resting on its ability to offer the focuser's product in the latter's market at a lower cost, can demand to be an equal partner. Furthermore, the DCP may insist on obtaining an equity position in the focuser to consolidate its foothold in the market in a developed country. Since, the differentiator DCP is likely to be a bigger company than the focuser TCP, this is within the realm of possibilities although the DCP may not readily visualize it so.

11 and 12. There are no distinguishable advantages in these network arrangements for a firm in a developing country to develop a strategic alliance with a focuser in a developed country.

13. A cost leader firm in a developing country should only consider a strategic alliance with a firm in a developed country that has no strengths in any of the links in the value chain if the latter either has distinctive resources or distinctive capacities. In cases where the potential TCP does not command an advantageous resource position (i.e., cheap financing, proprietary technology, etc.) or does not have a management process to utilize the existing resources (i.e., state of the art production process design or online communication-control system) the TCP does not bring much to the partnership and should be avoided by the DCP. But if the TCP contains a key resource, such as discretionary funds, or a critical capability, such as sophisticated marketing techniques, and if these are the complementary factors that a DCP needs for its international expansion, then, an alliance may be mutually beneficial. The low cost production capacity of the DCP may be just the missing piece in the puzzle for the TCP to develop a competitive edge in its markets. The DCP should be sensitized to this possibility and be ready to assume the senior partner's role in the alliance. The DCP may insist on utilizing more of its existing capacity and even plant expansion (to be financed by the TCP) to shift production more toward its own facilities where it can keep the costs down; and request the TCP to bolster its downstream skills.

The potential for this partnership may not be evident initially because the TCP is competitively nondescript. The benefits to the TCP are more apparent than those to the DCP. However, when such partners bring complementary resources and capabilities together, the synergy may create more value than either firm may be able to generate alone. This, after all, is the underlying principle of the network organizations.

This partnership may strengthen its hard currency position and smooth out the wrinkles typical in the developing countries to keep the flow of foreign currency for procurement of imported materials, equipment, technology and the like. It also gives the DCP an opportunity to test itself in a higher value-added and higher price market. The TCP would absorb some of the risks for the DCP's entry to the market in the developed country where such risks may be formidable for the DCP if it went solo.

14. A successful differentiator does not need an alliance with a

firm in a developed country if the latter does not have a distinctive competence especially in upstream value creation activities. There is obviously very little synergistic surplus to be created (particularly for DCP) in combining marketing, advertising, distribution strengths. There is even less reason for such an alliance from the perspective of the LDP if it already has successful experiences in the foreign markets. Contrarily, if the TCP has developed some competitive advantages in areas such as research and development, process design, flexible manufacturing, project engineering and the like, and if it has technologically more advanced products that are compatible in the wide range of the markets that the DCP serves, it may payoff for the DCP to seriously consider an alliance with such a TCP who may have diluted its competencies in the implementation of an unwise strategy (typically horizontal growth into unrelated industries).

This arrangement usually involves exchange of technology, product know-how, and advanced production engineering skills for entry into markets hitherto not served by the TCP and facilitation in these new markets by the DCP's superior marketing skills. For the TCP this represents an opportunity to spread the sunk costs, lower the risks in an uncertain market and benefit from scale economies while increasing its sales revenues. The DCP's gains are access to new technologies, more sophisticated products, high prestige brand names without incurring R & D, product development, and technology transfer costs. It may be advisable for the DCPs to seek such partners because this is a very convenient way, for the TCP, of becoming a cost leader or a differentiator if it can expand its sales volume significantly in markets where competitive rivalry is drastically lowered by the DCP. When this is the case, the TCP will be less demanding of the control of the patenting and technology ownership regime and of restrictive and exclusive clauses in the partnership agreements to protect its know-how. This is just the kind of arrangement that is sought by DCP and one that would be virtually impossible to secure from a successful cost-leader or a differentiator from a developed country who would insist on having the upperhand in the control of the alliance relations and operations.

Such TCPs offer the DCP an opportunity to combine complementary but non-similar strengths in this alliance and move to its next generation of products with a chance to become a world class competitor.

15 & 16. There are very little expected benefits to be gained by the DCP in these international collaborative network arrangements.

Management Requirements for Implementation

TSA's have emerged as a response to the challenges of a complex international business environment. As pointed out earlier, the organizational and managerial requirements of TSA's are substantially different than those of traditional MNCs (Niederkofler 1991). The managerial requirements of the partner firms in strategic alliances depend, to a large extent, on three factors: (1) organizational characteristics, (2) partner status (core partner, contractual partner, or marginal partner), and (3) the type of business strategy adopted by the partner (cost leadership, differentiation, cost focus, focused differentiation, or stuck in the middle).

The organizational requirements of TSA's and the characteristics of the emerging network organizations have already been discussed. TSA's and network structures, in turn, require the following managerial skills (Austin 1990):

1. **Environmental scanning and analysis:** The managers of partner firms in international strategic alliances should develop the necessary skills to scan and analyze the environmental opportunities and threats. They need to develop a familiarity with the socio-cultural, economic, legal-political, and technological environments of their alliances and be sensitive to changes and trends in such environments (Austin 1990).

2. **Managing discontinuous change:** The managers of international strategic alliances need to function in a rapidly changing environment where the nature of change is different than ever before. As Handy (1990) competently describes, for international strategic alliances change does not follow a certain pattern; it is discontinuous. It is a brand new situation to deal with. Each alliance is a unique experience for all the partners. Discontinuous change in network relationships and in governmental regulations, policies and practices is the norm. The managers are expected to

predict and understand, and develop new strategies to deal with them. Under such change, contingency planning, strategic flexibility, and operational speed become critical managerial skills.

3. Political Sensitivity: International strategic alliances involve many countries and their governments. In most of the developing countries, the governments have greater influence on the economies of their countries than their counterparts in the industrialized countries. The managers of strategic alliances in these countries need to know the key government and political figures, their goals and interests, and the basis of their power. Development of appropriate strategies and successful negotiations depends on their sensitivity to their political environments.

4. Risk taking and entrepreneurship: High uncertainties involved in international strategic alliances require creative and innovative managers with a vision, initiative, and risk taking ability who may turn the uncertainties into opportunities.

5. Cultural sensitivity: Traditionally, the cultures of subsidiaries have been heavily shaped by the norms and values of the parent MNC companies. The corporate culture of the home country has been considered superior to all others and frequently infused in all business relationships. In the network of international strategic alliances, however, no one culture is considered to be superior to others. Since the partners have a great deal of autonomy, they tend to maintain their organizational cultures, to the extent that it is functional (Laurent 1986). Therefore, mutual respect and sensitivity to the cultural characteristics of the partners are essential. Moreover, the effectiveness and duration of strategic alliances may be enhanced if the managers make use of the opportunities to combine the different cultures in complementary ways for creating cross-cultural synergies (Austin 1990; Adler & Bartholomew 1992).

6. Global orientation: Since international strategic alliances are formed to make use of the global opportunities and cross over many national boundaries, it is important for the managers of the partners to have global orientations. Understanding worldwide business environment from a global perspective, global thinking and a sound understanding of the implications of their alliances for worldwide operations are essential for their effectiveness (Adler & Bartholomew 1992).

A second factor that may determine the managerial requirements of partner firms in international strategic alliances is the organizational status of the partner. Following the discussion by Handy (1990), we can identify the status of the partners in strategic alliances as (1) core partner, (2) contractual partner, and (3) marginal partner. Core partners are the major players (parent companies, sponsors, equity owners), contractual partners are the subcontractors, and the marginal partners are part-timers and temporary network nodes.

The managerial skills and requirements listed above mostly apply to core partners. The organizational efficiency and effectiveness of a core partner in the network depend, to a large extent, on the specific skills and capabilities of a small permanent workforce. The managers of such organizations need to be generalists with a keen awareness and sensitivity for cultural differences. They will need to have exceptional strategic management skills to foresee the future developments, coordinate, negotiate, and resolve network conflicts. The role to be played by the managers of international strategic alliances will essentially be one of a boundary spanner (Snow, Miles & Coleman 1992).

The dominant organizational form of contractual business operations and marginal partners in developing countries, on the other hand, has traditionally been quite rigid, authoritarian, top-down, and bureaucratic. These characteristics are quite contrary to the requirements of network organizations. The managers of the subcontracting firms in developing countries have been trained to manage the traditional, hierarchical, and bureaucratic forms of organizations. They are often not fully prepared to meet such requirements of international business environments surrounding transnational strategic alliances as speed, flexibility, change and innovation (Schaan & Beamish 1988). Unless trained and reoriented, these managers may negatively affect the success of international alliances.

The third major determinant of managerial requirements for international strategic alliances is the type of business strategy adopted by the partners. As argued by Porter (1980), the partners who adopt differentiation and focused differentiation will need to

emphasize such managerial skills as creativity, innovation, flexibility, and integration. They are more oriented toward marketing, research, quality, product engineering, and technological leadership. They are goal-oriented.

The managers of the partner firms who have adopted cost leadership and cost focus strategies, on the other hand, are low-cost and efficiency oriented. Process engineering skills, detailed budget and control reports, close supervision of labor, and less flexible organizational structure, design for ease of manufacturing, and low-cost distribution are emphasized.

It is, therefore, obvious that most of the managerial characteristics and requirements listed above would apply more to the managers of the partners with differentiation strategies and less to the managers of the partners with cost leadership strategies.

As can be seen, the managerial requirements of the partners in international strategic alliances are contingent upon many conditions or factors. Although some broad generalizations can be made, there is no one best set of managerial characteristics. The development of international strategic alliances is a relatively new phenomenon and cannot be fully explained by such traditional categorizations as ethnocentric, polycentric, regiocentric, and geocentric (Dowling & Schuler 1990). At best, it is contrary to the ethnocentric management approach, but is a combination of the remaining three because of the rejection of a central authority over the entire network, autonomy of the partners, and preservation of their cultures.

Recapitulation

In this paper, we presented arguments to demonstrate the contention that there are several distinctly different strategic options available to the firms in developing countries as they consider taking part in the strategic alliances with partners in developed countries. The appropriateness of any one option is shown to depend on the generic business strategies that have been adopted by the partners prior to the formation of the alliance. Additionally and contrary to some current thought, we presented an argument that the managerial skill requirements in the developing countries for successful network partnership is contingent on the business strategy adopted as well as the organizational status of the partner firm.

The assertions contained in this presentation are driven from the recent literature on the strategic alliances and combined with the distillations of the authors' experiences in the organizations of the developing countries. As such, they should be viewed as tentative exploratory hypotheses posited to direct research efforts where such are badly needed in these formative years of the theory in strategic management of transnational alliances.

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Available upon request from the authors.

COUNTRY-OF-ORIGIN EFFECTS IN A CROSS-CULTURAL SETTING

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Abstract

The nature of the impact of Country-of-Origin (CO) on purchase behavior is far from clear. A theoretical structure of the relationships underlying CO effects is tested using LISREL and the generalizability of the findings are assessed across respondents belonging to two different cultural groups (US-born and Greece-born) residing in the US. Responses provided by US-born respondents appear to fit the *a priori* theoretical model more closely than those provided by Greece-born respondents. The complexity of the acculturation process of Greece-born respondents is offered as the likely reason for this inter-group difference.

Introduction and Purpose

The country-of-origin construct has been a gradually evolving construct which was conceived from the idea that people attach stereotypical "made-in" perceptions to products from specific countries and that these perceptions influence purchase and consumption behaviors in multinational markets (Nagashima 1977; Lillis and Narayana 1974). A single "made-in" indicant of country-of-origin, serving as an extrinsic cue (Thorelli, Lin, and Ye 1989), led to the hypothesis that all factors impinging on the marketing environment had a potential of impacting consumption behavior. A plethora of empirical studies determined that several environmental factors had negligible to minimal effect on product perceptions leading to the current theory on the determinants of country image. In recent years, theoretically and methodologically demanding country image studies (for excellent reviews, refer to: Hong and Wyer 1989; Baughn and Yaprak 1991; and Ozsomer and Cavusgil 1991), have been aiding in conclusively identifying the precise nature of the impact of country-of-origin (CO) effects in influencing purchase behavior (elaborated later in the Country-of-Origin Construct section). A major stream in these efforts is the refinement of a psychometrically rigorous CO scale (Parameswaran and Yaprak 1987; Han and Terpstra 1988; Pisharodi and Parameswaran 1992).

A question that arises is whether such psychometrically rigorous scales demonstrate identical structures when employed in ascertaining country image perceptions of people from diverse ethnic (national origin) backgrounds? In this paper, the authors attempt such an analysis on a CO scale, first articulated by Parameswaran and Yaprak (1987), using confirmatory factor (CFA) and incremental fit analyses.

The Country-of-Origin Construct

The CO scale used in this study was developed on the premise that country-of-origin effects impact purchase and consumption behaviors in several ways. Consumption behavior has been related to producing country characteristics. For example, it has been demonstrated that consumers'

willingness to purchase products is related to the economic, political, and cultural characteristics of the product's country-of-origin. Papadopoulos, Heslop and Bamossy (1989) summarized this notion by stating that the perceptions of sourcing countries are impacted by cognition about, and affect and conative orientation toward, those countries' peoples. CO effects have also been related to perceptions about the overall product offerings of a particular sourcing country. Papadopoulos, et. al. (1989) noted that a consumer's image of a people with whom he/she is not familiar may well be formed upon the basis of knowledge about that people's capacity for producing quality products in general -- and that perception impacted his/her evaluation of specific products from that country. Parameswaran and Yaprak (1987) called the former component the general country attribute (GCA) and the latter the general product attribute (GPA). Bearing Bilkey and Nes's (1982) criticism of single cue studies and their drawbacks, Parameswaran and Yaprak (1987) hypothesized that purchase intentions and behavior are impacted by CO effects (GCA and GPA) as well as by specific product attributes (including product-, marketing-, and firm-goodwill related attributes [SPA]).

The variables (GCA, GPA, SPA and IP) and the relationships between them as hypothesized by Parameswaran and Yaprak (1987) form the theoretical model of this research. IP is the dependent variable, and GCA is the exogenous independent variable. The impact of GCA on IP is hypothesized to take place primarily through its impact on GPA; GPA, in turn impacts on SPA, which in turn influences IP. The purpose of the research reported in this paper is to test the generalizability of the proposed model across two cultural groups within the United States.

Measurement Methodology and Sampling

In order to fulfil the objectives of this study, GCA's for a source country (Germany) were measured using twelve statements that are commonly found in the country-of-origin literature. US-born and Greece-born consumer's attitudes toward the general nature of products from Germany were measured using eighteen statements commonly cited in the CO literature. Their perceptions in regard to specific product related cues (SPA's) for a German car (Volkswagen Jetta) were measured using 10 relevant automobile attributes. The above variables -- GCAs, GPAs, and SPAs -- were measured on a 10-point scale where '1' represented that the statement was 'not at all appropriate' while '10' represented that it was 'most appropriate.' The list of 41 indicators used in this research are summarized in [Table 1](#).

TABLE 1
LIST OF INDICATORS

Indicator	Label
<u>GCA (General Country Attributes)</u>	
Friendly & likeable	C1
Artistic & creative	C2
Well educated	C3
Hard working	C4
Technical education	C5
Achieving high standards	C6
Raised standard of living	C7
Technical skills	C8
Similar political views	C9
Economically similar	C10
Culturally similar	C11
Participates in international affairs	C12
<u>GPA (General Product Attributes)</u>	
Unreasonably expensive	P1
Luxury products	P2
Meticulous workmanship	P3
Imitations	P4
Known mainly for industrial products	P5
Sold in many countries	P6
Not attractive	P7
Intensely advertised	P8
Frequent repairs	P9
Wide range of models	P10
Long lasting	P11
Advertising informative	P12
Difficult to service	P13
Cheaply put together	P14
High technology	P15
Good value	P16
Easily available	P17
Prestigious products	P18
<u>SPA (Specific Product Attributes)</u>	
Good fuel economy	S1
Exterior styling attractive	S2
Workmanship good	S3
Handles well	S4
Little maintenance	S5
Very comfortable	S6
Difficult to get parts	S7
Quality service	S8
Made to last	S9
Overall excellent	S10
<u>IP (Intention to Purchase)</u>	
Likelihood of buying product	IP

Data were gathered from the adult population of a large midwestern metropolitan area which is highly heterogeneous in terms of ethnic (national origin) composition. Blank questionnaires were hand delivered to the selected respondents comprising the relevant sampling population, namely US-born and Greece-born residents, and completed questionnaires were collected within the next two weeks. A total of 256 completed and useable questionnaires (139 US-born and 117 Greece-born residents) were returned from the 400 (225 US-born; 175 Greece-born) that were originally placed, a 64% response rate. The respective response rates for the two samples were: US-born -- 61.8%, and Greece-born -- 66.9%.

Statistical Analysis of Data

The indicators used to measure the underlying theoretical structure were analyzed for unidimensionality and reliability using ITAN (Gerbing and Hunter 1988), a statistical package for item analysis with correlational data. The

output generated by ITAN can be used to evaluate internal and external consistency -- two statistical criteria for establishing the unidimensionality of the indicators of a construct (Danes and Mann 1984).

The measures were partitioned a priori into different sets measuring GCA, GPA, SPA, and one indicator measuring IP (Intention to Purchase) based on the literature on country-of-origin. Through the observation of inter-item-correlations, item-factor loadings, and coefficient α , indicators were dropped and reclustered progressively. Thus smaller sets of measures reflecting fairly high degrees of unidimensionality and reliability were selected. The values of coefficient α among the selected sets of measures ranged from 0.727 to 0.911.

This procedure resulted in the selection of two sets of indicators representing two dimensions underlying GCA perceptions of US-born respondents as well as of Greece-born respondents. The first dimension (labeled GCA1) consisted of a set of indicators measuring the cognitive and affective aspects of the respondent's CO perceptions while the second dimension (GCA2) consisted of indicators measuring the respondents' conation (desired level of interaction) with the source country. Identical analytical procedures resulted in the selection of a set of five indicators (C3, C4, C6, C7, C8: Table 1) to represent GCA1 and a set of three indicators (C9, C10, C11) to represent GCA2 for both groups of respondents.

The same procedure resulted in the selection of two sets of indicators representing two dimensions underlying the GPA perceptions of US-born respondents as well as of Greece-born respondents. The first dimension (labeled GPA1) consisted of a set of indicators measuring negatively oriented product attributes which Hong and Wyr (1989) term undesirable attributes. This occurred although the directions of these indicators had been reversed earlier through appropriate data transformation. The second dimension (GPA2) consisted of indicators measuring positively oriented product attributes. Analysis of the data collected from US-born respondents resulted in the selection of three indicators (P7, P9, and P14) to represent GPA1 and six indicators (P3, P11, P12, P15, P16, and P18) to represent GPA2. Similar analysis of the data collected from Greece-born respondents resulted in the selection of three indicators (P4, P5, and P14) to represent GPA1 and six indicators (P6, P11, P15, P16, P17, and P18) to represent GPA2.

The results of ITAN analysis of the indicators of SPA yielded quite similar results for the two cultural groups. In the case of US-born respondents, the analysis of SPA indicators resulted in the selection of a set of five indicators consisting of S3, S4, S5, S9, and S10. The set of six indicators selected for Greece-born respondents included one additional indicator (S8).

Empirical support for convergent and discriminant validity of the measurement model was provided by the high item-factor loadings of each indicator on its underlying factor combined with much lower loadings on the other factors, and the noticeable drop in similarity coefficients between different sets of indicators.

The proposed theoretical structure was modified to recognize the multidimensional nature of GCA and GPA and was represented in the form of structural equations. The resulting models for both groups were analyzed using the statistical package LISREL 7 (Joreskog and Sorbom 1989), through the method of maximum likelihood.

Incremental fit analysis (Bentler and Bonett 1980) was employed for the assessment of four progressively adjusted models (M0, M1, M2, and M3) for each group of respondents. The models for both groups of respondents consisted of six constructs (GCA1, GCA2, GPA1, GPA2, SPA, and IP) measured by a total of 23 indicators for US-born respondents and 24 indicators for Greece-born respondents. For each group, the four models possessed identical measurement models, although their structural models differed.

The first (base or benchmark) model (M0) was the most restricted model and consisted of six unrelated constructs. In the models that followed it, guided by the proposed theoretical structure, selected structural relationships were freed. In the second model (M1), IP is modeled as the single dependent variable while GCA1, GCA2, GPA1, GPA2, and SPA are modeled as independent variables. In the third model (M2), SPA is introduced as an intervening variable, and in the fourth model (M3), GPA1 and GPA2 are introduced as intervening variables between the GCA variables and SPA (Figure 1 and Table 2). In the case of both cultural groups, the drop in chi-square values with each model modification (Table 3) is noticeable and statistically significant (at $p = 0.05$) indicating that relaxing the structural links significantly improves the fit between the specified models and their respective data. The values of the Non-normed Fit Index and the Normed Fit Index, two indices for evaluating the increment in fit obtained in step-up comparison of two models (Bentler and Bonett 1980), indicate that the final models explain a large portion of the variance unexplained by the first model (although the nature of these indices make it impossible to pinpoint the exact percent of variance explained by it). However, the fact that these indices are well below their maximum possible value of 1, indicates that only a portion of the variance is explained by the added structural links alone.

FIGURE 1
THE FINAL MODEL (M3)

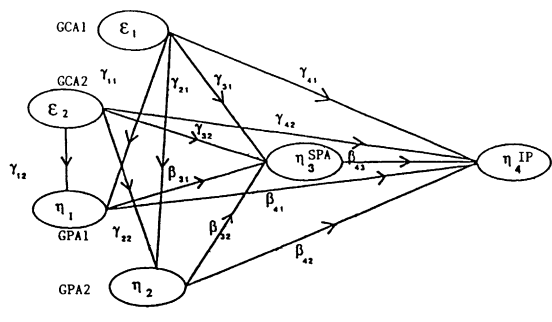


TABLE 2
LISREL ESTIMATES (FINAL MODEL)

Coefficient	Greece-born respondents	US-born respondents
β_{31}	-0.141	0.137
β_{32}	0.222	0.409 ^a
β_{41}	0.117	0.088
β_{42}	0.014	-0.025
β_{43}	0.951 ^a	0.539 ^a
γ_{11}	-0.226 ^a	-0.023
γ_{12}	0.107	0.023
γ_{21}	0.734 ^a	0.654 ^a
γ_{22}	-0.156	0.294 ^a
γ_{31}	0.534 ^a	-0.095
γ_{32}	0.206 ^a	0.290 ^a
γ_{41}	-0.225	-0.003
γ_{42}	-0.077	0.091
χ^2 ^b	602.49	361.69
df	240	218

^a Significant (T-value > 2)

^b Corresponding values of p are 0.000.

TABLE 3
RESULTS OF INCREMENTAL FIT ANALYSIS

Models Compared	Difference in χ^2 ^a (with df)	Non-normed Fit Index (ρ)	Normed Fit Index (Δ)
<u>Greece-born</u>			
M1-M0	145.70(4)	0.0168	0.0301
M2-M1	631.31(5)	0.1236	0.1305
M3-M2	343.80(4)	0.0651	0.0711
M2-M0	777.01(9)	0.1404	0.1607
M3-M1	975.11(9)	0.1887	0.2016
M3-M0	1120.81(13)	0.2055	0.2318
<u>US-born</u>			
M1-M0	206.48(5)	0.0644	0.0791
M2-M1	216.26(4)	0.0759	0.0828
M3-M2	414.71(4)	0.1670	0.1588
M2-M0	422.74(9)	0.1403	0.1619
M3-M1	630.97(8)	0.2429	0.2416
M3-M0	837.45(13)	0.3073	0.3206

^a All the χ^2 differences listed in this table were found to be significant at $p = .05$

The chi-square statistic generated by the final models for the two groups of respondents (Table 2) do not indicate a good fit of either of the final models to their respective data. Other indicators of fit such as the Adjusted Goodness-of-fit Index and the Root Mean Square Residual, however, fare much better. In general, the fit (reflected in most of the computed statistics) was found to be closer in the case of US-born respondents than in the case of Greece-born respondents.

An examination of the values of the remaining structural coefficients presented in Table 2 lead us to the following conclusions: (i) the majority of direct CO effects (i.e., direct effects of GCA1, GCA2, GPA1, and GPA2) on IP are relatively weak, (ii) the direct effects of GCA1 and GCA2 on SPA are relatively weak and not significant (T-

values < 2) for US-born respondents. (iii) GPA1 (undesirable product attributes) does not seem to fit well into the proposed theoretical structure. The structural links connecting GPA1 to all the other un-observables are weak. In the case of US-born respondents, GPA2 appears to play the role of intervening variable between the GCAs and SPA, possessing significant links with GCA1, GCA2, and SPA. The direct effects of GCA1 and GCA2 on SPA are quite strong and significant for Greece-born respondents (0.534 for GPA1 and 0.026 for GPA2). Among Greece-born respondents, the role of the GPAs is unclear partly because of their weaker links with the GCAs and SPA, and partly because of the strong direct effect of the GCAs on SPA, bypassing the GPAs.

Discussion of the Results

In general, as discussed earlier, direct or proximal effects (between adjacent variables) were found to be much stronger (average = 0.352 for US-born and 0.455 for Greece-born) than indirect or remote ones which bypass intervening variables (average = 0.114 for US-born and 0.180 for Greece-born). Direct CO effects on IP (which bypass SPA) were weaker than indirect effects (through SPA). GCA impacts IP significantly through its impact on the GPA variables and on specific product information (SPA).

The indicators of the GPA variables were found to cluster into two groups: one, reflecting the effect of undesirable product attributes, and the other reflecting positive attributes. Based on their impact on intentions to purchase, our study findings reveal that the impact of un-desirable attributes is rather weak -- at least among the respondent groups considered in our study. GPA1, particularly among US-born respondents, showed no strong antecedent or consequent link within the proposed theoretical structure.

Why does GPA2 appear clearly to be an intervening variable between the GCAs and SPA in the case of US-born respondents but not so clearly among Greece-born respondents? Perhaps it is true a reflection of the manner in which the two cultural groups process CO information.

Another possibility is that the structural model for Greece-born respondents is unable to capture some of the true links between the GCA, GPA, and SPA variables. This conclusion is supported by the fact that the fit of the model was considerably weaker on the whole when applied to Greece-born respondents (vis-a-vis US-born). Perhaps, US-born respondents possess more stable CO cognitions, affect, and conations than Greece-born respondents regarding the product under scrutiny. The process of socialization in their mother culture followed by acculturation into a new culture may have led to the cultivation of highly heterogeneous perceptions among Greece-born respondents: and this may explain the poor fit of the structural equations model when applied to this group of respondents.

Conclusions

The results of our study seem to support the conclusion that CO effects are strong in their influence on purchase intentions. However, such influence takes place through their influence on selected product cues. In addition, study findings do not adequately explain the role of

negative general product attributes. Future studies could attempt to shed light on this issue.

This research can be further enhanced by improving the theoretical model through an examination of its applicability to other product categories, different sourcing countries, and other groups of respondents. It would also be useful to compare CO effects among different groups of respondents (such as different immigrant groups) who have gone through a process of acculturation into an alien culture.

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Abstract

This study extends "student surrogates" research stream into the international domain. Results based on a country-of-origins study conducted in Saudi Arabia suggest that use of students as surrogates of adults should be approached with caution.

Introduction

Time, money and a number of other practical considerations often necessitate the use of students as surrogates of other populations in research (Vinson and Lundstrom 1978). The practice is rather widespread in academic studies (Beltramini 1983; Lamb and Stem 1980). For instance, Rubenstein (1982) found that 77% of articles published in two psychology journals were based on student samples. Enis, Cox and Stafford (1972), reported that more than 50% of consumer behavior experiments discussed in the first 30 issues of the Journal of Marketing Research relied on student subjects. According to a study by Cunningham, Anderson and Murphy (1974), anywhere between 20 to 33% of articles in business journals dealing with consumer research employed student samples. Burnett and Dunne (1986), investigated major marketing journals for the 1979-1983 period and found that 17% of the articles in these journals utilized student subjects. Use of students in business studies has been and continues to be a common practice (Remus 1986; Pharr 1988; Morgan 1979; Alpert 1967; Ashton and Kramer 1980; Copeland, Francia and Strawser 1973; Khera and Benson 1970).

While the debate concerning the appropriateness of using students as surrogates of other populations persists, it appears that students may be of value in validating constructs and instruments (Dunne, Lund and Luchsinger 1980, p. 314). Yet, their usefulness is severely limited in situations where external validity is the prime concern. A void in this line of research, however, is that virtually all studies have been based on U.S. samples and no attempt has been made to extend the research stream into the international domain. This is true even in the case of studies examining the efficacy of using students as surrogates of consumers in international business research (Hampton 1979).

This paper attempts to partially fill in this void and reports on the results of a study conducted in Saudi Arabia. The specific objectives of the study are to determine:

- 1) if students and adults significantly differ in the importance they attach to choice criteria when evaluating imported products; and
- 2) whether students and adults significantly differ in their attitudes toward selected made-in-labels.

Besides extension of the "student surrogates" research stream into the international domain,

the results of the study may be of interest to dozens of companies marketing consumer products in the increasingly competitive and dynamic Saudi market. Several factors including the cultural prohibitions severely hamper research efforts among Saudi consumers (Tuncalp 1988; Yavas 1989), and many companies refrain from consumer surveys (Yavas 1987). Existence of any similarities between students and adults, would present few companies that are currently conducting consumer surveys as well as those which are contemplating to undertake such studies with a low cost and convenient alternative.

Method

Data

Data for this study consist of responses obtained from surveys conducted in the Eastern Province of Saudi Arabia as part of a large scale "made-in-labels" project. The results reported here are limited to the choice criteria and made-in-labels that were common to the two independent surveys administered to a sample of undergraduate students attending a Saudi university and the adults living in the same community. Data from the student sample were collected via self-administered questionnaires during regular class periods. The mode of data collection in the case of adult sample was personal interviews. Because the Saudi university where the student survey took place is an all-male institution, the adult sample of this study is also restricted to males. Usable responses were obtained from 95 students and 108 adults.

Measures

Choice Criteria. Both groups of respondents were asked to indicate the level of importance they attached to a series of criteria when evaluating imported products. The eleven criteria common to both surveys included intrinsic as well as extrinsic factors. Subjects' responses were recorded on four-point scales ranging from 4 = very important to 1 = not important at all.

Attitudes. Respondents' attitudes towards four made-in-labels (USA, Japan, Germany, England) were measured via a series of eleven statements using 5-point Likert type scales. The responses could range from strongly agree to strongly disagree for each statement. These statements were again common to both surveys and the specific attributes in the statements matched the choice criteria.

Overall attitude scores for each respondent across made-in-labels were computed by adding their responses to individual items in a linear fashion. Because of the scoring system used, respondents' overall scores could range between 5 and 55 where higher scores reflected more favorable attitudes. The internal consistency reliabilities of the composite measures were assessed by Cronbach's alpha. As shown in **Table**

1, alphas ranged between .62 and .70 in the student sample, and between .68 and .79 in the adult sample. All of these are within Nunnally's (1978) guidelines and permit further analyses.

TABLE 1
INTERNAL CONSISTENCY RELIABILITIES OF OVERALL ATTITUDE MEASURES

Country	Cronbach's Alpha	
	Adult	Student
USA	.68	.70
Japan	.79	.70
Germany	.72	.65
England	.71	.62

Data Analysis

Choice Criteria

As a first step to determine if students and adults differed in the importance they attached to various criteria in evaluating imported products, mean scores on each criterion for each sample was calculated and the differences were tested via t-tests. As shown in Table 2, mean score differences were significant with respect to 4 of the 11 criteria. These criteria were price, suitability to local market, quality and warranty/guarantee. Adults attached relatively higher degree of importance to each of these criteria. The results also suggest that, in general, adults tend to attribute higher levels of importance to more of the remaining criteria as well.

To overcome any response bias, in the second phase of analysis, mean ratings were converted into rankings and, within each sample, the choice criteria were arrayed from 1 = most important to 11 = least important. The results depicted in Table 3 suggest that there is a high degree of association ($r^s = .93$; $p < .001$) in the relative rankings of the criteria by the two groups. The two top ranking criteria for both groups are quality and availability of repair/maintenance services. In exactly the same order, the lowest ranking criteria for both groups are prestige/status, well known/ reputation, style/appearance and self-appeal.

Attitudes toward Made-in-Labels

To examine if students and adults were similar (or dissimilar) in their attitudes toward made-in-labels, the student and adult mean responses were tested for significance across individual evaluative statements as well as in the aggregate. The t-test results displayed in Table 4 show that the composite attitude scores of the two groups were significantly different with respect to all four made-in-labels surveyed. Despite these overall differences, students and adults exhibited several similarities in their assessments of made-in-labels on specific attributes.

TABLE 2
IMPORTANCE RATINGS OF EVALUATIVE CRITERIA

Criterion	Mean ^a		t
	Adult	Student	
Price	3.70	3.42	3.77 ^b
Self-appeal	3.00	3.06	-0.55
Suitability	3.52	3.14	4.03 ^b
Quality	3.87	3.73	2.38 ^a
Good Value for Money	3.58	3.44	1.74
Prestige/Status	2.37	2.50	-1.02
Style/Appearance	2.86	2.87	-0.07
Well-known/ Reputation	2.82	2.59	1.89
Availability	3.22	3.09	1.18
Repair/ Maintenance Services	3.82	3.78	0.61
Warranty/ Guarantee	3.63	3.39	2.65 ^c

^a Mean scores can range between 4 = Very important and 1 = Not important at all

^b $p < .001$

^c $p < .01$

^d $p < .05$

TABLE 3
IMPORTANCE RANKINGS OF EVALUATIVE CRITERIA

Criterion	Rank ^a	
	Adult	Student
Price	3	4
Self-appeal	8	8
Suitability	6	6
Quality	1	2
Good Value for Money	5	3
Prestige/Status	11	11
Style/Appearance	9	9
Well-known/Reputation	10	10
Availability	7	7
Repair/Maintenance Services	2	1
Warranty/Guarantee	4	5

^a 1 = most important and 11 = least important

$r^s = .93$

$p < .001$

As the results in Table 5 demonstrate, this was particularly true for self-appeal, suitability to local conditions, prestige/status, well-known/reputation, and warranty/guarantee attributes where all or three out of four made-in-labels were judged equally favorably (or unfavorably).

TABLE 4
COMPARISON OF OVERALL ATTITUDES
TOWARDS MADE-IN LABELS

Made-in-Label	Mean ^a		t
	Adult	Student	
USA	41.30	43.88	-3.32 ^b
Japan	42.70	46.75	-5.09 ^b
Germany	38.20	40.06	-2.24 ^c
England	35.70	37.27	-2.02 ^c

^a Mean scores can range between 5 and 55 where higher scores reflect more favorable attitudes

^b p < .001

^c p < .05

Conclusions

Prompted by the motive to extend "student surrogates" research stream into the international domain, this study was conducted to test the differences between male Saudi students and adults on two dimensions: the importance attached to choice criteria in evaluating imported goods and attitudes towards made-in-labels. The mixed evidence generated by the study suggests that use of students as surrogates of adults should be approached with extreme caution, at least, when generalizability of research findings is of concern. Given the comparability in the internal consistency reliabilities of the attitude scales, however, it appears that student samples can be employed in scale development. It is imperative to note that these observations are compromised by the limited scope of the study. Until results are validated over a range of measurement situations and among other samples, they should remain tentative.

TABLE 5
COMPARISON OF ATTITUDES TOWARDS
MADE-IN LABELS BY ATTRIBUTE^a

Criterion	Adults and Students Differ ^b	Adults and Students Do Not Differ
Price	USA, JP, GER, ENG	
Self-appeal	JP	USA, GER, ENG
Suitability		USA, JP, GER, ENG
Quality	USA, JP, GER, ENG	
Good Value for Money	JP, ENG	USA, GER
Prestige/Status	USA	JP, GER, ENG
Style/Appearance	JP, GER	USA, ENG
Well-known/Reputation	JP	USA, GER, ENG
Availability	USA, JP	GER, ENG
Repair/Maintenance Services	GER, ENG	USA, JP
Warranty/Guarantee	JP	USA, GER, ENG

USA = United States; JP = Japan; GER = Germany, ENG = England

^a Comparisons are based on two-tailed t-tests

^b Mean differences which are significant at $\alpha = .05$ or better level of significance

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MARKETING COMMUNICATIONS

THE STATUS OF ADVERTISING BY ATTORNEYS:
AN INTERNATIONAL PERSPECTIVE PROVIDED BY THE LEGAL LITERATURE

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Abstract

Advertising by attorneys in the United States has increased significantly since its legal status was clarified by major court decisions as recent as 1988. Meanwhile, professional codes and local laws which address attorney advertising have been changing in other nations. The literature of business academicians in the U.S. has addressed the American situation in some detail. However, less has been published in this literature concerning advertising by attorneys in other nations. This paper brings together relevant research findings globally as reported in the legal literature.

Introduction

This paper is a preliminary report on the current global status of advertising by attorneys, based upon review and synthesis of surveys and other studies which have been published within the past ten years in the legal literature. The paper differs from the more typical paper concerning advertising by attorneys and published in the business academic press in two significant ways. First, it looks to published research in the legal literature for its data base. Second, attention to the practice of attorney advertising is not limited to the United States. Rather, it cites relevant and substantive research from the United Kingdom, Ireland and New Zealand. The author readily acknowledges several limitations of the current paper. First, it is a preliminary report, representing only part of a much larger investigation which will be reported in greater detail in a subsequent paper. Second, the space limitations in these Proceedings are so severe as to reduce still further the amount of detail which can be developed in this preliminary report. Third, both the preliminary and the subsequent reports will be, by definition, limited by research findings which have been published in the legal literature.

Attorney Advertising in the United States

In 1908 the American Bar Association adopted the First Canon of Ethics which defined solicitation of business by circulars or advertisements as "unprofessional." This complete ban on advertising by attorneys remained unchanged for more than sixty years. However, a series of more recent court decisions defined the legal status of attorney advertising, opening the way to dramatic change. Essentially, the decisions in Bates v. State Bar Association [433 U.S. 350 (1977)] and Shapiro v. Kentucky Bar Association [108 S.Ct. 1916 (1988)] declared that the states may not blanketly prevent attorneys from advertising certain cost information or listings of areas of practice, or advising target portions of the public of their rights to pursue particular types of cases. However, these decisions permitted the states to place reasonable restrictions on advertising which are deemed necessary to prevent untruthful, false, deceptive or misleading statements (Peltz 1989). The broad parameters for state and professional society regulation of attorney advertising in the U.S. are now in place, although future court decisions, state laws, and bar association actions will determine the limits of acceptability of specific advertising practices. For example, specific content of television advertising by attorneys will likely be the subject of

increased debate within the legal community as well as of litigation in the near future.

Attorney Advertising in the United Kingdom

Long-standing English tradition eschewed any form of competition among solicitors (Harris 1985). Consequently, while the English Law Society Council's easing of bans on solicitor advertising in 1984 represented a dramatic change of position, it also reflected a world-wide trend away from the conservative view of the profession, especially in Western countries. Even so, the Council's action was only a cautious step which restricted the right to advertise by sanctioning only press and radio advertisements, mailings to professional connections, and notices posted at the solicitor's place of business (Harris 1985). While price advertising was permitted by the Council's action, various restrictions preemptively anticipate and prevent dissemination of potentially misleading fee information.

Attorney Advertising in Ireland

The Incorporated Law Society of Ireland maintains a very restrictive attitude toward the advertising practices of its members, until recently proscribing all such activity (Quinn 1991). By a narrow majority new rules were adopted in 1988, relaxing the total ban on solicitor advertising, but banning "touting" as well as false and misleading advertising, and that which brings the profession into disrepute. Advertising which addresses prices and professional specializations was made subject to specific limitations. Solicitors were permitted access to a wide range of advertising media.

Attorney Advertising in New Zealand

Prior to 1985 the Code of Ethics which guided the professional conduct of New Zealand's lawyers prohibited touting. The New Zealand Law Society, responding to public pressure and to discourage governmental intervention, amended its Code and allowed attorney advertising by taking "a largely regulatory rather than permissive approach, reflecting a desire to retain a large measure of control over the content and form of advertising" (Manning 1986). However, these rules were drastically overhauled just nine months later, replaced by much more liberal ones which more closely resemble unrestricted advertising. Two events were credited for this change. First, there were rapid shifts in the mood of the profession outside Auckland, where "full scale" advertising was almost universally favored initially. In turn, this shift was related to the debate over solicitors' so-called "monopoly of conveyancing" in the United Kingdom. In that matter it had been determined that abandonment of scale charges for legal services had not promoted competition which would reduce the costs of those services, and that legal services advertising might effectively address the existing "monopoly situation" among U.K. solicitors.

NOTE: Full citations of references which have been omitted due to space limitations are available upon request to the author.

A COMPARISON OF AMERICAN AND JAPANESE CONSUMER PERCEPTIONS OF SEX ROLE PORTRAYALS IN ADVERTISING

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Abstract

Consumer perceptions of their sex role portrayals in advertising have been heavily researched since the 1970s, but few studies have extended this research into cross-cultural settings. This study compares the perceptions of American and Japanese business students. The findings indicate that: 1) Japanese students are less critical than American students, 2) Japanese female students are less critical than American females, 3) Japanese male students are less critical than American males, 4) Japanese female students are more critical than Japanese males, and 5) American female students are more critical than American males regarding their role portrayals in advertisements.

Introduction

Since the 1970s, research in the United States has indicated that much of the media, including advertising, has promoted and reinforced traditional female role stereotypes. Courtney and Lockeretz raised the issue in 1971 when they reported a great disparity between men and women in the depiction of working roles in advertising. They also discovered a heavy use of gender stereotyping for women (i.e., the woman belongs in the home, women do not make important decisions, women are seen by men as "sex objects," and women are dependent upon men). Depictions such as these have led feminists in the United States to attack the advertising industry on the basis of repeatedly violating the dignity of women (Kilbourne 1987; Freedman 1986) and have led to concern over the effects such gender stereotyping has on women and children. Research into this latter area has shown that gender - stereotyped advertising may have a traditionalizing effect on children, indicating that the values depicted in advertising may be perpetuated (Moschis and Moore 1982; Frueh and McGhee 1976). With respect to women, gender stereotyped advertisements may have detrimental effects on the concept females have of themselves, their self-image and their achievement aspirations (Golden 1985; Geis et al. 1984; Jennings-Walstedt et al. 1980).

Given the potential seriousness of the use of gender stereotypes in advertising, a large amount of research begun in the 1970s has sought to discover the extent to which advertising portrays women in stereotypical roles. Findings indicate that the typical stereotypes of women include: being dependent on or subservient to men; women pictured primarily in the home or in domestic settings; women preoccupied with physical attractiveness; women as sex objects; women as decorations for men; and the underwhelming use of females as voices of authority and credibility. These advertising represen-

tations have continued and, in some ways, increased from the 1970s into the 1990s (Ferguson et al. 1990; Lovdal 1989; Gilly 1988; Soley and Reid 1988; Soley and Kurzbrd 1996; Marecek et al. 1978; Busby 1975; Courtney and Lockeretz 1971).

Some studies have reported improvements in certain areas of female role portrayals, though generally the research recognizes that U.S. advertisers are still providing the public with a distorted view of women in society. Recent content analyses (Mays and Brady 1990; Brentl and Cantor 1988; Ferrante et al. 1988; Soley and Kurzbrd 1986; Lysonski 1983; D'Amico and Hummel 1980) indicate that female portrayals in advertising tend to fill more contemporary roles, are more career oriented, less dominated and appear more frequently as central characters than they had previously. However improvements in the portrayal of women were not "across the board" and some positive trends may have been short-lived. The use of stereotypical female portrayals (e.g., overt sex object roles, housewives, preoccupied with physical attractiveness, in domestic settings) continue and in some cases may have actually increased (Ferguson et al. 1990; Brentl and Cantor 1988; Ferrante et al. 1988; Soley and Kurzbrd 1986; Lysonski 1983; D'Amico and Hummel 1980).

As early as 1974, Ortner posited that the subordination of females to males is a universal cultural expectation. It would be reasonable to expect that this subordination would be seen in the role portrayals of women as opposed to men in different cultures. The extension of the literature into the international environment appears to bear this phenomenon out, even though the number of studies is limited (see Table 1).

From the research to date, then, it appears that sex role stereotyping occurs in the advertising of most countries, and usually at levels that are perceived and criticized by the public. What is missing from the existing body of research, however, is the level of perception and reaction of the Japanese public to gender stereotyping. Of all the geographic areas reviewed above and in Table 1, the use of stereotypes in advertising in the Far East is the least researched. With the exception of a Philippine study, little empirical evidence appears to have been published.

An early study of male and female role portrayals in Philippine print advertising was conducted by Marquez (1975). This content analysis concluded that Philippine advertisers were guilty of a disparity of work-related role portrayals that followed more of a Western model for advertising than a Philippine cultural model. Seventy-three percent of the advertisements analyzed portrayed males and females in traditional roles. Specifically, the males roles involved leader-

ship, mainly strength, decision making, independence and other stereotypical male attributes. Females, on the other hand, were portrayed almost invariably in traditional roles. In an analysis of the depicted marital relationships, Marquez found that the relationship commonly displayed was a Western one which portrayed husbandly superiority over the wife and wifely subordination to the husband.

While the Philippine advertising appears to reflect traditional female stereotypes, this research may not be generalizable to other parts of Asia, or specifically, Japan. Most Japanese content analyses have studied Japanese advertising practices with respect to their information content, advertising appeals, values, and creative styles. In a comparative study of Japanese and American advertising appears, Mueller (1987) utilized content analysis to determine the extent to which values, norms and cultural characteristics are embedded in advertising appeals. Mueller found a shift to individuality and independence appeals in Japanese advertising to the degree that these appeals were more prevalent in Japanese ads than in American ads. Mueller also found that the Japanese ads utilized the soft sell (mood and emotional appeals) and status appeals more than American ads did and that both countries relied heavily on product merit in their advertisements.

Due to the heavy use of mood or emotional appeals, the question has been raised as to whether Japanese advertisements are informative. Madden et al (1986) found that Japanese print advertisements were generally more informative than U.S. ads and that the primary informational cues tended to be price, components or contents availability and performance.

The findings of Mueller (1987) and Madden et al (1986) were corroborated by Hong et al (1987) who found that Japanese magazine ads were evaluated as more emotional and less comparative than American ads, however their information content was found to be significantly greater than U.S. ads.

It appears that differences exist between Japanese and American advertising. The question arises as to whether the differences extend to female role portrayals and how these differences are perceived. One recent content analysis attempted to examine Japanese sex role portrayals (Gandhi and Bodkin 1992); however, this limited study only examined one issue of a general interest magazine and one issue of a woman's magazine and found no major role disparities by gender. This equality of role portrayal is echoed in the research done by Dentsu in their 1991 Marketing and Advertising Yearbook. One recent trend mentioned in this research was to use women that were more lively and forceful in their language and mannerisms. In particular, the focus was placed on strengthening the character of women shown in ads.

It is clear that Japanese women are no longer content with traditional roles in society, and

this may well carry over to their perceptions of their role portrayals in advertisements. There are 24 million women working in Japan, accounting for nearly 40% of the labor force. Only 25% of Japanese men and women say they think women should stay home; 59% of young women say men should help with the housework and 48% of men agree with them (Walsh 1987). Sexual harassment has also become an issue in Japan; the first lawsuit was filed in 1989 and more than 50 women's groups and lobbying groups have taken up the cause. Articles about harassment have also begun to appear in the Japanese press almost daily, along with panel discussions on television. The Tokyo subway authority has even been berated for allowing "sexist" advertising on station walls (The Economist 1989). It would appear to be an appropriate time to include Japanese respondents in a cross-cultural examination of perceptions of sex role portrayals.

Purpose of the Study

Because of the lack of empirical data that examines role portrayals across cultures, this comparative study was conducted. The purpose of this study was to compare the general perceptions of consumers in the U.S. and Japan regarding their role portrayals in advertising.

The research questions examined were as follows:

- 1) are the Japanese as critical of their role portrayals as Americans?
- 2) are Japanese females as critical as American females of their role portrayals?
- 3) are Japanese males as critical of their role portrayals as American males?
- 4) are Japanese females more critical of their role portrayals than Japanese males?
- 5) are American females more critical of their role portrayals than American males?

Most American studies relating to these topics have found that American females are more critical of their role portrayals than American males/ and content analyses indicate that advertisers have endeavored to make changes to alleviate this criticism. This study attempts to extend this research into a cross-cultural comparative framework to see if similar perceptions exist in Japan where the women's movement appears to be gaining in strength.

Methodology

The survey instrument used to collect the data was identical to the one used by Lundstrom and Sciglimpaglia in their 1977 study. The questionnaire, entitled "Advertising Opinion Survey" contains 17 attitudinal statements (see Exhibit 1) previously employed to measure: perceived advertising role portrayals, company image of firms using such practices, intention to buy products of such firms, and selected demographic characteristics. These items were measured on a seven-point Likert-type scale with the anchors being 1-Strongly Disagree and 7-Strongly Agree.

The sample respondents were business students at comparable Universities in major metropolitan areas of the Mid-Atlantic region of the United States and the Kitakyushu area of Japan. It was felt that business students were appropriate subjects for this pilot study since they represent both actual product consumers and future managers. It was also believed that business students were appropriate since they were being asked to report their general perceptions in the roles of observers and commentators on their respective cultures. Williams and Best (1990) found that university students were particularly appropriate for this task in that they "are likely to have given more attention and thought to the question of the different statuses and roles occupied by women and men and to have become sensitized to the psychological traits attributed to men and women in their respective cultures" (p. 53). One hundred students completed the survey instrument in both locations with 46 males and 54 females participating in the American sample and 50 males and 50 females participating in the Japanese sample.

Results

The first research question addresses whether American consumers are more critical of their role portrayals in advertising than the Japanese. The results are provided in Exhibit 1. T-tests were run and significant differences were found for eight of the seventeen items. Item 4 ("Ads treat women mainly as 'sex objects'") showed significantly more agreement by Americans than Japanese. The Japanese

respondents also indicated significantly higher levels of disagreement with respect to items 6 through 11 ("Ads suggest that women make important decisions;" "Ads which I see accurately portray men in most of their daily activities;" "Ads suggest that women don't do important things;" "Ads suggest that a woman's place is in the home;" "I'm more sensitive to the portrayal of women in advertising that I used to be;" and "I find the portrayal of women in advertising to be offensively). In relation to the suggestion that companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities (item 13), the Japanese indicated a significantly higher level of agreement.

The second research question compares the perceptions of American and Japanese females. Significant differences were found for five of the seventeen items. Exhibit 2 shows that Japanese women tended to disagree more strongly than American women with respect to items 8 through 11 ("Ads suggest that women don't do important things;" "Ads suggest that a woman's place is in the home;" "I'm more sensitive to the portrayal of women in advertising that I used to be;" and "I find the portrayal of women in advertising to be offensively). Significantly more agreement was found among Japanese women with respect to the suggestion that companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities (item 13).

EXHIBIT 1

A Comparison of the Perceptions of American and Japanese Business Students Toward Sex Role Portrayal, Company Image and Purchase Intention

ATTITUDES TOWARD ROLE PORTRAYALS	U.S. N=100 Δ	MEAN RESPONSE TO STATEMENT*							Japan N=100 ▲
		1	2	3	4	5	6	7	
1. Ads which I see show women as they really are.	2.94								3.05
2. Ads suggest that women are fundamentally dependent on men.	3.40								3.24
3. Ads which I see show men as they really are.	2.97								3.24
4. Ads treat women mainly as "sex objects".	4.33 ^b								3.44
5. Ads which I see accurately portray women in most of their daily activities.	3.26								3.17
6. Ads suggest that women make important decisions.	3.93 ^a								3.59
7. Ads which I see accurately portray men in most of their daily activities.	3.59 ^a								3.34
8. Ads suggest that women don't do important things.	3.49 ^b								2.88
9. Ads suggest that a woman's place is in the home.	3.39 ^b								2.51
10. I'm more sensitive to the portrayal of women in advertising than I used to be.	4.33 ^a								3.95
11. I find the portrayal of women in advertising to be offensive.	3.63 ^a								3.09
12. Overall, I believe that the portrayal of women in advertising is changing for the better.	4.36								4.00
EFFECT ON COMPANY IMAGE									
13. Companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities in job promotion and advancement, compared with other companies in the same business or industry.	3.82 ^a								4.34
14. I believe that how women are portrayed in ads merely reflects the general attitude of that company toward women's place in society.	3.80								3.80
EFFECT ON PURCHASE INTENTION									
15. If a new product is introduced with ads that I find offensive, I might still buy it if it offers me benefits which I find attractive.	4.61								4.57
16. If a new product or service which I use adopts an ad campaign which I find offensive, I'll discontinue using it.	3.50								3.54
17. Even though I may see an ad which is offensive for one product, I would continue to purchase other products that I have been using from the same company.	4.93								4.53

* In the profile, 7 = Strongly Agree and 1 = Strongly Disagree.
a: p = .01
b: p = .001

EXHIBIT 2

A Comparison of the Perceptions of American and Japanese Female Business Students Toward Sex Role Portrayal, Company Image and Purchase Intention

ATTITUDES TOWARD ROLE PORTRAYALS	U.S. Female N=54 Δ	MEAN RESPONSE TO STATEMENT*							Japanese Female N=50 ▲
		1	2	3	4	5	6	7	
1. Ads which I see show women as they really are.	2.78								2.71
2. Ads suggest that women are fundamentally dependent on men.	3.65								3.18
3. Ads which I see show men as they really are.	3.00								3.02
4. Ads treat women mainly as "sex objects".	4.23								3.67
5. Ads which I see accurately portray women in most of their daily activities.	3.13								3.31
6. Ads suggest that women make important decisions.	3.82								3.55
7. Ads which I see accurately portray men in most of their daily activities.	3.59								3.43
8. Ads suggest that women don't do important things.	3.84 ^b								2.88
9. Ads suggest that a woman's place is in the home.	3.80 ^b								2.71
10. I'm more sensitive to the portrayal of women in advertising than I used to be.	4.71 ^b								3.71
11. I find the portrayal of women in advertising to be offensive.	4.22 ^a								3.39
12. Overall, I believe that the portrayal of women in advertising is changing for the better.	4.38								4.10
EFFECT ON COMPANY IMAGE									
13. Companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities in job promotion and advancement, compared with other companies in the same business or industry.	4.18 ^a								4.84
14. I believe that how women are portrayed in ads merely reflects the general attitude of that company toward women's place in society.	4.23								3.96
EFFECT ON PURCHASE INTENTION									
15. If a new product is introduced with ads that I find offensive, I might still buy it if it offers me benefits which I find attractive.	4.18								4.06
16. If a new product or service which I use adopts an ad campaign which I find offensive, I'll discontinue using it.	4.00								3.82
17. Even though I may see an ad which is offensive for one product, I would continue to purchase other products that I have been using from the same company.	4.68								4.31

* In the profile, 7 = Strongly Agree and 1 = Strongly Disagree.
a: p = .01
b: p = .001

This is consistent with the trend identified by The Economist (1989) which indicated a growing sentiment among women in Japan against sexual harassment in the work place.

The third research question involves a comparison of the perceptions of American and Japanese males regarding gender role portrayals in advertising. Exhibit 3 indicates that there is a greater degree of criticism among American males than among Japanese males. U.S. males tended to disagree more with the suggestion that ads show men as they really are (item 3), and agreed more strongly than Japanese men that ads treat women mainly as "sex objects" (item 4) and that ads suggest that a woman's place is in the home (item 9). With respect to item 13, however, American men disagreed significantly more than Japanese men that companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities.

EXHIBIT 3

A Comparison of the Perceptions of American Male Business Students Toward Sex Role Portrayal, Company Image and Purchase Intention

ATTITUDES TOWARD ROLE PORTRAYALS	U.S. Male N=6 ▲	MEAN RESPONSE TO STATEMENT*							Japanese Male N=50 ▲
		1	2	3	4	5	6	7	
1. Ads which I see show women as they really are.	3.16								3.37
2. Ads suggest that women are fundamentally dependent on men.	3.07								3.29
3. Ads which I see show men as they really are.	2.95 ^b								3.45
4. Ads treat women mainly as "sex objects".	4.44 ^b								3.22
5. Ads which I see accurately portray women in most of their daily activities.	3.44								3.04
6. Ads suggest that women make important decisions.	4.07								3.83
7. Ads which I see accurately portray men in most of their daily activities.	3.60								3.25
8. Ads suggest that women don't do important things.	3.05								2.92
9. Ads suggest that a woman's place is in the home.	2.96 ^a								2.31
10. I'm more sensitive to the portrayal of women in advertising than I used to be.	3.84								4.18
11. I find the portrayal of women in advertising to be offensive.	2.88								2.90
12. Overall, I believe that the portrayal of women in advertising is changing for the better.	4.37								3.90
EFFECT ON COMPANY IMAGE									
13. Companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities in job promotion and advancement, compared with other companies in the same business or industry.	3.35 ^a								3.86
14. I believe that how women are portrayed in ads merely reflects the general attitude of that company toward women's place in society.	3.21								3.65
EFFECT ON PURCHASE INTENTION									
15. If a new product is introduced with ads that I find offensive, I might still buy it if it offers me benefits which I find attractive.	5.14								5.06
16. If a new product or service which I use adopts an ad campaign which I find offensive, I'll discontinue using it.	2.86								3.26
17. Even though I may see an ad which is offensive for one product, I would continue to purchase other products that I have been using from the same company.	5.02								4.80

* In the profile, 7 = Strongly Agree and 1 = Strongly Disagree.
a: p = .01
b: p = .001

The fourth research question examines the differences between the perceptions of Japanese males and females regarding role portrayals in advertising. This study identified only three areas of significant difference between Japanese males and females and indicated that females were more critical than males. Japanese females disagreed more strongly than Japanese males with respect to the suggestion that ads show women as they really are (item 1), and agreed more strongly that companies that portray women offensively in their advertising are more likely to discriminate against women and minorities (item 13). With respect to purchase intentions, Japanese women were in less agreement than men with the idea of continuing to buy products

introduced with ads that were considered offensive (item 15), however neither men nor women indicated a strong inclination toward boycott.

EXHIBIT 4

A Comparison of the Perceptions of Japanese Male and Female Business Students Toward Sex Role Portrayal, Company Image and Purchase Intention

ATTITUDES TOWARD ROLE PORTRAYALS	Japanese Male N=50 ▲	MEAN RESPONSE TO STATEMENT*							Japanese Female N=50 ▲
		1	2	3	4	5	6	7	
1. Ads which I see show women as they really are.	3.37 ^a								2.71
2. Ads suggest that women are fundamentally dependent on men.	3.29								3.18
3. Ads which I see show men as they really are.	3.45								3.02
4. Ads treat women mainly as "sex objects".	3.22								3.67
5. Ads which I see accurately portray women in most of their daily activities.	3.04								3.31
6. Ads suggest that women make important decisions.	3.83								3.55
7. Ads which I see accurately portray men in most of their daily activities.	3.25								3.43
8. Ads suggest that women don't do important things.	2.92								2.88
9. Ads suggest that a woman's place is in the home.	2.31								2.71
10. I'm more sensitive to the portrayal of women in advertising than I used to be.	4.18								3.71
11. I find the portrayal of women in advertising to be offensive.	2.90								3.39
12. Overall, I believe that the portrayal of women in advertising is changing for the better.	3.90								4.10
EFFECT ON COMPANY IMAGE									
13. Companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities in job promotion and advancement, compared with other companies in the same business or industry.	3.86 ^b								4.84
14. I believe that how women are portrayed in ads merely reflects the general attitude of that company toward women's place in society.	3.65								3.96
EFFECT ON PURCHASE INTENTION									
15. If a new product is introduced with ads that I find offensive, I might still buy it if it offers me benefits which I find attractive.	5.06 ^b								4.06
16. If a new product or service which I use adopts an ad campaign which I find offensive, I'll discontinue using it.	3.26								3.82
17. Even though I may see an ad which is offensive for one product, I would continue to purchase other products that I have been using from the same company.	4.80								4.31

* In the profile, 7 = Strongly Agree and 1 = Strongly Disagree.
a: p = .01
b: p = .001

EXHIBIT 5

A Comparison of the Perceptions of American Male and Female Business Students Toward Sex Role Portrayal, Company Image and Purchase Intention

ATTITUDES TOWARD ROLE PORTRAYALS	U.S. Male N=6 ▲	MEAN RESPONSE TO STATEMENT*							U.S. Female N=50 ▲
		1	2	3	4	5	6	7	
1. Ads which I see show women as they really are.	3.16 ^a								2.78
2. Ads suggest that women are fundamentally dependent on men.	3.07 ^b								3.65
3. Ads which I see show men as they really are.	2.95								3.00
4. Ads treat women mainly as "sex objects".	4.44								4.23
5. Ads which I see accurately portray women in most of their daily activities.	3.44								3.13
6. Ads suggest that women make important decisions.	4.07								3.82
7. Ads which I see accurately portray men in most of their daily activities.	3.60								3.59
8. Ads suggest that women don't do important things.	3.05 ^b								2.84
9. Ads suggest that a woman's place is in the home.	2.96 ^b								3.30
10. I'm more sensitive to the portrayal of women in advertising than I used to be.	3.84 ^b								4.71
11. I find the portrayal of women in advertising to be offensive.	2.88 ^b								4.22
12. Overall, I believe that the portrayal of women in advertising is changing for the better.	4.37								4.38
EFFECT ON COMPANY IMAGE									
13. Companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities in job promotion and advancement, compared with other companies in the same business or industry.	3.35 ^b								4.18
14. I believe that how women are portrayed in ads merely reflects the general attitude of that company toward women's place in society.	3.21 ^b								4.23
EFFECT ON PURCHASE INTENTION									
15. If a new product is introduced with ads that I find offensive, I might still buy it if it offers me benefits which I find attractive.	5.14 ^b								4.18
16. If a new product or service which I use adopts an ad campaign which I find offensive, I'll discontinue using it.	2.86 ^b								4.00
17. Even though I may see an ad which is offensive for one product, I would continue to purchase other products that I have been using from the same company.	5.02 ^a								4.89

* In the profile, 7 = Strongly Agree and 1 = Strongly Disagree.
a: p = .01
b: p = .001

As illustrated in Exhibit 5, which deals with research question 5, this study identified greater differences between American male and female perceptions than when comparing Japanese males and females. Where only three significant differences arose between Japanese males and females, there were eleven significant differences in perceptions between American males and females. As was the case with Japanese females, American females also exhibited a greater level of criticism than their male counterparts. American females were found to be significantly more critical of their role portrayals in advertising than American males. This can be seen in the significantly higher levels of agreement with negative items (items 2, 8, 9, 10 and 11) and the significantly lower levels of agreement on positive item 1. Similar results were found when assessing effect on company image and purchase intention with significantly more agreement with negative items (items 13, 14, and 16) and significantly less agreement with positive items (items 15 and 17).

Summary and Conclusions

It would appear from these samples that Japanese business students, whether they be male or female were significantly less critical of their role portrayals in advertisements than business students in the U.S. However, even though the Japanese respondents tended to be less critical, both male and female Japanese students expressed more agreement than U.S. students with the suggestion that companies that portray women offensively in their advertising are more likely to discriminate against women and other minorities in job promotion and advancement (item 13) and women in both countries agreed with this statement more than their male counterparts. This area represented only one of a few differences in perceptions that surfaced between female and male Japanese students, while quite a few differences surfaced between American males and females. It is interesting to note that no significant differences were exhibited between American and Japanese students (male or female) with respect to purchase intentions even though the American students tended to be more critical of their role portrayals. This is consistent with the findings of Lysonski and Pollay (1990) which indicated that even in cases of high levels of criticism, there tends to be a disinclination toward boycott activities.

While it is difficult to generalize from these findings, it is nonetheless interesting to speculate as to what is responsible for the lack of criticism exhibited by the Japanese respondents. Are Japanese advertisements truly less offensive? Do they exhibit fewer stereotypes? Or, perhaps stereotypes do exist, but they are not considered inappropriate or offensive by the Japanese. It is also possible that the Japanese respondents may not be as sensitive to stereotypes as are Americans. This is suggested by their higher level of disagreement with the statement "I'm more sensitive to the portrayal of women in advertising than I used to be" (item 10). Is it possible that Japanese ad depictions are more even-handed than ad depictions in the United States, just as Gilly (1988) found

Australian advertisements to be less stereotyped than American or Mexican ads? Do Japanese women merely accept their role depictions more readily? There is considerable additional research which is needed in this area.

These findings indicate that if the differences in perceptions between the Japanese and American consumers are due to differences in advertising style and content, then advertisers should take care to preserve the style and content currently in use in the Japanese marketplace. Through such cultural sensitivity, advertisers may be able to avoid encountering increased levels of criticism like those exhibited in the U.S. If, however, the lower level of criticism is a result of lower stereotype sensitivity, then advertisers may find that they have more freedom in their choice of role portrayals.

Limitations and Suggestions for Future Research

Due to the nature of the sample involved, generalizability is limited. A random sampling of American and Japanese consumers from a wide range of demographic categories would be appropriate. Future research should also include more extensive content analysis studies of Japanese advertising in order to determine the extent and variety of stereotypes in advertising. There may also be particular criticisms of specific product or service classes and companies; therefore, future research should attempt to focus on these variables.

TABLE 1
Cross Cultural Sex Role Portrayal
Research to Date by Country

Australia

Edgar and McPhee (1974) - Found women in ads were depicted as objects, sex objects or decoration.

Gilly (1988) - Found that women were not being depicted as helpless, dependent upon men, only in family settings, only as homemakers, or as only being associated with domestic, lowpriced products. Also found that women were not being used for ad voice overs, and they were being depicted too often as young.

Canada

Wyckham (1987) - Found that women were depicted as sex objects, decorative objects, helpless, and dependent upon men.

Denmark

Lysonski and Pollay (1990) - Found that business students were very critical of the disparity in sex role portrayals, but were not motivated to actually boycott products using sexist advertising.

England

Manstead and McCulloch (1981) - Found that women were depicted as helpless, dependent upon men, homemakers, non career oriented, only associated with domestic or low-priced products, and were usually depicted as silent, making no product argument.

Lyonski (1985) - Found that women were depicted as sex objects decoration for men, homemakers, non career-oriented, and concerned with physical attractiveness. Found also that the depictions of women as helpless and dependent upon men were actually decreasing.

Furnham and Schofield (1986) - Found that women were depicted as homemakers, non career-oriented, and in traditional settings.

Livingston and Green (1986) - Found that women were depicted as associated with only domestic, low-priced products, and were usually depicted as silent, making no product argument.

Michell and Taylor (1990) - Found a decrease in the depiction of women as sex objects or as decoration for men; however, they found no decrease in the depiction of women as homemakers, non career-oriented, and in traditional settings. Greece

Lyonski and Pollay (1990) - Found that business students were very critical of the disparity in sex role portrayals, but were not motivated to actually boycott products using sexist advertising.

Italy

Furnham and Voli (1989) - Found that women were depicted as helpless, dependent upon men, unintelligent, as homemakers, non career-oriented, in traditional settings, associated with domestic, low-priced products only, and little used in voice overs.

Mexico

Santa Cruz and Erazo (1990) - Found that women were depicted as sex objects, decoration for men, as homemakers, non careeroriented, in traditional settings.

Gilly (1988) - Found that women were depicted as helpless, dependent upon men, unintelligent as homemakers, non career-oriented, in traditional settings, with very few female voice overs, and only as young.

New Zealand

Ford et al (1992) - General perceptions of men and women were examined regarding sex role portrayals in advertisements. Found that men and women were both critical of role portrayals in advertisements.

Gendall and Blakeley (1990) - Found that women were not often used as product presenters, and when they were, it was for food and personal products. They also found unrealistic depictions with women over-represented in the better-paid, higher-status careers, while under-represented in homemaker settings and manual workers.

Lyonski and Pollay (1990) - Fund that business students were very critical of the disparity in sex role portrayals, but were not motivated to actually boycott products using sexist advertising.

Marquez (1975) - Found that women were depicted as helpless, dependent upon men, and as unintelligent.

Spain

Sebastian et. al. (1985) - Found that women were depicted as sex objects, decoration for men, helpless, unintelligent, dependent upon men, associated with only domestic, lowpriced products.

References availabe upon request.

COLLEGE STUDENTS' PERCEPTIONS OF PERSONAL SELLING: AN EMPIRICAL INVESTIGATION

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Abstract

College students' perceptions of sales as a career is a very important factor to the success of sales recruiting. Many negative perceptions concerning sales jobs have been in existence for some time. While these perceptions are becoming more positive, it must be remembered that much work has to be done in order to convince college students that sales is a desirable and respected profession. The findings of this study indicated that British students do not seem enthusiastic about entering sales as a career. This somewhat negative attitude reinforces past findings which indicated that American students consider sales to be a low-status job with little recognition. However, unlike previous studies that were done on American students, the British students in this study expressed more positive attitudes toward sales as a career.

Introduction

Recruiting college graduates for sales jobs has become a major concern for the global business world in recent years. This concern has become more important to U.S. Corporations due to the fact that perceptions of selling held by college students may have dramatic effects on the success or failure of sales recruitment programs (Dubinsky and O'Conner, 1983). Corporate recruiters often find it difficult to persuade students to interview for sales positions as well as accept job offers. This has resulted in corporations not being able to attract qualified graduates as they would like, and could be a contributing factor to the rising cost of training and retaining sales personnel (Weeks and Muehling, 1987).

Recruiting young and fresh college graduates with the high level of education for sales jobs may provide firms with a sales force capable of learning quickly. This may make it worthwhile for the high cost of training. However, this is definitely not an easy task. Results of many studies indicated that personal selling still has negative perceptions among college students and is not often held in high esteem (Ditz 1967, Ebey 1957, Jolson 1972, Paul and Worthing 1970, Staunton 1958, Thompson 1972). Although recently, the results of some studies have reported just a slight improvement in students' attitudes toward selling as a career (Bellenger et al. 1974, Dubinsky 1980, Fossum and Moore 1975, Lagace and Longfellow 1989).

College students in most cases, often lack a full understanding of the role of selling (Bellenger et al. 1974, Dubinsky 1980, Paul and Worthing 1970). Further, Weeks and Muehling (1987) stated that in general, sales occupations are held in low regard by the public and students in particular. This extends beyond being just a

problem for sales managers to being a problem for the entire business community. Unfortunately, sales professions still represent a major problem to the American society and its business community.

Literature Review

For many years, academic researchers have examined the issue of college students' perceptions of selling as a career. Kurtz (1972) examined student's attitudes toward sales recruiting practices. Further, a related purpose was to contrast student's opinions with those expressed by sales recruiters. The results revealed that although a majority of the students held generally favorable impressions of sales recruiters, significant opportunities exist for making the sales recruiting function more effective. For example, 30% of the students that participated in the study stated that they did not believe the industry was doing an effective job in regards to sales recruiting. More importantly 48%, which represent a significant plurality, did not believe that recruiters communicated all facts about the job to the respondents. Further, when students were asked to suggest possible improvements, ranked first was, "being more honest and specific with the students about the position." However, rank order comparisons showed that the students and recruiters disagreed about the criteria considered in the selection process and the reasons for considering a sales career.

Staunton (1958) stated that relatively few college students, even among those preparing for sales careers, have a realistic understanding of the nature of the selling job. Rather than considering selling as a career in itself, most students feel it is only a means to an end. Further, he reported that there is a need for better communication and cooperation between industry and the colleges turning out future salespeople.

Bellenger et al. (1974) investigated business student's attitudes towards selling as a career. The results of this study indicated that student's attitudes toward selling as a career were more positive than had been expected. It was concluded that introductory and advanced students perceive selling as an occupation in which is similar to computer system selling as opposed to appliance selling. This indicates that students can see beyond the stereotype of the traveling salesman. However, while students attitudes were better than expected, selling as a career is still perceived much lower than other professional type positions.

Miller et al. (1976) measured the degree of associations between attitudes toward selling as a career and achieved status. They utilized a Likert attitude scale and the North-Hatt (National Opinion Research Center) scale of relative

occupational prestige in this study. A questionnaire was developed which included questions in regards to the ten factors most frequently mentioned by participants in the 1962 Sales Management survey. These factors were: social purpose, prestige, recognition, security, aggressiveness, income stability, long-term satisfaction, morality, psychological maladjustment, and working conditions. The findings of this study revealed that status may be an important factor to many students who reject selling as a career but irrelevant to those who look upon it favorably. It was concluded that "perhaps an awareness of achieved status is not keen among college students." However, if students generally value status and are aware of it, the implication of this study is that the salespeople stereotype is a fallacy. In other words, students of all social classes view selling with respect to someone from their own frame of reference in mind, such as a friend of the family or someone frequently mentioned by the parents. In general, these studies did not relate student's perceptions of the sales job to their important job characteristics. However, Dubinsky (1980) examined student's perceptions of sales jobs from a new dimension. He utilized twenty four job characteristics to examine the differences between male and female student's desired job characteristics and between their perceptions of sales jobs. The findings of this study indicated that the majority of the respondents, more than 85%, consider the opportunity for advancement and good remuneration to be important in their job selection. More than 75% of the students indicated that excellent fringe benefits and job security are important job characteristics. Interestingly, 80% of the students reported that a sales job is challenging, provides a feeling of accomplishment, provides interaction with different people, and furnishes an opportunity to travel and to use one's creativity. These are somewhat encouraging findings to sales recruiters. In regards to the differences between male and female students, the results revealed relatively few differences. Male students however, are slightly more favorably disposed towards a sales job than are female students.

Dubinsky (1981) compared college student's perceptions of sales jobs with industrial salespeople. The sample consisted of 219 day school students enrolled in introductory courses at a large, public university. The salespeople were selected from the membership roster of a local chapter of the Sales and Marketing Executive Club. The result of this study indicated that students have misconceptions about sales jobs when compared with the industrial salespeople. Student's misconceptions were both favorable and unfavorable toward selling. That is, in relation to industrial salespeople, students believe a sales job is less likely to possess certain positive features. Students perceived to a lesser degree in comparison with industrial salespeople that a sales job: offers the opportunity to work for a company with a good reputation, performs a variety of tasks, makes a contribution to society, has professionalism, has much status, has job security, is complex, is non-routine in nature, and does not require frequent relocation. However, students believe to a greater degree than industrial salespeople that a sales job provides interaction with different people and the opportunity to travel. Due to these differences in

perception between students and industrial salespeople on the above characteristics, students may have misconceptions about a sales job possessing these features. It was concluded that if companies hope to attract a large pool of college graduates to fill sales positions, they must address the negativism and misconceptions students have about sales jobs. Dubinsky and O'Conner (1983) examined college student's preferences about different kinds of sales positions. The sample consisted of 203 students enrolled in introductory marketing courses at a large state university in a major metropolitan area. Data was collected in regards to seven different kinds of sales jobs including: route, retail, trade, missionary, sales engineer, product, and service selling. The McMurry (1961) sales job taxonomy was utilized due to its representation of a broad spectrum of sales jobs, duties, and responsibilities. It was found that introductory marketing students do not perceive all sales jobs as being the same. Further, the respondents of this study are not negatively disposed toward all sales positions. In regards to the seven kinds of sales jobs: students strongly preferred sales engineer and service jobs, moderately preferred missionary and product sales positions, and disliked retail, trade, and route sales jobs. Further, a substantial number of students apparently prefer sales positions that are rewarding and entail a soft sell approach.

Weeks and Muehling (1987) investigated student's perceptions of personal selling by the utilization of a word association approach to determine the very first thoughts that come to mind when exposed to the words "personal selling". The sample consisted of 300 students enrolled in introduction to marketing courses. The majority of the students were business majors (75%). The use of business and non-business majors was justified by the fact that corporate recruiters hire both majors and also the results of previous studies (Bellenger et al. 1974, and Dubinsky 1980). The results of this study indicated that students first-thoughts are slightly more negative than positive in their perception of selling: 41% of first-thoughts were negative, 39% were positive, and 20% were neutral. It was concluded that college students of the 1980's, much like students of previous generations, often hold a stereotypical view of personal selling. In addition, first-thoughts (29%) associated selling in a negative fashion with door-to-door activities, or with less than desirable personal traits, such as being pushy, or out of style.

Lagaca and Longfellow (1989) examined students attitudes toward sales careers. More specifically, they emphasized four issues: are students' opinions regarding sales careers improving? does class style make any difference? can class style change attitudes? and do gender differences in attitudes exist? The results of this study revealed that students' opinions of personal selling are becoming more positive. Of special interest to personal selling recruiters would be the positive opinion the students had toward the status and prestige of sales personnel, job security, and the preference for a sales position over a non-sales position. In regards to course curriculum style, it was found that the course curriculum does influence the students' opinions concerning personal selling. Further, the results indicated

that a participative style personal selling course is effective in changing students' attitudes toward sales positions (more change to positive attitudes). In addition, the results of this study indicated that gender difference in attitudes do not exist. It was concluded that the findings of this study should alleviate some concerns and problems of corporate sales recruiters due to the positive changing in the students' attitudes towards sales career.

Purpose and Objectives

The purpose of this study was to investigate British students' perceptions of sales jobs as a career. Further, the study examined how sex (male vs. female) influenced the students' perceptions of personal selling as a potential profession. A comparison of the findings of this study and the results of previous American Literature will be addressed.

Based upon previous literature and to accomplish the purpose of the study, the following research objectives were developed:

Objective Number One: to examine undergraduate British students' perceptions in regards to seeking sales jobs as a career.

Objective Number Two: to determine the rank order of the examined selling jobs occupational values among British students.

Objective Number Three: to examine the effect of the sex factor on the undergraduate British students' perceptions of sales jobs as a career.

Research Method and Design

A descriptive approach was utilized to conduct this survey. The survey instrument was developed primarily based on the previous work of Ondrack (1973), Bellenger et al (1974), and Burton (1976). The survey instrument was self-administered questionnaires composed of two sections. The first section consisted of 21 occupational value statements to measure the first and the second research objectives. A five point scale was utilized as a measurement tool for this section. This scale ranges from one (representing strongly disagree) to five (representing strongly agree). The second section consisted of demographic characteristics of the individual respondents.

The respondents represented undergraduate students enrolled in senior business classes in a small to medium sized university, located in a rural area in Great Britain. Questionnaires were distributed in all senior business classes and students were asked to return them to a central location. There were 126 usable questionnaires that were utilized in the final analysis of this study.

Section I: The break down of the demographic characteristics of the sample respondents was as follows:

- a) AGE:
 - 112 (89%) respondents were 18-24 years of age;
 - 12 (9%) were 25-34 years of age;
 - and (2%) were 35-44 years of age.
- b) SEX:
 - 55 (44%) respondents were male and
 - 77 (56%) were female.
- c) MARITAL STATUS:
 - 122 (97%) were single;
 - 3 (2%) respondents were married; and
 - 1 (1%) respondent was divorced.
- d) ANNUAL INCOME: (In English Pound)
 - 113 (89%) had between 0.00 and 4,999;
 - 9 (7%) had between 5,000 and 9,999;
 - 1 (1%) had between 10,000 and 14,999;
 - 1 (1%) had between 15,000 and 19,999;
 - 2 (2%) of them had between 25,000 and over.
- e) EMPLOYMENT STATUS:
 - 3 (2%) of the respondents worked full time, and
 - 123 (98%) were full time students.

Results and Discussions

Section II: Descriptive analysis was utilized for this section. Twenty-one occupational value statements were utilized to measure students perceptions of sales jobs as a career. Table One represents the results of the first and the second research objectives.

The respondents' of this study revealed some interesting findings in regards to college student's perceptions of sales jobs as a career. Perceiving this job as the one which attracts people who are persistent received the highest ranking among the respondents (ranking was determined according to the mean score of each statement). It is important to mention that the students were not told that their perceptions to the statements would be rated. The students expressed to some extent, positive attitudes toward the examined statement (mean = 3.88, higher mean represents a more positive perception). The findings indicated that 27% of the respondents strongly agreed and 58% agreed with the statement. The respondents may have felt that selling jobs require a strong effort and the ability to handle rejections. In effect, selling jobs will definitely fit individuals who are persistent.

The students responded in a positive manner to the statement that sales jobs attract people who are friendly (mean = 3.70). The results indicated that 15% of the respondents strongly agreed and 52% agreed with the statement. This finding may be justifiable due to the notion that the nature of selling jobs require dealing with different kinds of people, and being polite to all clients. In addition, the respondents' reaction towards the notion that salespeople are professional was considered positive (mean = 3.67). The results indicated that 12% of the respondents strongly agreed and 57% agreed with the statement. This finding may be justified as respondents may have felt that sales jobs require individuals who possess professional characteristics (dress, intelligence, manners, etc...).

In regard to perceiving sales jobs as well paying jobs, the respondents expressed a positive reaction (mean = 3.65). The findings indicated that 5% of the respondents strongly agreed and 62% agreed with the statement. The respondents may have felt that selling jobs involve high incomes due to the rising trend of the utilization of the compensation plan (salaries plus bonus). Further, the participants' feelings, concerning the idea that salespeople are understandable, was moderately positively (mean = 3.38). The findings indicated that 9% of the respondents strongly agreed and 39% agreed with the statement. This finding may be justified as the students may have felt as if salespeople are compassionate and flexible. The respondents' reaction toward the statement that sales jobs attract people who are exciting is slightly positive (mean = 3.33). The findings indicated that 6% of the respondents strongly agreed and 42% agreed with the statement. The respondents may have felt that salespeople are adventurous individuals. Further, the statement concerning salespeople who are responsible is leaning toward a positive reaction (mean = 3.27). The findings indicate that 38% of the respondents strongly agreed and 32% agreed with the statement. The respondents may have felt that salespeople tend to be dependable and competent.

Sales jobs as attracting people who are youthful was considered to be somewhat positive by the respondents (mean = 3.25). The findings indicate that 5% of the respondents strongly agreed and 40% agreed with the statement. This finding may be justified as the students believe much energy is needed in sales. In addition, the participants expressed that they were moderately positive (mean = 3.12) concerning the idea that salesmen are super achievers. The results indicated that 4% of the respondents strongly agreed and 29% agreed with the statement. This reaction is believed to be caused by the respondents feelings that salespeople are ambitious and dedicated.

The respondents also indicated that they felt somewhat positive about the notion that sales jobs attract people who are courteous (mean = 3.10). The findings indicated that 7% of the respondents strongly agreed and 30% agreed with the statement. The respondents may have felt as if salespeople are well mannered and polite. Further, the participants' feelings concerning sales jobs as attracting people who are secure was slightly positive (mean = 3.04). The findings indicated that 4% of the respondents strongly agreed and 33% agreed with the statement. This finding can be justified as the students may have felt as if salespeople are stable and assured.

The participants indicated that their perceptions were somewhat negative on the idea that sales jobs benefitted society (mean = 2.89). The results indicated that 57% of the respondents neither agreed nor disagreed and 25% agreed with the statement. The student's beliefs may have been that salespeople are interested in profits only and not concerned with the well being of their community. In addition, sales jobs as attracting people who are masculine was considered to be somewhat negative by the respondents (mean = 2.75). The findings indicated that 38% of the

respondents neither agreed nor disagreed and 32% disagreed with the statement. Sales is considered to be a white collar job and this perception is well known by society.

Interestingly, the respondents reaction was moderately negative toward the notion that sales jobs attract people who are educated (mean = 2.73). The results indicated that 39% of the respondents neither agreed nor disagreed and 38% agreed with the statement. This reaction is believed to be caused by the respondents feelings that salespeople come from various backgrounds with differing characteristics. In addition, the respondents' reaction toward the idea that sales jobs attract people who are "like me" was somewhat negative (mean = 2.70). The findings indicated that 40% of the respondents neither agreed nor disagreed and 32% disagreed with the statement. Students may have indicated that they do not desire to enter sales as a career. This idea of sales as being undesirable has been with students for years.

The participants in this study seemed to consider the notion of sales jobs as attracting people who are relaxed as leaning toward negative (mean = 2.63). The results indicated that 25% of the respondents neither agreed nor disagreed and 50% disagreed with the statement. This reaction is believed to be caused by the respondents feelings that salespeople are intense sellers and outgoing. In addition, high status was considered to be moderately negative by the respondents (mean = 2.50), 36% of the respondents neither agreed nor disagreed and 48% disagreed with the statement. This finding may result from the negative stereotype perception of this profession.

In regards to perceiving sales jobs as not requiring weekend work, all the time, the respondents expressed a negative reaction (mean = 2.32). The findings indicated that 46% of the respondents disagreed and 20% strongly disagreed with the statement. The students felt that this type of job definitely will require a sufficient amount of weekend work. Further, sales jobs as attracting people who are upper class was considered to be negative by the participants (mean = 2.23), 55% of the respondents disagreed and 16% strongly disagreed with the statement. The respondents felt that upper class people will not seek sales jobs due to the negative public perception both of the sales profession and the limited opportunity of advancement. The students also rated the notion that sales jobs take a minimum amount of time each week as negative (mean = 2.03). The results indicated that 58% of the respondents disagreed and 23% strongly disagreed with the statement. Students feel that sales as a career requires much work.

Finally, the students expressed that their perceptions were negative concerning the idea that sales jobs require little traveling (mean = 1.81). The findings indicate that 51% of the respondents disagreed and 38% strongly disagreed with the statement. The students believe that sales requires much traveling when doing work as a salesperson.

In regards to the effect of the sex factor on the undergraduate British student's perceptions of sales jobs as a career, the findings of this study were surprising. In general, based on the mean score, the results revealed that in most cases, there were no major differences between male and female attitudes towards sales positions.

A two-way analysis test was conducted and only two statements out of the 21 occupational value statements examined were significant. The statements on whether students perceived salesmen as professionals were significant at the (0.05) level and if sales jobs attracted people who are persistent was significant at the (0.10) level. The findings of this study conflict with the previous findings. Dubinsky (1980) stated that male's overall perceptions of sales as a career tend to be more favorable than females. However, the British students expressed almost identical perceptions of sales as a career.

The sex factor played little to no role in the individuals' reaction toward sales jobs as a career. Unlike previous findings, in that Americans had different attitudes concerning sales jobs, the British had no differences.

Overall, this study demonstrated that the British students reacted somewhat positive to several statements, but in general, still remain slightly negative towards choosing sales as a career.

Recommendations For Future Research

Improving college students' attitudes toward sales jobs is far from over. Future research is a must in order for sales recruiters and academics to alleviate the existing misconceptions of sales as a career and as a profession. One study may use a broader-based sample than was used in this study with the comparison between business and non-business majors. A comparison study between the perceptions of undergraduate and graduate business students may also be useful. Other studies should examine how students in more developed nations view sales jobs and compare the results with students in Great Britain. Further, research should continue examining the perceptions of existing salespeople and compare it with college students as potential sales personnel. In addition, student's attitudes toward different kinds of sales jobs, as was determined by McMurry (1961) and was examined by Dubinsky and O'Connor (1983), should be re-investigated to determine if students' attitudes toward specific sales jobs has been changed over time. Finally, a study of the public perception of sales as a profession may provide some direction, for both sales recruiters and academics, to correct some of the stereotype concepts that exist among the public in general in regards to salespeople and its profession.

Conclusion and Discussion

Recruiting college graduates for sales positions still represents a major concern for the Global business world. This concern has become more crucial to developed nations in general and to U.S. corporations in recent years. Specifically, U.S. corporations are concerned that perceptions of personal selling held by college students may have a dramatic effect on the success or failure of sales recruitment programs. Corporate recruiters often find it difficult to persuade college students to interview for sales positions as well as accept job offers. This is a result of students' negative perceptions towards personal selling as a career.

The results of previous American literature indicated that college students' perceptions of personal selling were on the negative side. However, the findings of some recent studies have reported a slight improvement in student's attitudes towards personal selling as a career. This improvement is not enough to be considered as a major accomplishment to change students' negativism toward accepting personal selling as a career. Efforts should be continued, by both academic institutions and corporations in order to make college students more attracted to sales jobs and selling as a profession more respectable and desirable.

The findings of this study indicated that British students do not seem enthusiastic about entering sales as a career. This somewhat negative attitude reinforces past findings in that American students consider sales to be a low-status job with little recognition. Interestingly, the students felt education had very little to do with choosing sales as a career. Again, this reinforces previous findings. However, unlike previous studies that were done on Americans, the British students in this study expressed more positive attitudes concerning sales as a career.

Salesmen as being perceived as professionals, was indicated by the students as being true. This statement, along with the belief that sales jobs pay well are two reasons why the perception of sales jobs are changing. This differs from previous studies, as the American students rated both statements as neutral to slightly negative (Bellenger et al 1974).

Tables and References available upon request.

AN EMPIRICAL INVESTIGATION OF ADVERTISING AGENCY - CLIENT RELATIONSHIP
IN AN ADVANCED DEVELOPING COUNTRY

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Abstract

Parallel to the rapid developments taking place in manufacturing sector, the advertising industry is also experiencing a stage of rapid development in most of the advanced developing countries, as evidenced by the increased number of advertising agencies and total billings. This paper examines present structured characteristics of Turkish advertising agencies and critically compares the role and functions of the advertising agency and client relationships in that country.

Introduction

During the last decade, there have been substantial changes and developments in the global advertising industry. A number of factors have contributed to this rapid change. Among all, increased advertising agency consolidations and concentration, the growth of satellite television, increased sovereignty of global consumers and recent changes in Eastern Europe and former Soviet Union and the anticipated full unification of West European countries at the end of 1992 as well as increased impact of communication technology all had profound effects on the global advertising industry (Higgins and Ryans 1991). Indications are that these changes and transformations will continue at a faster rate in the 1990s.

Global advertising approach assumes that modern advertisements which work well in one area/country will work equally well in another area/country. However, few truly world brands exist, and these may not be advertised in the same fashion everywhere. Global advertising agencies often place more importance on cost-efficiency and simplicity than on local needs and responsiveness. Globalization can create niches in which more responsive, local agencies can work. These can create certain advantages which do exist for the small to medium-sized advertising agency. Globalization makes it difficult for advertising agencies to subscribe to the idea that good advertising requires a detailed understanding of particular market and social issues (Anonymous 1988).

Parallel to these recent developments, institutions such as European satellite television seem to be forcing changes in the traditional advertising agency-client relationships (Howard and Ryans 1988/89). As a result of this, the 1990's will be different in several respects. The Anglo-U.S. hegemony that has ruled advertising since it was invented may be seeing serious competition from European rivals. There is currently room for an unprecedented variety of advertising agencies - large and small, local,

regional, and global (Caulkin 1990). For instance, as the number of major advertising agencies has been reduced through mergers and acquisitions, agencies are more and more finding themselves faced with having multiple clients in a given industry and having to choose among long-held clients. In France, for instance, advertising agencies are responding to the maturing of their domestic markets by looking abroad for market growth opportunities (Seaman 1991). This is the current state of the global advertising industry both in developed and developing countries of the world.

In recent years, there has been a strong resistance by international advertising clients to the global campaign before quality or market effectiveness are considered. When properly undertaken, the global advertising campaign requires a good deal of effort and creative time, with the costs often being much greater than the sum total of creating many individual market advertising campaigns. If a worldwide uniform brand image is important to a company, it should do the following: a) select one advertising agency worldwide with a worldwide account coordinator reporting to client headquarters, b) establish multinational client-agency group planning meetings, c) conduct or supervise consumer research and advertising pretesting from brand headquarters, d) have a global campaign elastic enough to be effectively transliterated into the lifestyles and cultures of intended audiences (Peebles 1989).

Dramatic increases in international advertising spending are leading major U.S. agencies to re-organize in order to get better management, more services and better profits from their overseas operations. To this end, much of their attention is focused on Europe, where the removal of panregional marketing barriers by the end of 1992 is creating account consolidation and market expansion (Levin 1989).

In recent years, in an effort to keep home country biases out of their advertising/promotion strategy and implementation decisions, many international firms have made use of local advertising agencies. These local agencies, in most cases, offer a wide range of marketing services including market research, concept testing, demand forecasting, purchase of radio time and press space, production of artwork and neon signs, billboards, direct mail and personal selling (Kaynak 1989). This has also been the case in the U.S.A. A recent survey indicated that U.S. firms use a foreign advertising agency more than they use an American advertising agency with overseas branches. They are also responding to the maturing of their domestic markets by looking abroad for market growth opportunities (Seaman 1991).

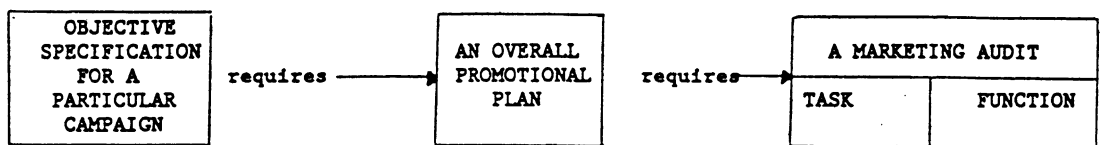
Many factors enter into the selection of an advertising agency. For instance, the advertising agency should know something about the firm's products and services, and how, when and where they are used, the industries in which they are used, the services required, and the budget and the organizational setup of the firm for marketing. Evaluation of the specific agency should revolve around the following factors: 1) its organization, 2) a methodology for handling clients, 3) marketing thinking within the account team, 4) sensitivity to cultural differences, 5) creative skills in marketing, and 6) adequacy of presentations (Roth 1978). To be able to perform advertising tasks properly, advertising agencies need to prepare plans and programs that include clear-cut objectives. The ability to specify realistic objectives for a particular advertising campaign requires the preparation of an overall advertising plan. This plan necessitates an assessment of the firm's task system as well as an analysis of the existing marketing programs and procedures (Dart and Pendleton 1984, p. 40). Advertising agency planning procedure is shown in Figure 1.

introduction of free market economy principles. In 1982, total advertising expenditures was \$100 million, and this increased to \$300 million in 1990. This amount represented 0.36% of the Turkish GNP in that particular year. In practice, total advertising expenditure as a percentage of GNP expresses the importance of the resources devoted to advertising out of the total economic activity of a country, rather than having any intrinsic meaning.

Companies which manufacture goods for sale in a developing country, such as Turkey, have naturally made use of advertising techniques which have originated elsewhere. In practice, the techniques of advertising have been applied by multinational companies in environments different from those in which they were initially developed. In a developing economy, such as Turkey's, the consumer is likely to be more affected by individual brand promotions, whether these are in the form of advertising, personal selling or point-of-purchase display, than will his or her counterpart in a wealthier society such as that of U.S.

FIGURE 1

Advertising Agency Planning Procedure



Written Document Outlining

- | | | | |
|--------------------------------------|---|---------------|------------------------------------|
| 1. Target Market | 1. Company Goals | 1. Situation | 1. Market |
| 2. Creative Strategy | 2. Product/Market Scope | 2. Objectives | 2. Competition |
| 3. Performance Criteria (quantified) | 3. Identification of Market Segments | 3. Strategies | 3. Potential and Current Customers |
| 4. Measurement | 4. Identification of Target Market Segments | 4. Tactics | 4. Product/Service |
| 5. Time and Budget Constraints | 5. Specification of Proposed Marketing Program/Target Segment | 5. Control | 5. Pricing |
| | 6. Specification of Action Plans | | 6. Distribution |
| | 7. Performance Review Process | | 7. Communication |

Source: Jack Dart and Lorne L. Pendleton, "The Role of Advertising Agencies in Entrepreneurial Education," *Journal of Small Business Management*, Vol. 22, No. 2, April 1984, p. 41.

Advertising Practices In A Developing Economy

As practiced in Turkey today, advertising is in a stage of rapid development, evidenced by the increased number of agencies and total billings during the last ten years along with the

Study Methodology

The purpose of this study is to investigate the satisfaction level of advertiser-advertising agency relationship in an advanced developing economy, Turkey. To achieve the objective of

this research, the complete list of advertising agency firms was obtained from the Bilesim Market Research Company's 1990 Media Expenditures Report. This report included the names and cumulative media expenditures of the Turkish advertising agency firms for 1990. The survey sample was made up of 194 firms which spent a minimum of 1 billion Turkish Lira through different media in that year.

Individuals who were responsible for advertising activities of the firms were the data source for the study. The self-administered questionnaire was used as the instrument to collect the data. The questionnaire was divided into three parts. In part I, managers were asked to rate their satisfaction level along twenty attributes on a scale of 1 ("Not Satisfactory at All") to 5 ("Very Satisfactory"). Respondents were also provided with a "No opinion" option. The list of attributes was culled from Verbeke's (1988-89) study and it was pretested to ensure comprehension and clarity in Turkish language and also in Turkish advertising environment. In addition to twenty attributes, respondents were asked to rate their overall satisfaction level with their present advertising agency. In the second and third part of the questionnaire, respondents were asked about the name and industry category of the firm for which they worked, their demographic background, and their current position in the company along with years of relations with the present advertising agency.

To obtain a high response rate from the respondents, a carefully worded cover letter assuring confidentiality was sent with each questionnaire. It was requested that the recipient in the main office of the firm pass all correspondence on to the manager responsible for advertising activities in case he or she was not the one.

The data collection process spanned the Spring of 1991. From a total of 194 questionnaires mailed, after one follow-up process, 93 usable responses were received representing a 47.9% response rate. Two of the questionnaires could not be used because they were incomplete. Some of the sampled firms sent more than one questionnaire back because of their relation with more than one advertising agency. In these cases, these multiple questionnaires were discarded from further analysis.

Advertising Agency-Client Relationship In Turkey

Generally, advertising agencies use three different methods of obtaining advertising jobs. These are: 1) the advertising agency finds the client; 2) the client comes to an advertising agency; 3) subcontracting. However, there are differences in the utilization and in the mix of these three methods in different countries. For instance in Turkey, advertising agencies small or gigantic turn over wise directly purchase the TV airing time they need for their operations. This practice is applicable to both the state owned TRT (Turkish Radio and Television) and private channels. It is a customary practice that all TV

channels give 15% agency discounts. Advertising agencies are free to reflect this 15% agency discount to their clients or to keep it for themselves. This will depend on the individual agreement reached between each advertising agency and its individual client. Therefore, it is not uncommon to some across different applications even within the same advertising agency.

Before private TV channels started broadcasting in Turkey, TRT's commercial belts were very much in demand, as TRT was the only TV medium in Turkey. The demand for TV airing time exceeded the allocated time for commercial slots. Therefore, TRT had a draw each year before the Notary Public after all of the applications were turned in. However, TRT does not have draws anymore, as the demand for TRT's commercial airing time dropped considerably over the last two years or so. Of course, advertising agencies perform other services for which they charge on a cost-plus-fee basis (Kaynak 1989).

It is found that the company managers in banking, insurance, consumer durable products, computers and automobiles thought more highly about the quality of the media planning department of their advertising agencies than the companies in health, grocery, cosmetics and petrochemical products. The reason for this maybe attributable to the fact that the former group of products require larger investments, they are high-involvement products, and consumers of these products experience higher level of risk in purchasing them. As manufacturers of these products, in most cases, differentiate their product offerings very carefully, they need to plan their marketing and advertising strategies more highly compared to the latter group of companies. This is also true about the quality of advertising research done by their advertising agencies, as they would need better data and information from the marketplace to develop more appropriate marketing strategies and programs. Companies in durable products, computers, automobiles and petro-chemical products are more satisfied about their advertising agencies than the companies in health, grocery, cosmetic, bank and insurance about "agency makes the deadline," "clarity of assignments," and "good personal relationship with the account people."

It is statistically significant that companies which spent \$7 million or less are more satisfied about "the quality of public relation campaigns," and "agency has low turnover." On the other hand, companies which spent more than \$7 million are more satisfied about their agencies with "agency makes the deadlines," "the quality of creative work," "easy to get in touch with the people of agency," "good personal relationship with the account people," and "overall satisfaction level." It can be concluded that companies spending higher amounts of money on advertising expect higher levels and more varied services from their advertising agencies than their counterparts who spend lesser amounts. There is also some indication that a relationship exists between amount of money spent on advertising through an advertising agency and the diversity and differentiation of the promotional and

advertising mix expected from their advertising agencies.

Companies which did business with advertising agencies six or more years evaluated their agencies more favorably about the following attributes than the companies which had shorter span experience with their advertising agencies: "agency makes the deadlines," "agency operates within agreed upon strategy," "quality of creative work," "agency personnel is experienced," and "overall satisfaction level with the agency." Advertising agency client relationships do change over time. As the two sides work together for a longer period, the personal relationships become very important. Hence those agencies who had a longer period of relationships with their clients evaluated the performance of their advertising agencies in a more favorable manner than their counterparts who had a shorter period of relationships.

It is also found that the effect of the position of the respondents in the company in their evaluation of their advertising agency. Sales and advertising managers are more satisfied with "quality of public relations campaigns" than the president/or the vice president of the company. On the other hand, president/or vice president thought more highly of the advertising agency than the sales and advertisement managers about the following attributes: "agency meetings are productive and efficient," "agency shows strong leadership," "agency personnel experienced," and "good personal relationship with the creative people."

People with graduate or higher education level attainment are more satisfied with their agencies than the people with lower educational levels about "agency operating within agreed-upon strategy," "easy to get in touch with the people of agency," and "overall satisfaction level with the agency." People with undergraduate university and lesser educational levels thought more favorably about "quality public relation campaigns" and "agency shows strong leadership" than the people with higher educational levels.

The set of attributes which are considered by company personnel were factor analyzed for the purpose of finding the factors defining companies' selection criteria of their advertising agencies. The purpose of this analysis was to discover how the 20 variables correlated, thereby determining the underlying dimensions affecting agency-client relationships in an advanced developing economy. Factor analysis can help to identify the dimensions of advertising agency selection criteria. The resultant Varimax rotation factors were evaluated. The analysis produced five factors which explained 73.5% of the total variance. Only those factors with an eigen value greater than 1.00 were retained, and only those variables achieving factor loadings of 0.49 and over were used to interpret the factors.

The first factor delineates a cluster of relationship among opinion about "quality of media planning (.711)," "agency operates within agreed-upon strategy (.665)," "quick reactions of

advertising agency to changes in the environment (.742)," "agency provides full range of services (.803)," "agency meetings are productive and efficient (.545)," and "agency shows strong leadership (6.79)." This factor accounts for 33.58% of the total variance and may be labeled as efficiency and adaptation factor.

The second factor consists of "easy to get in touch with the people of agency (.681)," "the agency charges fairly (.785)," "good personal relationship with account people (.623)," and "agency stays within the budget limitations (.658)" which accounts 19.11% of the total variance. This factor may be labeled as friendliness factor.

The third factor delineates a cluster of relationship among "quality of public relation campaigns (.723)," "quality of advertising research (.765)," and "the quality of marketing research (.858)." This factor accounts for 7.71% of the total variance and may be labeled as research capability factor.

The fourth factor accounts for 6.95% of the total variance and consists of "quality of creative work (.658)" and "good personal relationship with the creative people (.796)." This factor may be labeled as creativity factor.

The fifth factor delineates a cluster relationship among "assignment of responsibilities is clear (.662)" and "agency has low turnover (.833)." This factor explains 6.06% of the total variance and may be identified as responsibility factor.

A further analysis was conducted by using regression analysis. The regression line was fitted by the method of least squares to find the underlying relationship between these 5 factors and overall evaluation of advertising agency. Total variation explained by regression line in overall evaluation of advertising agency was $R^2 = .84$. The corresponding F value was 185 (significant at $p \leq .00$). All factor coefficients in the model were also statistically significant at $p \leq .001$. The factor with the highest beta value is the efficiency and adaptation capability of advertising agency factor which consists of the following attributes: "quality of media planning," "agency operates within agreed upon strategy," "advertising agency reacts quickly to changes in the environment," "agency provides full range of services," "agency meetings are productive and efficient," and "agency shows strong leadership." The second most important factor was the friendliness factor. The research capability, creativity and agency responsibility factors were important in that order.

Conclusions

This empirical study indicates that certain identifiable factors may account for differences in advertising agency-client relationships in an advanced developing country such as Turkey. Study findings indicated that there were differences in terms of certain advertising functions

performed and the attitude of company managers in the four different industries studied to the practice of advertising. The differences may be accounted by the different state of industry, its competitive situation as well as the structural characteristics of the companies operating therein.

It is the finding of this study that the personal relationship between the advertising agency and its client is very important in a developing economy such as Turkey's. This result is contrary to the findings of Verbeke (1988-89), in which he concluded that in the Netherlands, personal relationships between the two parties did not play a crucial role. This finding indicates to us that in advertising agency-client relationships in a high context culture as that of Turkey, personal relationships are more important compared to a low-context culture of the Netherlands.

It is also discovered that at different levels of relationship between advertising agency and its client, various factors may be at play. Clients evaluate the performance of their advertising agencies very differently depending upon the duration of their relationship with them as well as the structural characteristics of the companies.

This empirical study looked at the advertising agency client relationship in one country at one point in time. Additional studies are needed to analyze the relationship in more than one country (developed versus developing) over a period of time. Besides studies of private firms, investigations of agency selection behavior of state economic enterprises and government departments in multiple environments may shed additional light onto this very important but neglected area of promotion.

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THE USE OF FEAR APPEALS IN GREEK MAGAZINE ADVERTISEMENTS

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ABSTRACT

This paper examines fear appeals in Greek magazine advertisements. A total number of 3,262 advertisements were selected from a sample of 14 magazines representing various genre. Advertisements were content analyzed, on the basis of fear appeal categories and consequences. The findings indicate that advertisements use the fear appeal in 16.46 percent of the total number examined. Positive fear appeals and social consequence theme show the highest frequency of appearance with 91.06 and 79.83 percent respectively. There is also a variance in the use of various types of fear appeals, according to magazine classifications and product categories.

INTRODUCTION

The subject of fear appeals has been analyzed extensively over the past three decades in the U.S.A. (LaTour and Zahra, 1989) although considerable time elapsed before marketing utilized the research findings from the behavioral studies (Janis and Feshbach 1953, 1954; Janis and Milholland 1954; Berkovitz and Cottingham 1960; Leventhal and Perloe 1962; Insko et al. 1965; Leventhal 1965, Chu, 1966; Higbee 1969). Ray and Wilkie, in the first paper published by a marketing journal in 1970, noted that over ninety studies have been reported in Psychological Abstracts since the research by Janis and Feshbach (1953) was published.

All these studies provided perspective which helped marketers make advertising decisions, and at the same time offered the impetus for marketing scholars to undertake new directions of research related to the subject. One difficulty with fear appeals research is the lack of a common vocabulary and conceptual structure across disciplines. An accurate measure of fear is rarely employed by researchers and more important, there is uncertainty in many cases over whether the emotion used in the studies was fear or some other anxious state (Higbee 1969; Ray and Wilkie 1970; Burnett and Oliver, 1979). Another source of difficulty is measuring the degree of fear in the message. For example in the experimental study by Janis and Feshbach (1953), the strong appeal message contained 71 references to unfavorable consequences presented in a threatening personalized, "this-can-happen-to-you" manner, and the mild appeal message contained 18 references to unfavorable consequences, presented factually and impersonally.

Because of the inherent difficulties common to fear appeal research, any attempt to define fear appeals has received criticism for being vague, and having weaknesses on different levels. Ghinghold (1980) defined fear as an a priori emotional response, to an action or sets of actions. Spence and Moinpour's (1972) definition on fear appeals suggests that: "Communications using fear appeals are designed to stimulate anxiety by adopting, continuing, discontinuing or avoiding a specified action." Latour and Zahra (1989) support, that marketers often rely on fear appeals to stimulate interest in products or services. In its simplest form, the process consists of three steps. The first involves the creation of a fearful situation designed to activate a person's sense of risk and vulnerability. In the second phase of employing the fear appeal, the danger is depicted to be serious enough to warrant attention. In the third phase a solution is provided as a means of fear reduction.

Moreover the effectiveness of fear appeals is also subject to debate. There has been considerable interest of fear appeals in marketing communications because of its presumed impact on purchase behavior. Stuiteville (1970) suggested that such appeals can be used most effectively in the following situations: 1) The feared condition is avoided through use of the sponsor's product, 2) There is no psychological investment in not using the product, 3) What is feared is damage to the social image of the self rather than to the physical self.

The third situation has received less research attention, even though advertising which suggests a threat to one's social image or self-concept is more common than that which raises the possibility of physical harm. Ray and Wilkie (1970) and Burnett and Wilkes (1980) related the effectiveness of these appeals to vulnerability of different market segments. Kotler (1988) appears to support their contention, emphasizing that buyers have different tolerances for fear. An effective segmentation strategy is predicated on the assumption, however, that fear levels can be matched to specific homogeneous customer groups.

The studies on fear appeals in advertising have used American advertisements. No study could be found which focused on ads in other countries. As a result, we do not know the extent to which such appeals are used in other countries. Greece was selected as a country of investigation.

THE GREEK SITUATION

Advertising in Greece has become an important vehicle to reach consumers economically. Advertising is one of the fastest growing industries. It is estimated that during the last ten years advertising expenditures grew at a rate of 35.3 percent annually. In 1992 the total measured media expenditure reached the amount of \$830 millions (1\$ = 200 drs, year average value), an increase of 52.0 percent compared to the previous year. The figures are estimated in current prices. Advertising expenditures reached .79 percent of G.N.P. in 1990 as it is compared with the .31 percent of G.N.P. in 1981 (Media Services, 1993). With reference to the quality of Greek advertising there has been a definite advancement during the recent years in terms of creativity, as well in terms of better production. (Theophilopoulos, 1979).

In spite of the growing importance of advertising in Greek economy, there is an absence of research data on various topics which are related to advertising. In the Greek literature, there is a dearth literature¹ on the subject of fear appeals. This study provides an empirical view on fear appeal categories and consequences, and their frequency of appearance according to magazine and product categories. The authors are aware of the difficult and complex problems which are associated with the subject. As is it the first exploratory attempt in Greece it should be considered as a research which provides basic data, which can be used as a background information for further research on the fear appeals in Greece.

REVIEW OF LITERATURE

The early research on fear appeals indicated that strong fear appeals were generally less effective than mild ones. This study reported a negative relationship between fear arousal and persuasion (Janis and Feshbach, 1953). Contrary to this finding a number of investigations found a positive fear-persuasion relationship. The picture which emerged from the research in the 1960's was that neither extremely strong, nor very weak fear appeals are maximally effective. It seems that appeals at a somewhat moderate level of fear are best (Insko et al. 1965; McGuire 1966, Janis 1968; Higbee 1969). Ray and Wilkie (1970), based on research evidence of fear, show how and when it can be used in marketing. Different market segments, the level of fear, the source credibility and repetitive effects of fear are factors that should be considered seriously. Although the results of Wheatly and Oshikawa (1970) research are not conclusive, they offer tentative confirmation of the proposition that an advertiser's audience

1 There is only a raw data presentation on fear appeals

may be motivated by arousing emotional tension through a negative appeal to accept the course of action advocated in a message. Stuteville (1970) acknowledged that there was heavy and continuous reliance on fear appeals in the sale of personal products. Wheatly (1971) and Kay (1972) suggest that the effectiveness of any particular message is a function of many variables. The nature and strength of its appeals, the relevance of the topic and the personality of the recipient, represent only a part of the picture. Spence and Moinpour (1972) supported that anxiety can be stimulated using impersonal and mass media and behavior modification can result. Advertising which utilizes fear appeals can contribute to individual and hence social levels of anxiety. Sternthal and Craig (1974) support that increasing the threat of physical consequences generally increases persuasion, but has less effect upon subsequent intentions or actions. This threat thus should be analyzed in terms of immediate effect, in terms of delayed effect, and in terms of information comprehension, retention and behavior. The threat also depends upon high source credibility.

Elliot and Frampton (1977), Burnett and Oliver (1979) and Burnett and Wilkes (1980) suggest segmenting markets in order to find those for whom high fear appeals are more effective. Those individuals who have high self-esteem and who assign high credibility to the source of the message are more likely to attempt to solve the problem which is presented to them. Such people are likely to be motivated by high fear appeals. According to Brooker (1981) a major research question that should be addressed on persuasion is why particular types of appeals are effective or ineffective. Unger and Stearns (1983) research, which used content analysis as a methodological tool, found fear appeals in 16.6 percent of television advertisements. Latour and Zahra (1989) suggest when tension is used in fear appeals, moderate or low levels of tension should be considered. Findings indicate that a strong fear appeal may not be an effective marketing tool. Tanner et al (1989) in their study support when a protection motivation theory is combined with fear appeal, the message provides information about an effective coping response and builds confidence in the listener's ability to implement that coping response. Tanner's et al (1991) latest study, suggest that the protection motivation model indicates that four dimensions, should be considered in creating fear appeals: severity of threat, probability of occurrence, coping response efficacy and self efficacy.

DEFINITIONS

To operationalize our study of fear appeals it was necessary to define the dimensions of fear in fear appeals messages (Spence and Moinpour 1972; Ghinghold 1980; Latour and Zahra, 1989). For the purpose of this study, the type of fear was identified by fear appeals categories. The categories which are used in this study are classified in two levels. The first level includes the basic distinction of positive and negative appeal, as it is appeared in previous research, and the second level, the appeals which are dealing with the specific consequence component of the fear, i.e. physical, social and financial. The second level of categories is treated as a subcategory of the positive/negative distinction.

An advertisement was coded as a positive fear appeal if it contained primarily a series of claims about the product benefits (safety, reliability, price etc) and the "satisfaction" on physical or social terms which may the consumer experiences from using the product or service, without attempting to stimulate anxiety over the potentially harmful consequences of not using the product. This approach corresponds to Wheatley and Oshikawa definition (1970) which define positive fear appeals as those that describe the useful, beneficial, or desirable consequences of buying or using the advertised product or service. An advertisement was coded as a negative fear appeal when it contained a deliberate attempt to stimulate anxiety over the potentially harmful consequences of not using the product/service, and the product/service is provided as a means of fear reduction.

Wheatley and Oshikawa (1970), defined negative appeals as those that warn about an annoying, repulsive, or uncomfortable situation, that might be experienced as a result of not buying or using, the advertised product.

The content of consequence elements are described as follows:

Physical consequence refers to: (a) potential physical benefits that might occur if some behavior were adopted or (b) potential physiological damage that might occur (e.g. accidents, cancer), if some behavior were not adopted or discontinued (Spence and Moinpour, 1972). Social consequence refers to social approval and disapproval and is related to an individual's subsequent behavior (Sternthal and Craig, 1974). Fishbein (1967) has advanced the notion that a person's social normative beliefs are associated with his behavior. Social normative beliefs refer to a person's perception of the behavior expected by a specific social agent such as family, relatives and friends (Fishbein, 1972). According to Mitchell and Greatorex (1990), the social consequence is related to the consumer's embarrassment or loss of self-esteem as a result of not buying or using the product / service. Financial consequence is related to financial benefits or losses to consumer, as a result of buying or using, and of not buying, or not using the product/service, Jacoby and Kaplan (1972) describe the financial consequence as a loss of money resulting from product failure and/or the money required to replace the product or service. From the above discussion, it is rather clear, this study is based on the definitions set and proposed by previous research in U.S.A. Table 1 presents the fear appeals categories.

TABLE 1
FEAR APPEALS CATEGORIES

<p>First level of distinction: Positive Fear Appeals Negative Fear Appeals</p> <p>Second level of distinction: Positive Fear Appeals - Physical Consequence of Fear Appeals - Social Consequence of Fear Appeals - Financial Consequence of Fear Appeals Negative Fear Appeals - Physical Consequence of Fear Appeals - Social Consequence of Fear Appeals - Financial Consequence of Fear Appeals</p>
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RESEARCH QUESTIONS AND HYPOTHESES

The questions and hypotheses listed below were formed to guide our investigation on fear appeals in Greek magazines:

1. To what degree do the advertisements in the Greek magazines employ fear appeals in their content?
2. The positive and negative fear appeals in the advertisements, employ the consequences theme (physical, social and financial), equally.
3. There is no difference, in the use of fear appeals categories (positive/negative) by the different magazine classifications (general audience, women's, men's and specific interest audience).
4. The different product categories show the same percentage use of fear appeals in their advertisements.
5. The different product categories show the same percentage use of fear appeal consequences in their advertisements.

METHODOLOGY

A sample of 14 Greek magazines was examined for the purpose of the study. These magazines, were grouped into four categories (i.e.

general audience, women, men, and specific audience), according to their general readership. Table 2 presents these categories. These magazine categories were used as sources of the advertisements because, each of these publication group reaches a different population of readers, although it is true that there may be some media exposure overlap. One issue of the magazine was chosen randomly per month, if the magazine was a monthly this issue was used. Advertisements were content analyzed for the period April 1991 to June 1991. The total number of content analyzed advertisements was 3,262. The advertisements were analyzed on the basis of fear appeals categories and by product and magazine categories. For an advertisement which may correspond to more than one category, it was recorded accordingly to the dominant category featured. Only those advertisements with at least half a page in size were selected for analysis.

Two coders were trained to content analyze the advertisements. To assure their reliability of the coding by the raters, they were sensitized to the nature of the framework used for the fear appeal categories. The inter-reliability of their coding was approximately 83 percent. Moreover, each rater practiced content analyzing 100 advertisements prior to the main study, to learn how to use the system. Interpretation of the data was done by using the chi-square analysis on the .001 level of statistical significance.

Table 3 presents a profile of the eleven product categories represented by sample of advertisements.

TABLE 2
GREEK MAGAZINES EXAMINED

Magazine type	
(1)	General - Audience Magazines Clik Ena Ikones Tachydromos
(2)	Women's Magazines Elle Gynaika Marie-Claire
(3)	Men's Magazines Men Status Playboy
(4)	Specific Audience Magazines Agora Economikos Tachydromos Information Managers

TABLE 3
SUMMARY OF PRODUCT CATEGORIES
REPRESENTED IN THE ADVERTISEMENTS %

Clothes, Fashion and Fabrics	27.16%
Cosmetics and Beauty Aids	20.45%
Tobacco and Cigarette	8.87%
Food (Cereals and Beverages)	7.97%
Beauty and Slim Centers	7.82%
Home Appliances and Furnitures	7.63%
Financial Institutions (e.g. Banks, Insurance)	7.33%
Miscellaneous	6.04%
Auto and Related Products	2.88%
Newspapers Magazines	2.11%
Jewellery and Watches	1.74%

LIMITATIONS

It must be noted that content analysis has some limitations. It may have low internal validity (high variation among observations of the same ad.). Whipple and Courtney (1978) support that the results of content analysis studies were heavily dependent on coder reliability. Even in the case that the interrater reliability is extremely high, content analysis is designed to measure certain aspects of a given unit of communication. The results of that measurement will, however depend entirely on the objectives of the researcher; the way in which the research is set-up and the specific questions that are asked about the content analysis (Janus 1977). The above mentioned problems constitute the intrinsic difficulties of this research method. Content analysis yields a quantitative description of manifest content, studied as atomized and isolated elements at a given point in time, and must interpreted as such (Janus, 1977).

Furthermore this study suffers from the same weakness by which all the previous studies on this subject are suffered. The problem is referred to the difficulty of employing an accurate measure of fear. In many cases there is uncertainty whether emotions used in the studies was fear or some anxious state (Hingbee 1969, Ray and Wilkie 1970, Burnett and Oliver, 1979).

FINDINGS

The total number of examined advertisements was 3,262. The content analysis identified fear appeals in 16.46 percent of the advertisements. Table 4, provides this total number and gives information about the percentage of the fear appeal appearance in the advertisements content.

TABLE 4
TOTAL NUMBER OF EXAMINED ADVERTISEMENTS

Advertisements which show Fear Appeals	537	16.46%
Advertisements which do not show Fear Appeals	2752	83.54%
Total	3262	100.00%

This finding is virtually equivalent to a similar study, which was conducted in the United States and showed that 16.6 percent of the examined television advertisements appear to use the fear appeals (Unger and Stearns, 1983).

Table 5 provides the frequency of the fear appeals categories, by fear consequence theme. Under conditions of a probability sample, the chance that the pattern of fear appeals categories could be explained by random error is rather remote ($\alpha < .001$). The chi-square analysis, shows that the null hypothesis (H_0): "The positive and negative fear appeals in the advertisements, use the consequences theme equally", must be rejected, and the alternative hypothesis must be accepted. The conclusion drawn is that the positive and negative fear appeals in the advertisements show different frequency in the use of the consequences theme.

It seems that the overwhelming majority of the advertisements employs the positive fear appeal (91.06 percent) and only a 8.94 percent employs the negative fear appeal. Overall the social consequence is by far the most popular theme (82.87 percent) as it is compared with the financial (10.80 percent) and the physical (6.33 percent) themes. Within the positive fear appeal category, the social consequence is the most common theme with 79.83 percent, while the financial and physical consequences count only for 6.89 and 4.84 percent respectively.

TABLE 5
FREQUENCY OF THE FEAR APPEAL CATEGORIES,
BY FEAR CONSEQUENCE THEME

Fear Appeal Categories	Fear Appeal Categories			Percent % Total
	Physical	Social	Financial	
Positive	4.84	79.83	6.89	91.06
Negative	1.49	3.54	3.91	8.94
Total	6.33	82.87	10.80	100.00

$$x^2 = 73.79 \quad x^2_{.001} = 13.82 \quad N = 537$$

$$\text{Degrees of freedom} = 2 \quad \alpha = .001 \quad X^2, X^2_{.001}$$

Within the negative fear appeal category, the financial consequences theme most commonly is used with 3.91 percent frequency, while the social and physical consequences count for 3.54 and 1.49 percent respectively. It is interesting to note that the physical consequence it is the least popular theme, within this category.

Table 6, presents the fear appeal categories by magazine classifications. The chi-square analysis indicates that the null hypothesis (Ho): "There is no difference, in the use of fear appeals categories (positive/negative) by the different magazine classifications", must be accepted. That means there is no statistically significant difference among the magazine classifications, in terms of the frequency use, of the fear appeals categories.

TABLE 6
PERCENTAGE OF FEAR APPEAL CATEGORIES,
BY MAGAZINE CLASSIFICATIONS

Magazine Classifications	Fear Appeal Categories		Percent % Total
	Positive	Negative	
General Audience	18.06	2.42	20.48
Men's	0.93	0.37	1.30
Women's	67.60	5.40	73.00
Specific Interest Audience	4.47	0.74	5.21
Total	91.06	8.94	100.00

$$x^2 = 6.56 \quad x^2_{.001} = 16.27 \quad N = 537$$

$$\text{Degrees of freedom} = 3 \quad \alpha = .001 \quad x^2, x^2_{.001}$$

There is a high frequency in the appearance of the positive fear appeal category in all magazine classifications. Table 6 gives the information that a high percentage (67.60), of the positive fear appeal in advertisements appeared in the women's magazines, followed by the general-audience magazines (18.06 percent). The specific interest and the men's magazines are showed considerably less frequency - 4.47 and 0.93 percent respectively in the advertisements, the use of the positive fear appeal. For the negative fear appeal category, the highest frequency in the advertisements is showed again in the women's and general audience magazines (5.40 and 2.42 percent respectively).

Table 7, presents the fear appeal consequences, by magazine classifications. The chi-square analysis shows that the null hypothesis (Ho): - There is no difference in the use of fear appeals consequences (physical, social and financial) by the different magazine classifications" must be rejected, and the alternative hypothesis must be accepted. The conclusion drawn is that the fear appeals consequences (physical, social and financial) in the advertisements show different frequency use by magazine classifications. The social consequence theme with 66.29 percent shows the highest frequency appearance in the women's magazines, followed by general audience magazines, with 16.20 percent.

TABLE 7
PERCENTAGE OF FEAR APPEALS CONSEQUENCES
BY MAGAZINE CLASSIFICATIONS

Magazine Classifications	Fear Appeal Categories			Percent % Total
	Physical	Social	Financial	
General Audience	3.55	16.20	0.93	20.48
Men's	0.00	0.37	0.93	1.30
Women's	5.59	66.29	1.12	73.00
Specific Interest Audience	2.98	0.00	2.23	5.21
Total	11.92	82.87	5.21	100.00

$$x^2 = 230.81 \quad x^2_{.001} = 22.46 \quad N = 537$$

$$\text{Degrees of freedom} = 6 \quad \alpha = .001 \quad x^2, x^2_{.001}$$

Table 8 shows the percentage of fear appeals categories by product categories. From the eleven product categories represented in the total number of advertisements examined, only seven categories employ the fear appeals in their advertisements.

The chi-square analysis indicated that the null hypothesis (Ho): - "The different product categories, show the same percentage use of fear appeals in their advertisements" - must be rejected and the alternative hypothesis must be accepted.

TABLE 8:
PERCENTAGE OF FEAR APPEALS CATEGORIES
BY PRODUCT CATEGORIES

Product Categories	Fear Appeal Categories		Percent % Total
	Positive	Negative	
Cosmetics & Beauty Aid	75.42	2.98	78.40
Beauty and Slim Center	6.70	2.05	8.75
Financial Institutions (e.g. Banks, Insurance)	5.03	3.35	8.38
Auto & Related Product	2.05	0.37	2.42
Clothes, Fashion, Fabrics	0.93	0.19	1.12
Home Appliances and Furnitures	0.74	0.00	0.74
Jewellery and Watches	0.19	0.00	0.19
Total	91.06	8.94	100.00

$$x^2 = 80.67 \quad x^2_{.001} = 22.46 \quad N = 537$$

$$\text{Degrees of freedom} = 6 \quad \alpha = .001 \quad x^2, x^2_{.001}$$

It seems that the "Cosmetics and Beauty Aid" is the product category which employs extensively and frequently fear appeals (78.40 percent) where the 75.42 percent used the positive fear appeal and 2.98 percent the negative fear appeal. "Beauty and Slim Center" and "Financial Institutions" are the two product categories after "Cosmetics and Beauty Aid" which employ fear appeals but considerably less extensive and frequent, with 8.75 and 8.38 percent respectively.

Table 9 shows the percentage of fear appeal consequences by product categories. The chi-square analysis indicated that the null hypothesis (Ho): - "The different product categories show the same percentage use of fear appeal consequences in their advertisements" must be rejected, and the alternative hypothesis must be accepted.

The "Cosmetics and Beauty Aid" advertisements use the "fear appeals" more frequently the social consequence, is the most common theme. The "Financial Institutions" product category, uses the financial consequence theme, as expected.

TABLE 9:
PERCENTAGE OF FEAR APPEAL CONSEQUENCES
BY PRODUCT CATEGORIES

Product Categories	Fear Appeal Categories			Percent %
	Physical	Social	Financial	Total
Cosmetics & Beauty Aid	2.98	75.42	0.00	78.40
Beauty and Slim Center	1.12	6.33	1.30	8.75
Financial Institutions (e.g. Banks, Insurance)	0.93	0.00	7.45	8.38
Auto & Related Product	1.30	0.00	1.12	2.42
Clothes, Fashion and Fabrics	0.00	1.12	0.00	1.12
Home Appliances and Furnitures	0.00	0.00	0.74	0.74
Jewellery & Watches	0.00	0.00	0.19	0.19
Total	6.33	82.87	10.80	100.00

$$\chi^2 = 470.87 \quad \chi^2_{.001} = 32.91 \quad N = 537$$

$$\text{Degrees of freedom} = 12 \quad \alpha = .001 \quad \chi^2, \chi^2_{.001}$$

CONCLUSIONS AND IMPLICATIONS

The findings suggest that advertisements in Greek magazines use fear appeals. Positive fear appeals show the highest frequency of appearance while the use of negative fear appeal remains low. In terms of the fear appeals consequences, the social theme is the most popular in the advertisements, while the financial and physical themes are not often used. The women's magazines, in the first place and the general audience magazines show advertisements with positive fear appeals often. Moreover, the social consequence theme is used most frequently in women's magazines. Men's and specific audience magazines rarely employ fear appeals.

In terms of the product categories, the results suggest that there is a variety in terms of frequency use of fear appeals. "Cosmetics and Beauty Aid" category by far employs advertisements with positive fear appeals (75.42 percent) and the social consequence theme (75.42 percent). "Clothes, Fashion and Fabrics" category which represents the highest percentage (27.16) of the total number of the examined advertisements, shows a very low frequency use of fear appeals (1.12 percent). Four product categories: "Tobacco and Cigarettes", "Food (Cereals and Beverages)", "Newspapers and Magazines", and "Miscellaneous", which all together represent 25.76 percent of the total number of the examined advertisements do not use the fear appeals. The "Financial Institutions" category uses in its advertisements, exclusively the financial consequence theme. The differences in the frequency use of the fear appeals consequences in the various magazines, may mean that consumers have different tolerances for fear and fear message, and therefore should be set separately for different segments (Kotler, 1988).

The implications of these findings suggest that a response to fear is probably specific to situation, topic, person and criterion. The use of segmentation strategy may be a prerequisite in the future investigation in the use of fear appeals. Fear cannot be viewed as a universal dimension perceived identically by all people and in all situations (Burnett and Oliver 1979).

From the total number of content analyzed advertisements in this study 16.46 percent shows fear appeals. The overwhelming majority of them - 91.06 percent - employs the positive approach and only 8.94 percent employs the negative approach. It seems that marketers designing advertisements, aim at themes on positive energizing images rather than strong frightful messages that create anxiety, if not panic

(LaTour and Zahra 1989). Fear appeals should be used only after careful consideration of energy-arousing messages. This suggestion is justified in view of the contradictory findings of fear appeals effectiveness of previous research (LaTour and Zahra 1989). It should be mentioned, that are situations in which negative fear appeals can be useful to the advertiser and consumers. Advertisements alerting people to the potential depletion of natural resources, the danger of forest fires, the ramifications of driving while drunk and like, are examples. In these cases the public good and advertisers' self interests are compatible. Furthermore, these advertisements have an educational value which may prove useful over an extended period of time. It is essential however, that marketers undertake these advertisements in such a way that a great deal of anxiety and discomfort on the part of recipients is avoided (LaTour, Zahra 1989).

Across the product categories there are significant differences of using fear appeals themes in their advertisements. The data suggest that fear appeals are a viable advertising strategy for certain type of products (e.g. "Cosmetics and Beauty Aids"). For other types of products (e.g., "Clothes Fashion and Fabrics"), fear appeals are not a popular "appeal" for an advertising strategy. It would be interesting to investigate in future research why this product category which is a heavy advertiser does not use fear appeals, even in its positive version very often. In a broader sense research needs to be conducted concerning the general use and the relative importance of fear advertising in various product categories and the effect of fear appeals on the perceived importance of the purchase.

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THE CHANGING CHARACTER OF AMERICAN CIGARETTE ADVERTISING: CONTENT ANALYSIS FINDINGS

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Abstract

This paper reviews all published cigarette advertising content analyses to identify common results. American cigarette advertising has become more voluminous, more visual rather than verbal, more inclined to show "pictures of health," more inclined than other products to show people, inclined to feature young looking models, and to use themes of independence and autonomy that appeal to the young. The likely consequence is that the audience experience serves to bias judgments of the young about the proportion of adults who smoke, about the social acceptance of smokers, about the healthfulness of smoking, and about the independence characteristic of nicotine addicts.

Content Analysis of Advertising

The purpose of this paper is to review all of the content analyses of American cigarette advertising to identify long term trends, particularly with respect to the often criticized problematic aspects of cigarette promotion, e.g., the inappropriate communication of healthfulness, or appeals to youth. Thus this review has a substantive focus, identifying how cigarette ads have been changing more than how content analysis methods have varied. While not focused primarily on methodology, methods and samples will be described.

The term content analysis is used here to describe a relatively formal set of sampling and coding techniques whose intent is to produce objective numerical data descriptive of a set of communications like a collection of ads. These systematic methods code and count both the manifest and latent content of ads by observing both the verbal and visual elements within a set of pre-ordained definitions. The definitions can code for events at various levels of observation, from general themes to very specific minutiae. These definitions are employed by trained coders who apply them to a systematically drawn sample of ads. The reliability of this coding task is usually measured and reported and depends on the clarity of the communications under study, the complexity of the definitions of interest, the difficulty of the coding task, the attentiveness of the coders, etc. The sample can be either cross sectional, representing many brands' advertising, and/or longitudinal, tracing an evolution over time.

The simultaneous pursuit of objectivity and meaningful observations often involves methodological judgment for various trade-offs, for it is often the more trivial aspects that are most easily and reliably observed. Some analysts (e.g., Ringold, Calfee 1989) voluntarily limit their efforts primarily to the verbal content of the ads, analyzing words in painstaking detail. The limitations of this restricted focus and the inferences that can be appropriately drawn from it have been the subject of a sustained debate (Cohen 1989; Pollay 1989; Ringold, Calfee 1990; Cohen 1992).

The sections that follow review the content analyses of cigarette ads and focus on the more fundamental results, general tendencies and broader conclusions. Within the limits of the noted sampling for each study, these are descriptive of the universe of cigarette advertising for multiple brands, or cigarette advertising in general, rather than for specific brands. In some studies, the content analysis data descriptive of cigarette advertising is related to other information such as product features, market shares, audience characteristics, or historical events.

Becoming Voluminous, Visual and Vivid

The first published report (Weinberger, Campbell, DuGrenier 1981) studied 251 cigarette ads found in the issues of Newsweek, Sports Illustrated and the Ladies Home Journal for the years 1957, 1967 and 1977. It noted an eight-fold increase in the volume of cigarette magazine ads between 1957 and 1977, as the industry left broadcast media. They found significant increases, as well, in the proportion of ads in color, at premium locations (e.g., covers), and with multiple pages. Health claims, explicit and implied, were also found to have increased significantly, with almost all ads for low tar products advertised in 1977 with "tombstone" ads, i.e. text and package display only. Using market data from Leading National Advertisers, the relative volume of advertising by manufacturer, also known as "share of voice," was almost perfectly correlated with the firms' market shares, indicating that all firms were participating in this sample of print advertising in near exact proportionality to their size.

Ringold (1987) reported on the verbal content of 211 cigarette ads drawn primarily from Time magazine from 1926-1985, partially supplementing the sample as needed with ads drawn from the New Yorker, Saturday Evening Post and Life, in that order. Although inexplicably omitting any Philip Morris brands, this sample sought one ad each for 6 brands: Camel, Chesterfield, Kent, Lucky Strike, Old Gold, and Viceroy. Detailed coding was done on the verbal content in headlines, sub-heads and body copy. Despite treating all "mildness" assertions as taste claims only, for the period before 1954, health claims were the most frequently made type of claim. Health claims were found to be the third most frequent type of claim overall, representing 18.2% of all claims. This was true for five out of the six brands studied, with "little to distinguish the various brands in terms of the health claims frequently used (Ringold 1987, p272)."

Becoming Pictures of Health

A study of the words and images of all 567 ads from 108 issues of Life (1938-1983) and Look (1962-1971) covered the ads for 57 brands, with 14 major brands representing 75% of the total sample (Pollay 1991). Multiple judges

coded these ads for 12 major and independent thematic dimensions, three of which were held to communicate healthiness: Health/Safety - verbal claims about positive physical effects, medical use or endorsements, or reduced symptoms or risks, including filter effectiveness claims unless text indicated effectiveness was with respect to product taste; Bold/Lively Behavior - images of active, athletic or risk taking behavior; and Pure Scenes - images of pristine environments and settings normally seen as particularly wholesome, clean and pure, such as glaciers, mountain streams or new fallen snow. Other themes measured included Well Made (product quality), Good Deal (Value for Money), Enjoy (pleasure and satisfaction), Female, Male, Glamor/Luxury (celebrities, status, wealth), Relax (peace of mind), and Official (tested or endorsed by authorities).

Judges agreed that one or more of the Healthiness themes was found in 60% of the studied ads. Images of Bold and Lively behavior were evident in 20% of all ads, and pure scenes were portrayed in 30% of all ads. Both kinds of images became more common after 1960. Some differentiation along sexual lines was evident, as ads featuring men were significantly more likely to employ images of bold and lively behavior while the ads featuring women were significantly more likely to use images of glamor and luxury.

Warner (1985) studied 716 cigarette ads from *Time* for selected years from 1929-1984. A variety of visual, verbal and thematic aspects of the ads were coded; whether or not smoke was present, how cigarettes were held, the nature of models employed, the degree of prominence given to health aspects, and non health themes such as humor, rugged individualism and romance, although data was not reported for individualism, emancipation, or other themes of independence, autonomy or self-reliance. Data were grouped according to their proximity to periods of intense public consideration of the health consequences of smoking, e.g., the health scare of 1953-54, the first Surgeon General's Report of 1964, the Fairness Doctrine mandated broadcasting of cigarette health risk messages during 1967-1970, etc. Results evidence the dramatic growth in magazine advertising over this period with the average number of cigarette ads per issue rising steadily from less than one per issue for the 1929-1952 period to over eight per issue for 1974-1981. The images in these ads had the notable and surprising characteristic of the virtual disappearance of visible smoke. While visible smoke appeared in half of the ads before 1964, after 1964 only five percent of lit cigarettes appeared to emit visible smoke and after 1976 not a single instance of visible smoke was found in this sample.

The verbal/visual balance of the ads was measured, as was the degree of health focus. It was found that these were strongly correlated as ads that rely on words rather than pictorial images were judged as trying to convey a health message. Both the health focus and the verbal/visual balance were found to be episodic. Ads verbally emphasized health themes especially during the years of major smoking and health events, emphasizing the "technological fix," such as scientifically designed filters. This general pattern was not evident, however, in 1964, the year of the first Surgeon General's Report. The converse of this pattern is that following smoking and

health events, ads become more visual. "Industry advertising directors may have concluded that the most effective contemporary response to health concerns is an indirect one: conveying visual images of vibrant, physically fit, successful, sociable, and sexy people in physically active or glamorous settings, in other words, associating smoking with people who are the proverbial 'picture of health' (Warner 1985, p125)."

Similar observations were made by Rogers and Gopal (1987) who studied an unspecified number of ads from three issues of *Time* and *Life* a year, at five year intervals from 1938-1986. They noted that over time positive health appeals were displaced by "less harmful" appeals, with these in turn displaced by "more and more lifestyle advertising ... brand imaging ... using more poster style layouts ... with very little body copy (p266)."

Other researchers have noted episodic aspects to cigarette advertising history, but attribute the changes, not to industry strategy or sophistication, but to the effects of regulation and self-regulation. Ringold and Calfee (1989) report primarily on the verbal content of 568 ads drawn primarily from *Time* magazine from 1926-1986. This sample is both longitudinal (n=348), expanding on the sample of one ad per year for various brands reported earlier (Ringold 1987), and adding a cross sectional sample of 25 ads each for seven mid-decade years of 1926, 1936, ..., 1986. The ads were coded along 27 general ad characteristics and 51 claim categories. The coding was described by the authors as conservative, treating all mildness claims as claims about taste/ flavor and irrelevant to health and similarly treating all "filters best" claims as product quality not health claims. Nonetheless, results for the longitudinal sample show that 27% of all claims were health claims, making it the most common category, due in part to the mandated warnings or tar and nicotine disclosures. Voluntary health claims were anywhere from 16.8% to 29.1% of total claims before 1954, but nearly disappeared after 1954.

The activities depicted in the ads were leisure, competitive sport and/or adventurous in 42.1% of the ads. Images of all other activities were evident in only 16.7% of ads, making action oriented ads more than twice as likely as all other types of activity, such as working, eating, shopping, etc. Almost identical results were found for the cross sectional sample of 220 ads where 41.7% of all ads displayed active playing activities, while less than half that many, 18.2%, displayed all other activities. No data was reported for how the frequencies of these images of activities changed over time.

Targeting Youth

Cigarette ads in magazines that reach readers who are particularly young (*Rolling Stone*, *Cycle World*, *Mademoiselle*), female (*Ladies Home Journal*, *Mademoiselle*) or general-adult (*Time*, *TV Guide*, *Ebony*, *Popular Science*) were studied by Albright, et al. (1988). All cigarette ads in one issue for every year 1960-1985 were coded, yielding 778 ads for analysis. Like others, they found a dramatic increase in the volume of magazine advertising, stabilizing in their sample at six to seven ads per issue after 1977. Within their sample, the proportion

of total ads appearing in the youth magazines grew significantly over time to become 36% of the total. They concluded that, while this data may not fully represent the overall trends, nonetheless "women and adolescent magazine readers are exposed to a large quantity of cigarette ads, regardless of the advertisers' intent p232."

Altman, et al. (1987) reported data for the same sample of magazines about the themes and images employed, focusing on the 78% of ads that showed a setting or had a model present. These were coded for aspects of the act of smoking, the presence of a low tar or nicotine theme, and the "vitality of smoking." The "vitality of smoking" concept was measured with subcategories of adventure/risk (e.g., rock climbing, sailer, race car driver), recreation (e.g., scenes of tennis, surfing), and erotic/romantic appeal (e.g., scantily dressed models, romantic settings). Like Warner (1985), they found a decline in the evidence of visible smoke and the act of smoking generally. Correlating these with the nature of the magazines' readership, they found that imageless ads were less likely to appear in youth magazines or, conversely, that youth magazines were more likely to feature image based ads. Increasing significantly over this period in youth magazines were images of risk and adventure, recreation and erotic/romantic display. While these images of vitality increased generally, ads in youth magazines were significantly more likely than elsewhere to depict images of adventure or risk taking and recreation.

This data base was extended by Basil et al. (1991) who examined differential targeting, or how cigarette advertising strategies varied depending on the characteristics of the primary readership. They added two magazines for the ethnic market of blacks (Jet and Essence), and updated the sample to 1989 for an enlarged sample of 1171 ads. They delineated three subcategories of romantic/erotic themes. Their data discloses that the general trend noted elsewhere toward ever increasing volume of cigarette ads in magazines changed somewhat in the later 1980s. During 1984-1989, the number of ads per issue declined in general, men's and women's magazine, but was generally stable in those magazines reaching both black and youth audiences. The ads in men's and youth's magazines more frequently focused on models playing volleyball, skiing, and so on. Analysis of variance between magazine types found that incidents of horseplay and the use of erotic romantic contact were highest in black and youth-oriented publications. A separate analysis found that incidents of horseplay have grown significantly more likely over time and were significantly related to magazine's average age, with younger readers more likely to see ads featuring horseplay. "Readers with low smoking rates appear to be given appeals that focus on models, suggesting that smoking is fun, helps you make friends, and will make you desirable, p88."

Partially contradicting, and partially replicating, the above series of related studies is the work of King et al. (1991). They followed a similar sampling strategy, drawing ads from one issue for each available year, 1954-1986, for each of ten magazines representing five distinct audience orientations: general interest (Time), older women (Ladies Home Journal and Redbook), younger women (Vogue), older men (Popular Mechanics and Esquire) and younger men (Sports Illustrated and Playboy). This yielded 1,100

cigarette ads for analysis. Like other studies they note a very large increase in magazine advertising, a more than ten fold increase in ads per issue when comparing the period 1971-1983 to 1954-1970. Playboy had both the largest number of ads per average issue (6.3) and the lowest median audience age. Differing from other findings, however, no systematic relationship between the median age of a magazine's audience and the average number of ads published was found across this set of magazines.

As found in previous studies, cigarettes ads in general relied more and more on visual imagery and became increasingly larger (more multi-paged ads), more photographic, more colorful and more visually dominant. The volume of cigarette ads varied significantly over time, with the greatest changes evident in a decline in the proportional importance of general interest magazines, relative stability for both older and younger men's magazines, and growth in both older and younger women's magazines.

Imaging Individualism and Independence

The activities of the models in the 1,100 cigarette ads from these ten magazines were coded by King et al. (1991) into six categories: adventure (operating a speedboat), recreation (playing ball), erotic (romantic with another), sociability (in a group situation), working (ranching), and individualistic/solitary (reading a book, watching a sunset). Defining individualism solely in terms of repose, and classifying of the archetypical Marlboro Man cowboy as "working" rather than symbolizing individualism, are both debatable, but the results indicate the importance of the independence theme nonetheless. For example, the most frequent activities in ads reaching younger women were individualism, recreation and sociability. The most frequent activities in ads reaching younger men were individualism, work, recreation, and adventure (Table 7, p73). "Portrayals of individualism were more likely to appear in cigarette ads placed in younger men's and younger women's magazines (p77)." Despite this and other noted differences between ads in various types of media, "this study found a striking universality of theme, regardless of audience orientation. Individualistic/solitary and recreation themes were most frequently portrayed in virtually all magazine types (p77)."

Billboard ads in San Francisco were studied by Schooler and Basil (1989). Billboard advertising is held to be important because it allows narrow neighborhood targeting and ethnic segmentation. Like point of sale exterior store signage, it has a more permanent nature than magazine ads, allowing multiple exposures for those of all ages in the neighborhood on the street regularly going to work, stores or schools. Of the 901 billboards photographed between May 1985 and September 1987 in 210 commercial districts, tobacco ads were the most frequent (19%), closely followed by alcohol (17%). Black and hispanic neighborhoods had significantly more tobacco and alcohol ads than white or Asian ones. Billboards were generally more common in black neighborhoods at 2.2 per 1,000 people compared to 1.3 per 1,000 citywide, or 1.7 times the citywide rate. Tobacco ads were even more likely in black neighborhoods, appearing at 2.4 times the citywide

rate.

The content of these ads was coded for several social cues: sex, ethnicity, apparent social class, reward cues (romance, sociability, recreation, sportiness and adventure/risk), and attractiveness cues (individualism, fashionableness, sex appeal, fame/expertise and friendliness). The significant results indicated the importance of visual social cues to these products. People are more likely to be portrayed in cigarette and alcohol ads (59%) than in advertising generally (16%), and cigarette and alcohol ads were more likely than others to use models that matched the ethnicity of the neighborhoods. The most prevalent reward cue images associated with smoking were sportiness and active-lifestyles, recreation, and adventure/risk. The most prevalent attractiveness cue on tobacco billboards was rugged individualism or machismo. Comparing the advertising for the two products, the research concluded that alcohol ads use modelling cues suggesting that product consumption will enhance one's social life, whereas tobacco billboards emphasize rewards that are more single-person oriented. "Rugged individualism was the most prevalent attractiveness cue on tobacco billboards. The epitome of these ads is the Marlboro man (p15)." These research results are reported in brief elsewhere (Altman, et al. 1991) and additional analyses on the same data base reach similar conclusions (Schooler, et al. 1991).

Other related studies

Perceptions of models ages

The perceived age of the models employed in cigarette advertising images was studied by Mazis et al. (1992) for all cigarette ads appearing in 97 magazines in October 1987. In the 101 issues which contained cigarette ads, 393 cigarette ads were found, of which 119 were unique and selling 22 brands. Pruning the sample to those with "clearly visible" faces, at least two-thirds exposure and close enough for age discernment, yielded 50 unique ads with 65 models. Two samples of 280 and 281 judges were recruited from a racially and economically diverse shopping mall, with a cross section of sex and ages 13 years old and up.

Perceptions of models' ages and attractiveness were obtained with each person evaluating a random half (25) of the full set of ads. This data was compared to median audience age data for the magazines used as sources. A positive and statistically significant correlation was found between perceived model age and median audience age, i.e. young models tend to appear in media read by young audiences. Younger viewers also displayed greater sensitivity than older viewers to the age of the models, with perceived attractiveness falling off faster with advancing perceived age.

Twenty two (22)% of the models were judged, on average, to be less than 25 years old, with 17% having a mean perceived age far enough below 25 to be statistical significant. Of these nine, were women, four of them in various Virginia Slims ads. Forty-nine (49)% of the models were judged to be younger than 25 years of age, and 9% were judged to be younger than 21 years of age, by at least one-quarter of the people judging. "Some

cigarette ads are clearly violating the industry's voluntary code that requires models not to 'appear to be less than twenty-five years of age' (Mazis et al. 1992, p35)."

Targeting women

The history of campaigns targeting women has been reviewed by discussing specific campaigns and generating data for advertising intensities for 1971-1984 (Ernster 1985). A tabulation of the number of ads in Better Homes and Gardens, Ladies Home Journal, and McCall's found that ad intensity grew steadily during the 1970s, peaking in 1979, and declined thereafter. Nonetheless, in 1984 there were still an average of more than 10 cigarette ads per issue for each of these magazines and Cosmopolitan, Family Circle, Glamour, Harper's Bazaar, Mademoiselle, Redbook, Vogue, and Woman's Day.

A history of women and cigarette advertising also includes graphs of the frequency of cigarette ads showing women smoking in Life (1936-1972) and Ebony (1945-1980). These peak in the mid sixties, and again in the early 1970s, displaying parallel paths. The then contemporary ads towards women were described as "showing women jogging, biking, backpacking and playing tennis, all the while smoking a cigarette, too. It would be difficult to argue that these positive images are not influential on young image-conscious teenagers (Howe 1984, p8)."

Targeting Blacks

The cigarette ads targeting blacks in Ebony from 1950-1965 were studied by Pollay, Lee and Carter-Whitney (1991). The full census of cigarette ads from Ebony (n = 540), when compared to ads from a matching sample of Life issues, disclosed that cigarette ads targeting blacks were significantly more likely to employ athletes and were two to three years tardy in offering black consumers filtered product innovations. Cigarette advertising intensity in Ebony was initially lower than in Life, but after 1960 Ebony issues were carrying more cigarette ads.

Conclusions

The historical content analyses of American magazine and billboard advertising provide evidence that:

A. Cigarette advertising has become substantially more voluminous and frequent. This seems to be especially the case for cigarette ads placed where they reach audiences of the young, women, blacks and hispanics.

B. Cigarette advertising imagery has become increasingly more vivid, larger, more visual (less verbal) and more colorful.

C. Cigarette advertising imagery is particularly likely, compared to other products, to use human models as social cues. This seems to be especially the case for cigarette advertisements placed where they reach young audiences.

D. Many cigarette advertising images feature models easy for youth to identify with. A significant fraction of models are themselves perceived to be young. Cigarette advertising models are often engaged in youthful activities and cavorting. This seems to be especially the case for cigarette advertisements placed where they reach

young audiences.

E. Many cigarette advertising images features models typically engaged in activities that depict the very "pictures of health:" active leisure, horseplay, adventure seeking, with a virtually total absence of visible smoke. This seems to be especially the case for cigarette advertisements placed where they reach young audiences.

F. Many cigarette advertising images feature models displaying independence, freedom from authority, adventure seeking and self-reliance. This seems to be especially the case for cigarette advertisements placed where they reach young audiences.

G. The overall pattern is indicative of a manifest strategic interest in the youth market, among others, consistent with recent evidence from corporate research, media and strategy documents (Pollay and Lavack 1993).

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CIGARETTE ADVERTISING IN INDIA - AN EXPLORATORY STUDY

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Abstract

The study examines cigarette ads in the print media to find out i) How the cigarette advertisers communicate effectively under the existing regulations, ii) The emerging ethical and legal issues and iii) The implication for public policy. Subjects were drawn from user, potential, and vulnerable segments. Laddering was used to explore values-consumption linkage. A content analysis of ads along with correspondence analysis indicated the impact of the ads. Though social factors dominate the early stages, passive learning is initiated by self identity in the print medium. Social education through emotive or rational appeals may be more effective than restriction on media or smoking.

Introduction

Cigarette industry though a major revenue contributor to the government exchequer is under severe pressure from consumer forums as cigarette smoking is considered harmful to health. The government has also initiated certain measures, such as restriction of cigarette ads to print media,¹ statutory warning on cigarette packs, etc. The industry invests in outdoor and indirect advertising through sponsorships of cultural and sports events.

Regulations governing advertising in general, fall under the MRTP (Monopolies and Restrictive Trade Practices) Act. These also cover cigarette advertisements. The major objectives of these regulations are to prevent advertisers from using unfair trade practices and ensure that the messages are within accepted boundaries of truth, ethics and good taste. Making false or deceptive representation or misleading statement regarding quality of service and products can be considered unfair. According to the Consumer Protection Act, applicable to cigarette advertising, any advertisement which endangers the safety of children or creates in them an interest in unhealthy practices is unacceptable. Also, any promotion encouraging addiction or undesirable consumption is considered unfair. A case in point is that of a large Indian company, which had to withdraw the clause relating to smoking as a condition for participation in a promotion scheme.

Till now there has been only one complaint against a company for not showing boldly the warning and using a misleading copy. The complaints were upheld and the company complied with the requirements. (Source: Consumer Education and Research Centre, Ahmedabad)

Notwithstanding the statutory warning, cigarette production has grown by 9% during 1989-92, rising to 13% in 1991-92 (CMIE, February 1991, 1992). This excludes tobacco consumption in other forms, namely chewing tobacco, bidis,

hookah. A vast number of men and women from lower income, illiterate segments in the urban and the rural areas consume tobacco in these traditional forms. There is no social sanction against smoking except for a certain ethical group.² It is taken alone or with peers in formal or informal groups and avoided in the company of elders.

In India, barring one or two studies examining ad content and choice of brands, there is very little research addressing the issues mentioned above. Studies taken up by market research agencies for clients are kept confidential. A sizable literature exists in the West on various aspects of smokers, and implications for public policy. These have been cited under Findings.

Objective

In the given context, the study attempts to find out (i) How do the cigarette advertisers communicate effectively under the existing regulations, (ii) The emerging ethical and legal issues and (iii) the implication for public policy from these perspectives. More specifically -

- (a) What aspects are highlighted in the ads which do not fall under the purview of regulations. In other words, how have advertisers capitalised on the various aspects of consumer behaviour to achieve the desired impact? Some of the important dimensions examined are influences on initiation to habituation, as well as inhibitors to smoking.
- (b) What is the impact of advertising on the potential and the vulnerable segment, its role in initiation, and thereafter, and hence relevance for ethical and legal issues.
- (c) The implications for public policy from issues highlighted above.

The scope is limited to English print media (magazines) and premium brands during 1991-92. The choice of brands was constrained as premium brands are mostly advertised in English print media. The study based only on male subjects is exploratory and aims to raise issues and identify areas for further research. Segment choice is limited to well off, educated consumers. Hence implications drawn are not applicable to those smoking low priced cigarettes and other forms of tobacco.

Method

a) To explore what aspects of consumer behaviour are highlighted in the ads, a sample of 100 adult males, 50 users, 50 non users, aged over 20 years was drawn from upper middle to upper income groups. Structured questionnaires were administered to users to examine the influences

1 These are however advertised on video, which is not controlled by Government.

2 Smoking is forbidden by Sikh religion

and initiation processes. To identify the value consumption linkages, laddering (Gutman and others 1982, 1984, see appendix A) was used on both the users and the non users.

To identify the elements emphasized in the ads, a content analysis of 24 ads representing 11 competitive brands was done (An ad had (2-3) versions). The ads were selected from three leading magazines in the English language. The magazines covered a wide spectrum of topics that could appeal to both adults and the young of the target segments.³

The set of categories was based on the findings of an earlier study (Mukhopadhyay, 1980), influences on consumption and values indicated by the laddering above. These were psychosocial, functional consequences such as sense of achievement, relaxation etc. Product focused ads (taste), user oriented ads, viz, goal seeking (achiever) or problem solving (relaxation, facilitates acceptance) were included. Feelings associated with the character (masculine, ruggedness) or the visual (romantic, good things of life) were also noted as categories. The brief was prepared accordingly along with the coding sheet. This examined all the elements of an ad and the overall impression. A sample of 10 judges comprising of research personnel, well versed in English language, coded the ads. Average percentage agreements between pairs of coders were noted (Kassarjian 1977). The inter-coder reliability was satisfactory at around 0.8 (Perreault and Leigh, 1989). Objectivity was taken care of while administering the questionnaires. In all 6 categories, representing 11 competitive brands were used (see Appendix B). Finally, the findings from laddering on attributes, consequences etc along with the responses of the users on initiation, usage behaviour etc. were compared with ad categories to understand how different aspects of consumer behaviour were highlighted in ads to evoke the desired responses.

b) The impact of ads was noted on the adult segment and the vulnerable segment. The first comprised of adult males, 20 smokers, and 20 non smokers drawn from the earlier samples. The second segment, represented by 50 senior school boys, aged (15-17) years, was drawn from an English medium school catering to upper middle to upper income groups.

For the first segment, responses were taken through structured questionnaires. For smokers the dimensions were change of brand, noticeability of ads of other brands, identity with the person in the ad, longing etc. For non-smokers these were identity with self, ad related responses such as interest, curiosity, and influences on attitude, which may lead to future consumption or recommendations to friends.

The test for the school boys was carried out in a class room situation. Each of the boys saw 5 ads of cigarettes. A minimum of 20 (50x 5/11) replications were achieved on each ad. The responses were recorded in a structured questionnaire. This examined the dimensions, such as self identification, reference to pleasant moments, interesting, excitement, pleasure, relaxation (ad related responses); and curiosity, recognition, persuasiveness, passive learning

3 This was also verified through the questionnaire administered to school boys.

(behavioural dimensions). A content analysis of responses was initially carried out. A correspondence analysis was then used to match the category/content of an ad with response pattern of the student segment. In other words, the analysis indicated the frequency with which ads (row attributes) co-occurred with response (column attribute). This was to identify those characteristics of the ad which evoked certain responses having social/legal implications.

c) Policy implications were based on the findings. Limitations of strong dissuasive messages /actions were kept in mind.⁴ Responses of non users were used to draw implications for message design. Details are given under Findings.

Findings

a) Initiation, Influences, Values and Ad Categories

A little over 50% of the smokers had their first smoke before they reached the age of 15, the most susceptible age.

The single most important influence was 'peer group pressure'. This supports the findings of (Bauman, Newcomb, McCarthy and others 1989). Parental habits which were also found to have bearing on smoking habits were not checked directly in this study. Curiosity featured as the second most important influence supporting the contention of sensation seeking (Newcomb and McGhee 1991). The other influences were personal viz., 'feeling big' and 'macho feeling'. According to studies (Evan et al, 1990), the desire to exhibit aggressiveness, toughness etc. encouraged smoking. Ad was not mentioned as an influence on the initiation process in this study.

The smokers identified themselves with social, outgoing and frank persons. Most of them smoked alone during depression or in a group when relaxing or cheerful. The value chain analysis indicated (Exhibit IA) that one of the reasons for smoking was for overcoming depression. The other functional consequences were relaxation, means to socialization, good for work and so on. Amongst the psychosocial consequences were social status, feeling equal to others, and sense of belonging. It was found (Burton et al, 1989) that smoking was resorted to when self concept and aspiration were adversely affected. Stimulant, an abstract attribute of cigarette, also featured, a 'reasoned action', supporting Marin et al (1990). However, such rationalisation is not unexpected after habituation. The responses were from smokers (Exhibit IA).

The value chain analysis of non-users (Exhibit IB) indicated functional consequences and concrete attributes (health hazards) as the major deterrents to consumption. Though it may be difficult to assess the personalities of non users, the typical statements seemed to emphasize will-power, conformity to social norms, honesty and emotional stability. Attributes of self-identity were 'successful man', 'man of

4 It was noted (Bensley & Wu, 1991) that dogmatic alcoholic prevention messages had counter productive effect. This is also supported by the reactance theory which was demonstrated (Venkatesh 1966).

Exhibit I				
A. Value Chain Analysis for Smokers				
Attributes		Consequences		Values/Goals
Concrete	Abstract	Functional	Psycho social	
	Stimulant for work/ thinking	Helps to concentrate	Rewarding experience after hardwork	to achieve goals/career aims
		relaxing		
	Taste	means to socialize	feeling equal to other	praise, appreciation from others.
		good for hardwork	sense of belonging, sense of freedom	
		Overcome depression	reflects social status, sense of good feeling, satisfaction from success	
B. Value Chain Analysis Non-users - Cigarettes				
Harmful for health	--	Not essential to life	Unpleasant habit	Feel great/unique
		No particular need satisfied Feel sleepy	Non-consumption shows willpower, determination Not approved by family members	Aim for perfection, honesty
		Cancer threat		An achiever/ contributor to society. Achieve emotional balance

**EXHIBIT II
CATEGORIZATION OF CIGARETTE ADS**

Category¹ 1

Ads C1, C10: User dominated, focus on psychosocial consequences, values and goal orientation. User attribute- a non conformist, challenger of norms, liberalised. Text and overall impression - Success through breaking the social norms. Liberated views, sense of freedom. Values emphasized to achieve self identity. "Charms, the spirit of freedom... the way you are".

Category 2

Ad C2, C4: Product focused directly with indirect emphasis on the user through the headline. Visual, brand name, text, convey quality. Overall impression the right brand for connoisseur. Matching of product with the user characteristics. Use of symbols to depict the user class. Direct message for the product attribute. Indirect on the user (snob appeal).

Category 3

Ad C3: Product focused, emphasizing the product attribute to reduce dissonance. Benefits are psychosocial, that of resolving conflict of family affection and cigarette addiction, safer cigarette that can achieve both the goals. Consequences as well as goal emphasized.

Category 4

Ad C5: Product focused 'taste' attribute emphasized, name of the company to convey quality.

Category¹ 5

Ad C6 and C7: User dominated, visual depicting, social gathering, psychosocial consequences viz., sense of belonging and also happy social interaction, socialization. The product attribute emphasized, 'matching of filter and tobacco'. Visual depicting, sense harmony, belonging, enjoyment, psychosocial consequences.

Category¹ 6

Ad C8 and C9, C11: User focused, depicting outgoing adventurous characteristics, 'Live Life Kingsize', appealing to certain attributes of the character, psychosocial consequences or goal achievement. User as well as product emphasized with the product shown has stimulant (abstract attribute) with the visual showing the user in action - goal orientation, healthy atmosphere. (Social status, achiever). Attempt to achieve identity with character while reflecting benefits/goal.

¹ Matched Ads.

determination', (as noted from the questionnaire given to them). These are in consonance with observations (Evans et al, 1990), which noted that traits, namely, self confidence and emotional stability, differentiated non smokers from smokers. A recent study (Sheth et al, 1991), found that the major discriminators between smokers and non- smokers were emotional and conditional values. According to this study, smokers were goal achievers, looking for appreciation (Exhibit IA). The non-smokers on the other hand, aimed for perfection, valued honesty, and claimed better emotional balance (Exhibit IB). It may be noted that the studies relate to respondents past the initiation stage, where the inward (personal) rather than the outward oriented (social) influences dominate. These have implications for public policy in terms of reinforcing messages to non-users. Yet an advertiser could use these to induce trial by enhancing self concept and aspirations (goal seeking objectives).

Categories of cigarette ads (Exhibit II) can be broadly grouped as product focused, user focused and matched (product matched with consumer) ads. Abstract attributes (taste, stimulant) have been emphasized directly and indirectly. In most of the ads, psychosocial consequences have been conveyed through visual, head/copyline and text. These are - sense of belonging, companionship, means to socialize and sense of achievement, promising reward to user or to occasional user. The social status of the user is emphasized through symbolic props and depiction of professionals. Values such as independence, sense of freedom have been emphasized in some ads to enhance self-identity (Exhibit IA). A single exception is the 'low tar and nic content', a concrete attribute emphasizing safer cigarette. This an interesting example emphasizing safer cigarette and aiming to reduce dissonance by resolving the conflicting objectives of self-satisfaction and family welfare. It thus achieves satisfaction and happiness (goal seeking and problem solving! helping to support a 'reasoned action' !). The visual depicts a couple with a child. The headline proclaims, 'Because I Care'.

The ads for the premium brands (C2, C4, C5 in the upper price range) directly emphasized product attributes through visual and copy. Symbols along with copyline were used to appeal to status and ego. In the medium priced brands (C9, C10, C11) targeted at younger age groups both social (visual of interacting group) and personal (life style projection or visual of aspiration group to emphasize identity, self esteem, status) factors were highlighted. An earlier study (Mukhopadhyay 1980) indicated that subsequent choice of substitute brands were dictated by similarities in physical attributes of brands, including price. This would indicate that functional and personal factors take over at the habituation stage, price acting as a cue for status and quality. An appropriate use of these have been made in different categories of ads.

b) Impact of Ads

Users: Interestingly all responses were noted against own brands. Noticeability of ads was 76%. Though the responses were against print ads, bias may have entered unconsciously to inflate figures due to the influence of the more visible outdoor media. The frequently mentioned reactions were, self-identity, reinforcing, and assured availability. Only 15% of the smokers, who noticed ads of

other brands switched. It would appear that ads have a major role in influencing choice of brand, whereas the social factors initiate product consumption.

Adult non-users: The reactions relate to ad associated effects such as self identity, interesting, and amusing. None of the behavioural dimensions, ie, persuasion, curiosity (search), or passive learning, was significant (low % response).

Vulnerable Segment - The School Boys: (Figs 1 a. b. c.) As responses were expected to vary with ads, the correspondence analysis was carried out with selected ad categories and responses as below.

Ads of C2, C4, C5⁵ (Fig 1a, categories 2 & 4): These were product focused ads with indirect emphasis on the user. Though product dominated, the brands C4 evoked the response 'pleasure', and the brand C5 'self identity', and 'passive learning'. Responses namely 'relaxation', 'pleasant moment and feelings' lay scattered as none of these had been highlighted. Familiarity with brands depressed 'curiosity'.

Ads C8, C9, C10, C11⁵ (Fig 1b, categories 1 & 6): These were user focused, value and life style oriented ads. Ads of C10, C11 with strong value appeals evoked 'self identity' and 'passive learning'. C8 with assertive head line and depiction of adventurous characters evoked 'curiosity', 'persuasive'. C9 projecting a professional image aroused 'interest'. Though 'excitement' was relatively isolated, it was closure to C8 and C10, where C10 conveyed - challenging norms (breaking norms? headline: 'spirit of freedom'). Self identity was close to passive learning and curiosity to persuasion. Anomalies such as excitement not leading to curiosity could be explained by familiarity with the brands.

Ads C3, C6, C7 (Fig 1c, categories 3 & 5): These were matched ads. C3 showing a family evoked 'homely atmosphere'. The claim of a safe cigarette aroused curiosity. C7 depicting a couple in harmony evoked 'pleasant moments'. C6 depicting social get-together and projecting the smoker status evoked self identity (aspiration group). Relaxation and passive learning collapsed into one point next to self identity.

The analysis showed self-identity to correlate consistently with passive learning. The characters in the ads were identified as successful man, well-known person, sportsman or mature young man. As many as 33% of students perceived the age of the model to be between (18-25) years and identified the character as sportsman/mountaineer, explorer, and man of muscle, determination. Responses were clearly ad specific. Identification with a professional person was rare. These taken with the findings of correspondence analysis, bear out the observations of earlier studies (Burton et al, 1989). Self image and identity with the smoker had strong influence on intention to smoke. These helped to enhance self concept and achieve identity with the aspiration group. Yet another research found younger models to be more attractive to younger audience (Michael et al, 1992). A study on junior school boys observed that

5 C1, a cigarette for women was left out of the analysis.

Fig. 1.a: Impact of product focused ads on the vulnerable segments.

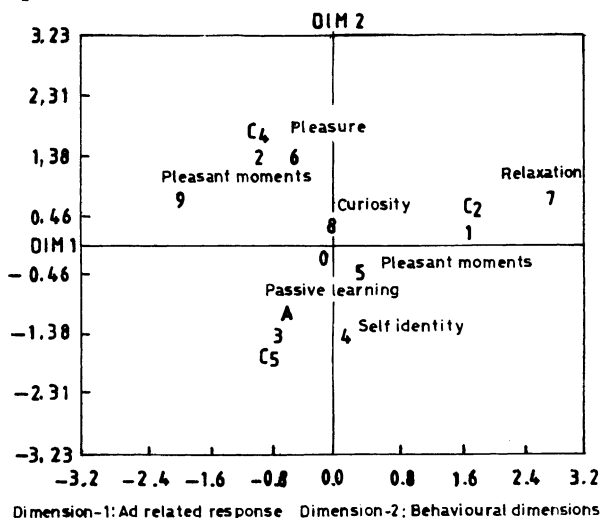


Fig. 1.b: Impact of focused, value and lifestyle oriented ads on the vulnerable segment.

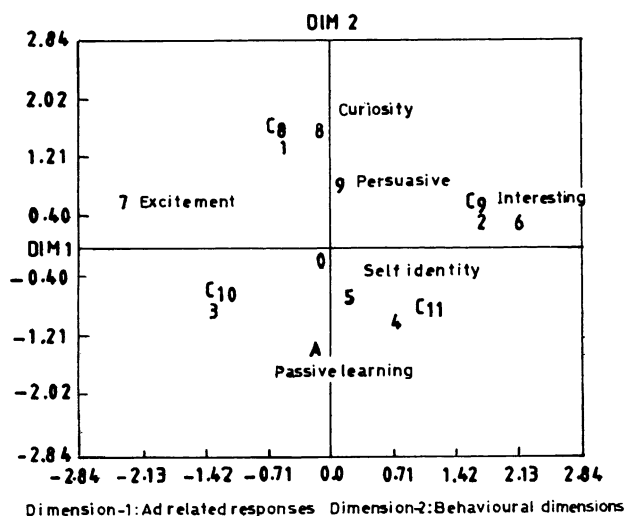
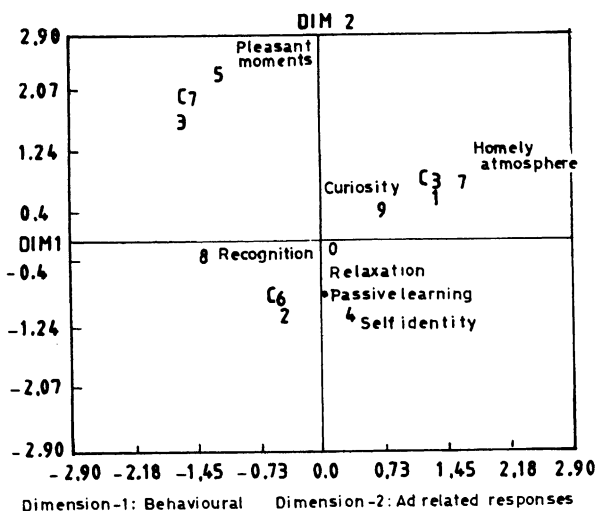


Fig. 1.c: Impact of matched ads on the vulnerable segments.



exposure to ads in magazines with high readership amongst school boys could be instrumental in initiating consumption as the students were vulnerable to ad appeals (Botvin et al, 1991). The questionnaire given to students indicated that 67% read India Today, one of the selected magazines. The readership figures were (5-6)% for the other magazines.

It would appear that for the uninitiated, social and personal factors would matter. Peer group pressure, and tendency to conform or appease may induce consumption of cigarettes. The personal factors could be goal seeking (social status, self esteem, self concept/identity, sense of belonging) or problem solving (enhancing morale, overcoming depressions). While initiation could be due to social factors, personal factors seemed to prevail with habituation. Tendency to seek change, rebel or indulge in deviant behaviour also have been noted. In India such behaviour could be manifested in smoking specially amongst the youngsters. It would be expected that the above factors are played up subtly through suggestive outlays including the message to arouse the desired response. The content analysis of ads and responses toward ads bore out this contention.

The product is very personal and satisfies basically psychological needs. As products are not essential or "healthy", their consumption needs to be rationalized. This has been done through functional and psychosocial consequences as well as goal achievement, more explicitly in cigarette ads. There are no explicit statements regarding the product attribute except 'low nic and tar content'. Indeed, most of the ads focus on abstract attributes but indirectly hint at the consumer through visual and symbolic props. Since no explicit claims are made, none of these ads perse violate the rules of MRTP viz. substantiation, false claim, mis-direction.

Onset of smoking is not through ads. They merely help to remind, reinforce and aid recognition. Where then does the catch lie? Clearly in the impact on the vulnerable and the user segments. While the vulnerable segment is exposed to the product through other means, the proximity of the media and the appeals through messages as well as visuals lead to recognition, curiosity, and self-identity. These lead to passive learning, stimulating the initiation processes, for self or others. The user, on the other hand, hardly ever changes his brand contrary to claims made by the advertisers that an ad is a competitive tool to induce switch over from one brand to the other.

c) What are the Implications? The statutory warning has not been very effective. The government has been enforcing ban on smoking in offices, public places, using fear appeals (threat from cancer) in TV to control consumption. An ad is not a significant influence at the initiation stage. Social influences and values are hard to contain or influence by merely media regulations. Besides, exposure to ads or product take place through other means (shop displays and sponsorships). Most of the youngsters have sports and games as major extra curricular activities, as verified from the questionnaire. What needs to be realized is that initiation is through social processes. The consumer may still get stimulated through messages in media which may be providing a goal orientation or a problem solving situation or emphasizing other aspects. These can influence brand choice. The policy cannot be uniform across all segments. The measures could be prevention for non users and moderation for users. The route may be through a) social

education in the form of emotive/ rational messages to emphasize moderation rather than total control for committed smokers. It may utilize reinforcing messages to non-user appealing to self-ego, emphasizing will-power, mental stability, perfection and honesty to avoid dogmatic preventive messages. b) More information on brands in terms of safety levels viz., tar and nic content. c) Education of the influencer, namely family members and friends, could also be encouraged. Enforcing 'No Smoking' selectively can limit consumption to a certain extent.

Discussion and Conclusion

The study was carried on a limited sample of consumers and products. Experimental design did not allow for measuring the impact of situational factors and state of readiness of the consumer. Familiarity with brands affected 'curiosity' adversely, which in turn inhibited 'passive learning'. However, factors such as social desirability which could inhibit responses were taken care of. The test for the vulnerable segment was conducted in a relaxed atmosphere in absence of instructors. Since the questionnaire did not require any personal data except that of father's profession the responses were uninhibited and spontaneous. Responses from adults were taken in the presence of the interviewer only.

How do the cigarette manufacturers react to the current regulations? There are no explicit claims in violation of MRTP. In few cases the goal and the values of the users are highlighted. As these are conveyed indirectly through the visual, head/copyline, or text, and perceived so by the target audience, these do not violate the existing rules of substantiation, overclaim, mis-representation, etc. Nonetheless the ads induce passive learning amongst the vulnerable segments. This could be the first step to the initiation process and raises an ethical issue. It may therefore be concluded that advertiser do succeed in effectively communicating with both the user and the vulnerable segment. The smokers find the ads reinforcing as well as congruent with self, and beliefs. The vulnerable segments while engaged in passive learning do identify themselves with certain characters as revealed by correspondence analysis.

If the aim of the government is to control consumption of cigarettes then message alone would not be sufficient. The question is much more complex involving a detailed study of situations to understand why some people who want to give up succeed and others fail. A larger study would be required to cover different regional and cultural influences and examine the above suggestions to evolve an effective public policy guideline for specific segments. The current study addresses itself to the urban educated upper income segments and gives leads to certain policy guidelines. The strategy implications would not be uniform across different segments, which need to be studied separately.

It may be noted that cigarette industry serves a social cause through sponsorship of cultural and sports events. In case of extreme measures the industry can retaliate by withdrawing such support. This poses yet another social issue.

Appendix - A

What is Laddering

A means-end chain or laddering is a model that seeks to explain how products or services as means are linked to ends that a person wants to attain and which are influenced by his values (Gutman 1982, 1984; Gutman and Reynolds, 1984).

To analyse a large number of laddering responses, a thorough content analysis of the responses is carried out. Each response or thought is assigned a category code and expressed in a standard concept. The aggregated valued structure represents the consumers' knowledge structure, a branch of a ladder representing a perceptual point of view.

A content analysis of the elements of the ladders was carried out as given in Gutman, (84) and Gutman and Reynolds, (88). In all, 50 ladders were obtained for each of the groups, one ladder per respondent. For coding, the responses/elements from the ladders were first separated into categories according to the level of abstraction as obtained from the questions. The five categories chosen were the standard ones, namely i) attribute - concrete, ii) attribute - abstract, iii) consequences - functional, iv) consequences - psychosocial, v) values and goals. These were then checked for reliability. Three judges coded the elements. An agreement to the extent of 75 to 80 per cent was recorded between the judges. This resulted in reliability of 80 to 84 per cent (Perreault et al, '89).

Each judge was asked to agree/disagree on the coded category. In case of disagreement he was asked to indicate the categories closest to the remaining four categories. The definition of each of the categories were based on the level of abstraction.

Exhibit Ia records the responses with frequencies $>/ 5$. The procedure followed for categorisation of responses from ladders was as explained in Appendix B.

Appendix - B

The Technique of Content Analysis

The content analysis is basically the categorization exercise of the contents in an ad or communication (Berelson, 1952). It contains three major decisions viz., a) choice of categories, b) choice of unit of analysis, c) choice of the system of enumeration. All these must ensure objectivity, reproducibility etc. For the given exercises the different categories formed the hypothesis to be tested out in terms of the message content of an ad viz., the various functional psycho-social attributes. The unit comprised of the entire ad where the focus changed with the type of the hypothesis or categories. The system of enumeration was of dichotomy in nature viz., giving judgment regarding presence or absence of an attribute. A brief was given to a group of judges who then coded the content of the ad in a coding sheet provided by the interviewer.

Derivation of Categories for the Present Study

A set of six categories was used. A group of three judges, behavioural scientists, classified the items/contents in two categories in the following manner. They were briefed on the different categories. The items/ statements representing a category as developed by the researcher were given to the judges along with statements representing other categories. The judges were asked to classify the sample of statements either in the 'test' category or other category. For each pair of judges frequency of responses into similar category/dissimilar category were noted.

Yule-Q was computed to judge the appropriateness of the categories. Items in the first quadrant were taken to represent the test category. This was attempted as test for content validity.

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SCOPE OF MARKETING COMMUNICATION IN A DEVELOPING NATION: AN EMPIRICAL ANALYSIS OF MANAGERIAL PRACTICES AND PERCEPTIONS

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Abstract

Despite the growing importance of marketing and marketing communication, there is a dearth of information on the state of marketing communication practices in India--both in the Western and Indian literature. This study attempts to augment and enhance our understanding and knowledge in this neglected area of international marketing. It is likely that greater insight into the characteristics of Indian marketing communication and promotional practices will enable multinational and local marketers to use more effective and competitive communication programs.

Introduction

In developing nations, as the economic structure gradually progresses from a production orientation to consumption orientation, the prevailing consumption-orientation society intensifies the importance of marketing, an eventual outcome of a competitive economy. The modern marketing concept focuses on a true customer-orientation backed by integrated marketing with the goal of achieving profit-maximization through customer-satisfaction (Kotler 1991). An implementation of the marketing approach will result in uncovering customer needs and latent demands and converting them into an effective market. This will result in uncovering customer needs and latent demands and converting them into an effective market. Overall benefit will be a most efficient and effective delivery to the market and will allow customers to discriminate in order to obtain the greatest value for their limited purchasing power. In developing nations, this means, in effect, a two-fold benefit: improved living by expanding the economic growth of the middle class, and enhancing customer satisfaction, both essential for the democratization of the social system (Kraemer 1973). Furthermore, for developing nations, the internationalization of business has meant more dependence on foreign markets and, therefore, an increased need to keep abreast of changes in world markets and to develop more effective strategic worldwide marketing activities. Because the cost of making a wrong decision can be excessive in the international marketing arena, several companies are routinely using marketing-based decision-making mechanisms.

International Marketing Communications

For a long time now, it has been well established that marketing communications presents one of the greatest operational challenges for international marketers

(Boddewyn 1981; Colvin et al. 1980; Harris 1984). There is a large body of literature that supports the contention that most problems in international marketing communications or promotion arise because of significant cultural differences across countries (Elinder 1965; Hall 1960; Ricks 1983; Terpstra and David 1985). Most earlier research on cross-cultural communication has focused on interpersonal communication (see for example Graham 1983, 1985 and Sheth 1983). More recently, a few studies have dealt with the issue of standardization vs. localization in developing advertising programs (see for example Kanso 1992; Hite and Fraser 1988). In order to assess the cultural relevance of marketing communications, multinational firms interested in marketing products in developing nations need to understand the existing perceptions and advertising practices of local marketers and marketing decision makers. A prerequisite for any global marketing communications program is a thorough understanding of what communication tools, techniques and methods are available in different countries. This information can sensitize marketers to the relative feasibility and effectiveness of various promotional programs across countries and culture. However, there is only a small body of literature that exists in the area of marketing communication that is typically focused on a single country (see for example Arroyo 1982; Peebles and Ryans 1984). Furthermore, there is virtually very little empirical data and research on marketing communication (including advertising) for developing nations (see for example Semenik et al. 1986).

Marketing and Marketing Communications in India

In many business circles in India, marketing communications (including advertising) is still viewed as something wasteful and from a governmental perspective, it may even be seen as incompatible with political objectives. Indeed in some instances, marketing communications can be misleading, deceptive and wasteful. However, there appears to be a growing recognition that marketing communications is general and advertising, in particular, serves a useful function by providing consumers with relevant information for intelligent decision making. While the U.S. style of advertising is not suitable for many business situations, it does make a significant contribution to uplifting the standards of living in India. It should also be noted that many of the marketing communications media, especially the electronic media (TV and Radio), are government operated and controlled for security reasons. Even where private media are available, they differ in style and approach to target audience. Media such as outdoor, cinema, and rural advertising are quite extensively used in India. Moreover, many Indian advertisers rely more on a

repetitive effect than on sophistication within a message. Direct-action marketing communications approaches may have to give way to an indirect-action approach, emphasizing the reputation and image of a company or a brand name even though this usually does not result in immediate sale of products and services.

Despite the growing importance and popularity of marketing communications, there is a dearth of information on this subject both in the Western and Indian marketing literature. Any attempt to study the Indian Marketing Communications function is characterized by a lack of readily available scholarly data and the absence of any organized and reliable sources through which such data can be collected (Ayer 1987). Because of the variations found in marketing communications regulations, media availability, media approaches and practices, there is a great risk in employing any standardized communication approaches for Indian markets. In an attempt to bridge this informational void, the current study empirically investigates current marketing communication practices in India.

Purpose of the Study

This research study is undertaken to provide a state-of-the-art understanding of organized marketing communications activities in India. It focuses on the current communication practices of major business organizations and research/advertising agencies. Moore (1969) in his research proposed that "valid description must precede proposed prescription if the latter is to provide much in the way of practical application." The current research seeks to provide that "valid description" by addressing the following two major questions: (a) What is the nature and scope of marketing communication (types of communication studies conducted) within the Indian organization? and (b) How are these marketing communications functions organized (which unit within the organization is most likely to carry these functions out)?

Research Methodology

After being pretested and with subsequent revisions, a self-administered mail questionnaire was distributed to highest ranking marketing officers from all major business organizations (1200) listed on the Bombay Stock Exchange. A total of one hundred and thirty three questionnaires was completed and returned by the allotted time period. This response rate of 11%, though considered low by Western standards, is quite reasonable for a country where marketing is still a very new phenomenon. However, the potential for strong nonresponse bias cannot be ruled out. The marketing officers were asked to provide several different types of information about themselves and their organizations. The responding firms exhibited a good cross-section of Indian

business industry representing industrial, consumer and service categories. A major part of survey section consisted of questions covering the types of marketing communications activities carried out by the organizations and how they were organized. Each of those broad question categories was further subdivided into specific types of activities.

Results

General Characteristics of Responding Firms

Survey responses indicate a wide distribution of business categories amongst the responding firms. A large majority (90%) of these firms are from the private sector. The respondents filling out the questionnaire held the following types of general job title categories: top management (23%), senior management (11%), senior executives (36%), middle management (15%), junior executives (12%) and other officers (4%).

Scope of Marketing Communication Functions

A frequency distribution based on 131 respondents' evaluations of the nature of marketing communications functions carried out by their organizations shows a wide scope of marketing communication functions. In general, Indian business organizations are quite extensively engaged in functions related to sales, promotion and advertising.

With regards to sales, promotion and market-related communication functions, the following activities stand out as quite prevalent (60% and above reporting): Establishment of Sales Quota (84%), Market Potential Measurement (72%), Determination of Market Characteristics (68%), Market Share Analysis (66%) and Sales Analysis (65%). It is not surprising to note that many of these activities are related to the personal selling part of the marketing communications function and India, while increasingly moving toward a marketing oriented business economy, still maintains a selling orientation. Consequently, the prevalence of sales and selling related marketing communication functions is quite high. Although, some firms do conduct studies related to Premium, Coupons & Sampling studies, the incidence of such studies is not so high (under 40%). Similarly, given a high level of unemployment, a very few (under 36%) organizations carry out sales compensation studies.

The marketing communications function specifically related to advertising also underscores the wide scope of these activities for Indian business corporations. However, the incidence rate of these communications functions is not as high as that related to personal selling functions discussed above. The following marketing communications functions report an incidence of 40% and higher: Advertising effectiveness (52%), Competitive Advertising Studies (46%), Media Research (44%), Copy Research (42%) and Motivation Research (40%). Given

the overall lack of sophistication in marketing communications and the developing character of Indian economy, it is not surprising to note such low incidence rates for these specialized areas. However, it is quite surprising to note that many organizations are engaged in a wide variety of advertising related studies. Furthermore, given a fairly rigid legal and political environment for marketing communications in India, a very small percentage (under 30%) of Indian organizations are engaged in studies related to the legal constraints on advertising and promotion.

Organization of Marketing Communication Functions

Organizationally, a vast majority of marketing communications studies related to sales, promotion and markets are carried out by the marketing department of the organization. These studies include: Sales Quotas and Territories Establishment (50%), Market Potential Measurement (37%), Determination of Market Characteristics (35%), Market Share Analysis (37%), Sales Analysis (52%), Premiums including coupons and sampling (29%) and Sales Compensation (24%). Not surprisingly, all these studies are conducted internally by the marketing departments of a large number of Indian business organizations. However, outside firms are also used for conducting market potential and share analysis related activities. The establishment of sales quotas and territories is also done by another department (perhaps the sales department) quite frequently (50% reporting).

The organization of marketing communication activities related to advertising is quite different for most Indian business organizations. Specialized advertising functions such as Assessing Advertising Effectiveness, Competitive Advertising Studies, Media Research, Copy Research and Motivation Research are relegated to outside firms specializing in these functions. While the incidence rate of conducting studies of legal constraints on advertising and promotion is quite low (under 15%), it is typically carried out by the marketing department. Overall, it is interesting to note that the marketing research departments of many of these business organizations, with a few exceptions, do not appear to be extensively involved in conducting studies related to marketing communications.

Conclusion

Clearly, the findings from the study augment our knowledge regarding marketing communications practices of Indian business organizations. The following observations summarize the future of marketing communications in India, and some of the findings from this study lend credence to these observations:

- As markets become more competitive, there will be a greater awareness and usage of marketing communications-based approaches in India.

- Marketing communications industry in India, though small currently, will be a major growth industry in near future (30% growth rate expected).
- Major improvements in marketing communications services and more specialization will occur as the industry itself becomes more competitive. Clients and business corporations are more likely to use specialized agencies for idiosyncratic specialized communication tasks.
- Advances in technology will enable major improvements in audience measurement and analysis procedures.
- More government, non profit and service sectors (e.g. finance, banking, health care) will be involved in marketing communications approaches.
- More syndicated marketing communications services will be available. This will also result in major improvements in timing, product and audience coverage and accuracy. Syndicated services pertaining to media will become more technology driven and specialized.
- Personal selling aspects of marketing communications will become more sophisticated and will be done internally by Indian business organizations.

While the findings from this study provide only the most rudimentary evidence of the future prospects for the growth of marketing communications in India, they augment the limited information base available on the Indian marketing communications industry. Such information will not only be useful for local marketers in India but also will help international corporations targeting India for future marketing programs.

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THE MEDIUM IS *NOT* ALWAYS THE MESSAGE :
THE CASE OF "TOTAL PAINT BUSES"

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Abstract

High media visibility and creativity do not always guarantee success. A new, unconventional concept in media, "total paint buses", lends support to this fundamental assumption. Not only does message effectiveness vary considerably, but perceptual vigilance and combined awareness appear to be restricted to a younger audience whose attitudes towards the new concept are more positive and innovation proneness is higher. Consequently, our results prove that the medium is *not* always the message !

Introduction

"The medium is the message". Marshall McLuhan's statement (1967) implies that the medium communicates an image which is independent of any messages it conveys. The role of the medium in communications is illustrated by the fact that the same advertisement will have a different communication effect when run in different media, (Aaker and Brown 1972 ; Wright 1974) or in different program contexts (Kennedy 1971 ; Soldow and Principe 1981 ; Pavelchack et al. 1988).

Practically speaking, this problem is critical for advertising planners, especially when they use new advertising mediums over more conventional ones (Krugman 1985).

Although we may broadly hypothesize that there is a potential relationship between message and media effectiveness, it is risky to make more specific and/or restrictive conclusions regarding such complex phenomena (i.e. one goes up when the other goes down, or the opposite). In this perspective, we can ask ourselves the following fundamental questions : Is high media visibility a guarantee of message effectiveness ? Can negative attitudes held by the public towards the medium *per se* affect this relationship ? How do all of these variables interact in a new media environment ? These key points will be investigated in this paper in relation to a case study of a specific new advertising medium : "total paint buses".

Research Context

As the name indicates, "total paint buses" are vehicles which are completely taken over and decorated on the outside in the name of a specific company.

A research study on "total paint buses" was conducted in Ottawa, Canada, one of the few cities in North America to make full use of this media approach. Ottawa is an excellent test market considering that the bus is the only mode of public transport and given the bilingual and cosmopolitan profile of the population. From the media campaign's inception

The research was supported in part by a TRANS-AD grant.

through the period of data collection, 14 total paint buses were launched. Of these 14 buses, eight represented separate product or service commandoes and six were identical, having been commissioned by a local tourism campaign. The average on-road bus presence (each bus with the same message over the period of time) ranges from 31 to 57 weeks.

Accordingly, our objectives were : (1) to measure the advertising effectiveness of these buses in terms of their overall and specific visibility ; (2) to assess and explain attitudes towards this new medium ; and (3) to develop an integrative evaluation of this new advertising medium.

Hypotheses

Based upon the introductory discussion, two basic levels of analysis were conducted, keeping in mind that we were measuring here only the *absolute* (and not the relative) effectiveness of this advertising medium. The first level relates to the functional relationship between the messages and their respective impact on the audience. The second level measures audience attitudes towards the new medium of "total paint buses". These two related analyses lead to an overall measure of the advertising effectiveness of the indissociable message-medium combination. Seven basic hypotheses were developed :

H1 : *The relatively large number of "total paint buses", their high visibility and mobility, as well as extensive on-road presence, will result in high awareness rates for both the medium and the messages.*

The rationale underlying this hypothesis is derived not only from the basics of classic conditioning as applied to advertising and memorization (Stuart et al. 1987), but also from the specific characteristics of the phenomena under study : these buses are very noticeable and cover every sector of the territory being studied.

H2 : *Bus usage patterns of respondents will have a significant impact on message awareness rates.*

Even if these buses are, by definition, highly visible for car drivers and pedestrians, bus users are more directly confronted and should demonstrate better awareness levels, especially for those travelling downtown where total paint bus density is generally highest.

H3 : *Previous brand knowledge will be positively related to messages awareness rates (unaided and aided)*

Research shows that previous knowledge of a brand may have a significant effect on attention and retention of messages regarding the brand (Spence and Engel 1970).

H4 : *Product or service involvement will relate positively to message retention and appeal.*

The effectiveness of an advertising message is widely believed to be moderated by audience involvement (Krugman 1965 ; Petty et al 1983).

H5 : *Cognitive, affective and conative attitudinal reactions towards the new medium will be organized into a homogeneous response system.*

"Total painted buses", as a new medium, do not require a specific behavioral choice from respondents. As such, we expected all three attitude components to be consistent with one another (Rosenberg 1970 ; Sheth and Talarzyk 1972).

H6 : *Individual predispositions will play a significant role as moderator variables, i.e. conditions likely to produce perceptual vigilance.*

H6.1 *The more positive the attitudes towards advertising in general, the more positive the attitudes towards "total paint buses" as a new advertising medium.*

Expanding on the notion of "mood congruency" proposed by Bower (1981), positive predispositions towards a field of interest should result in an *a priori* interest in any innovation within that field.

H6.2 *There should be a positive attitudinal relationship between public transport in general, the specific bus company under study, and "total paint buses".*

In a similar manner, a better congruence between the generic and specific images of the medium should have a positive influence on reactions towards the latter.

H6.3 *Finally, there should be a positive relationship between attitudes towards "total paint buses" and the resultant advertising effectiveness.*

Once again referring to the notion of "mood congruence", but in this case as it applies to assessment of advertising effectiveness, positive attitudes towards total paint buses should lead to better message awareness (Mayer 1986).

H7 : *Socio-demographic variables related to innovation proneness should have impact not only on the advertising effectiveness of the messages, but also on attitudes towards this new concept.*

According to previous research (Robertson 1971 ; Rogers 1983), both awareness of messages and attitudes towards "total paint buses" should improve with income and education and decrease with age.

Method

Sample

The basic sampling unit was defined as any individual, aged 15 or older, resident in the region under study on a permanent basis for more than a month. A total of 336 respondents were interviewed by telephone. Participants were randomly selected. The response rate among eligible respondents reached 70%.

The study was conducted over a short period of time to avoid uncontrollable variations in exposure and the

possible launch of new total paint buses. Sampling error was calculated to be 2.4% at the 95% confidence level.

Questionnaire design

The questionnaire was of a maximum 16 minute duration. After translation, terminology validity was controlled using the back translation procedure. Both language versions, English and French, were pre-tested.

Data structure and analysis

With respect to the *dependent* variables, we included both unaided and aided awareness measures. The attitudinal measure (on a five-point agree-disagree Likert scale) was comprised of 13 statements, subdivided into the three basic components related to attitudes : cognitive (6), affective (5) and conative (3). The statements were developed through personal interviews during a pre-study. Reliability of the attitudinal measurements was assessed using Cronbach's Alpha coefficient, which reached a very acceptable overall level of .91 for all components when rejecting two cognitive statements. The Alpha coefficients for each attitudinal component are the following : cognitive = .64, affective = .94, conative = .80.

All other explanatory variables were measured on a five-point scale with a subsequent systematic reliability assessment. The reliability results were as follows : previous brand/service knowledge, Alpha = .64 ; product/service involvement (limited here to "declared importance"), Alpha = .54 ; general attitudes towards advertising (misleading and information proneness), Alpha = .95 ; attitudes towards public transportation in general, Alpha = .55.

Results

Medium and message awareness

Of the total sample, 93% claim to have noticed the "total paint buses", confirming the high visibility of this new medium. However, total awareness of the messages conveyed tends to be lower and varies considerably from one message to another, ranging from a low of 22.9% of the total sample to a high of 79.5% (Table 1). Advertising effectiveness thus seems to be much more dependent on the message itself than on the medium. The choice of a highly visible medium is not a guarantee of success: hypothesis 1 is only partially verified. Concerning the relationship between total message awareness and exposure length, there is no discernible link.

To clarify the analysis in a more global and integrative way, we proceeded to a multiple correspondence analysis (MCA) using simultaneously for each message unawareness/awareness rates and age as the active variables. The passive variables were frequency of bus usage and downtown presence. Calculations were based on frequencies and significance is .05. The joint graphical display obtained can help in detecting structural relationships among the variable categories (Hoffman and Franke 1986). On the corresponding map (Figure 1), the horizontal axis relates to age and accounts for .89 of the total variance explained. The vertical axis represents the awareness/unawareness

Table 1
Advertising Effectiveness:
Summary Scores by Paint Bus

Brands	Exposure (weeks)	Number Buses	Awareness			Prod./Serv. Importance *	Previous Brand Knowledge ***
			Unaided	Aided	Total		
"Budget"	57	1	22.4	31.3	53.7	2.23	2.71
"Chez 106" (Rock Radio Station)	56	1	40.8	38.7	79.5	2.62	2.57
"Woodfield Homes" (Builder)	56	1	6.8	17.9	24.7	3.95	1.62
"Remax" (Real Estate)	52	1	18.5	39.3	57.7	3.95	2.56
"Frisby & Michelln"	50	1	21.7	33.3	55.1	3.90	2.47
"Bel Air Toyota" (Garage)	37	1	8.6	16.4	25.0	3.90	2.05
"Pizza-Pizza"	33	1	19.0	37.5	56.5	2.72	2.65
"National Gallery" (Museum)	31	1	11.3	15.5	26.8	3.46	2.68
"Destination 88" (Tourism)	--	6	4.8	18.2	22.9	3.68	1.59
"Others" (Wrong answers)			6.5				
Decoy brand				8.3			

* Awareness rates refer to the total sample

** 5-point scale, where 5 means "Very important" and 1 means "Not important at all"

*** 5-point scale, where 5 means "Know very well" and 1 means "Not at all"

rates of frequent and infrequent bus users, and accounts for .07 of the total variance. It is clear that awareness rates are positively linked with the under 25 age group, frequent bus users and those regularly visiting downtown. Older people, especially those over 45, are least likely to be reached by this communications approach. At this stage of the analysis, hypothesis 2 is confirmed and hypothesis 7 is partially confirmed in terms of the inverse relationship between age and advertising effectiveness of these particular messages.

The results presented in Table 2 include a significant positive relationship between previous brand knowledge and message awareness, thereby confirming hypothesis 3. There is no significant relationship between "declared importance" of the product or service and message awareness, except in the case of the bus representing a rock radio station. Considering the circumstances, this finding is very meaningful: the rock radio station bus is painted black and the lettering is very difficult to read. Very probably younger people, who are members of the target market, will be more likely to try and decipher this unusual presentation.

To summarize, regarding the advertising effectiveness of the medium-message combination, "total paint buses" as a medium are extremely noticeable, but they do not guarantee high message awareness. This holds true even if awareness levels increase significantly with bus usage and frequent downtown presence where density of these buses is the highest. Previous brand knowledge stimulates message comprehension and retention.

Table 2
Relationship Between Total Message Awareness
and Previous Brand Knowledge

Brands	Awareness *	Previous Brand Knowledge **	Eta Squared	F	Sign.
"Budget"	0 1	4.24 4.55	.0194	5.96	.0152
"Chez 106"	0 1	3.08 4.36	.1151	40.06	.0000
"Woodfield Homes"	0 1	1.93 3.02	.1008	33.62	.0000
"Remax"	0 1	3.84 4.28	.0291	9.07	.0028
"Frisby & Michelin"	0 1	3.57 4.17	.0440	13.99	.0002
"Bel Air Toyota"	0 1	2.84 3.76	.0657	21.11	.0000
"Pizza-Pizza"	0 1	4.03 4.47	.0286	8.94	.0030
"National Gallery"	0 1	4.20 4.69	.0362	11.14	.0010
"Destination 88"	0 1	1.76 3.43	.1989	73.75	.0000

* 0 = No / 1 = Yes

** On a 5-point scale, where 5 means "Know very well" and 1 means "Do not know at all"

Attitudes towards total paint buses

Table 3 presents an overall view of attitudes and their potential sources of variance. In the cognitive dimension, ratings are above average, with the exception of perceived usefulness of this kind of advertising which generates divergent opinions. In the two other major attitudinal dimensions, ratings are generally positive. A cross-sectional analysis through a one-way analysis of variance shows very clearly that age and, to a lesser extent education, are the major sources of variance among attitudes, with an inverse relationship: younger, less educated respondents are more in favour of these buses than their counterparts.

In order to more clearly describe the variations in attitudes, a second multiple correspondence analysis was performed. In this case, the active variables were the three attitude dimensions, each divided into two categories above and below the median, as well as age. The passive variables were level of education, categorized (positive or negative) general attitudes towards public transport and the bus company, as well as the perceived trustworthiness of advertising and its ability to supply useful information to consumers (Figure 2). The results clearly demonstrate that the relationship between attitudes and age is unidimensional, as the axis related to age explains 98.2% of the total variance (Sign.<.05). People in favour of total paint buses are young (age 30 or younger), are positive towards the bus company, and are consistent on all three attitudinal dimensions. However, they are also the most critical of advertising in general (misleading and informative value). At the other extreme are the older, better educated people: they think that advertising provides useful information (probably for others?) and they are negative on all other dimensions. With regard to attitude structures, the internal consistency is strong which confirms hypothesis 5. Individual predispositions towards

Figure 1
Multiple Correspondence Analysis:
Message Awareness versus Age

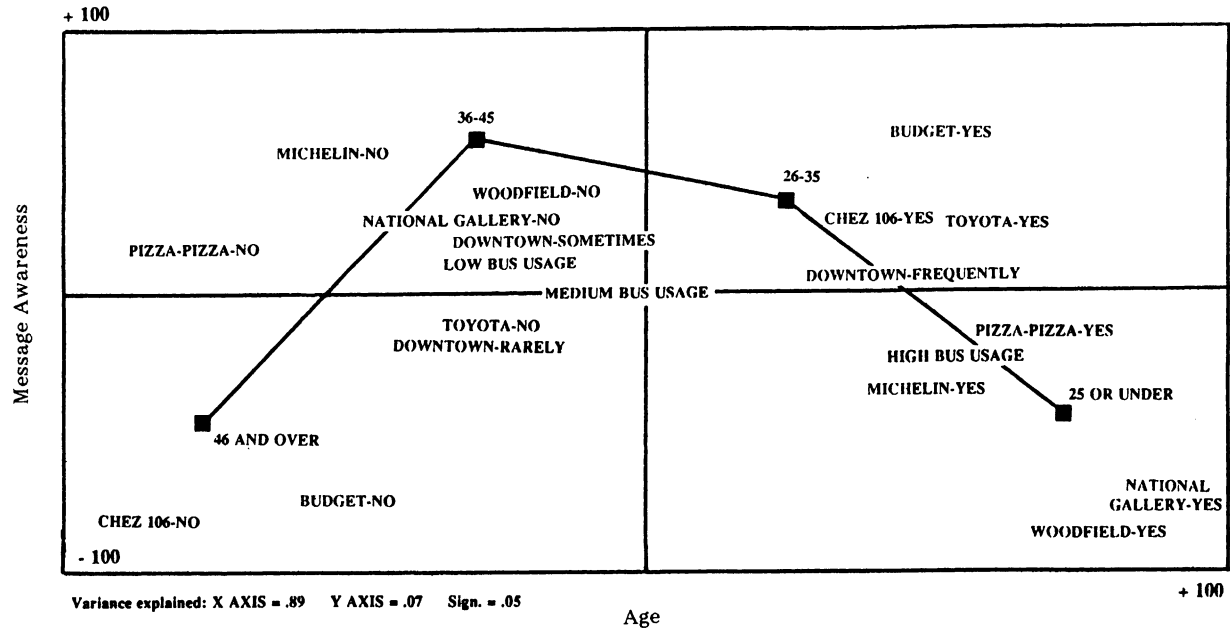


Table 3
Attitudes Towards Total Paint Buses
A Cross-Sectional Analysis

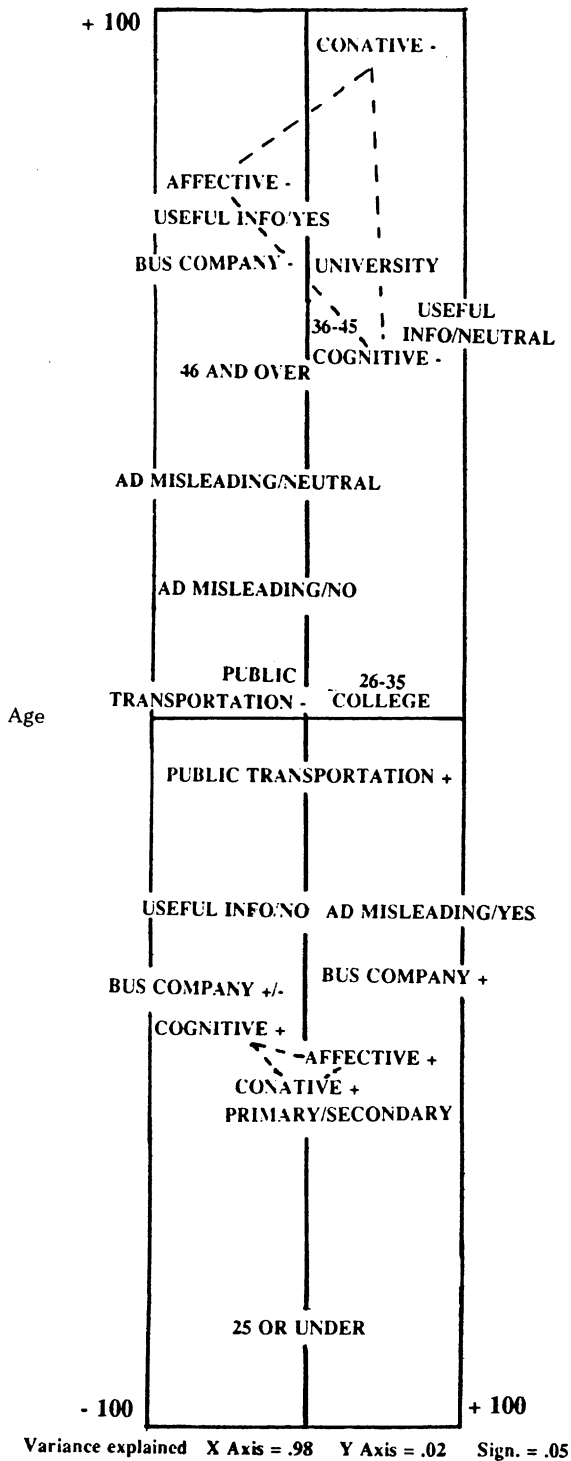
STATEMENTS	OVERALL		CROSS-SECTIONAL ANALYSIS						
	MEAN *	STD/DEV	GENDER TONGUE	MOTHER	AGE	LEVEL EDUCATION	NUMBER CHILDREN	HOUSEHOLD INCOME	MARITAL STATUS
Paint advertisements are very informative	3.03	1.18	NS	Less ed. NS	NS	8.07	NS	NS	NS
Paint advertisements are very original	3.93	1.02	Younger NS	NS	2.53 (C)	NS	NS	NS	NS
This kind of publicity is very useful for you	2.53	1.16	NS	Less ed. NS	NS	7.61 (A)	NS	2.42 (D)	NS
Paint buses spoil our visual environment **	2.42	1.28	Male 4.61 (C)	NS	Younger 10.71 (A)	NS	NS	NS	NS
The lettering on paint buses is very easy to read	3.82	.95	NS	Younger NS	2.99 (C)	NS	NS	Single NS	3.13 (C)
Paint buses dangerously distract drivers attention **	2.53	1.21	Male 3.59 (D)	NS	Younger 6.16 (A)	NS	NS	NS	NS
I really like the idea of paint buses	3.47	1.26	NS	Younger NS	Less ed. 10.28 ((A)	Without 2.86 (C)	5.4 (C)	NS	NS
I find it very pleasant to see paint buses	3.43	1.26	NS	Younger NS	Less ed. 8.00 (A)	Without 3.72 (C)	3.09 (D)	NS	NS
I support OC Transpo for such an idea	3.55	1.24	NS	Younger NS	Mid./less 6.27	3.16	NS	NS	NS
It doesn't bother me at all to see these buses	3.74	1.08	NS	Younger NS	6.04	NS	NS	Single NS	6.8 (A)
I encourage organizations to use paint buses as a means of publicity	3.54	1.14	NS	Younger NS	7.01 (A)	NS	NS	Single NS	2.76
It's normal that private companies are allowed to adver. using paint buses	3.58	1.08	NS	Younger NS	Less ed. 3.18 (C)	4.16 (B)	High NS	3.8 (C)	NS
It's normal that public companies, ie. National Gallery, are allowed to adver. using paint buses	3.70	1.09	NS	Older NS	2.61 (C)	NS	NS	Single NS	3.89 (C)

F Ratio with: (A) = p < .001 / (B) = p < .01 / (C) = p < .05 / (D) = p < .10

Labels refer only to respondents who tend to be more positive

* On a 5-point scale, where 5 means "Totally agree" and 1 "Totally disagree" ** Statements treated separately

Figure 2
Multiple Correspondence Analysis:
Attitude Components versus Age and Other Variables



advertising in general play a significant moderating role (H6.1). In the same perspective, individual predispositions towards the Ottawa bus company also play a significant role, which is not the case for individual predispositions towards public transport in general: hypothesis 6.2 is only confirmed for one of the two moderators considered here, i.e. predispositions towards the bus company and not towards public transport in general.

Attitudes towards the medium and message awareness

Throughout this research, we found that age and, to a lesser extent level of education, are significant explanatory variables as indicators of innovation proneness, supporting hypothesis 7. Since age is negatively related to both message awareness and attitudes towards the new medium, we expected a transversal relationship to exist between attitudes and awareness.

To test this final hypothesis, we proceeded to a one-way analysis of variance (ANOVA) between the global attitudinal score towards total paint buses and total message awareness for each message. Since the internal consistency among attitude components was strong, the global attitudinal score was calculated as the sum of the eleven (11) statements remaining after the reliability analysis. The results presented in Table 4 clearly show that attitudinal scores tend to be higher for those respondents who are aware of the messages. However, the magnitude of differences between the mean scores do vary from one message to another and are statistically significant under or equal to the .05 level for only five (5) of the nine (9) messages conveyed. Thus, hypothesis 6.3 is only partially confirmed. The global attitude towards total paint buses is positively related to message awareness for a majority only of messages, although we cannot specify any causal effect. For the remaining messages, this observation is only a trend in the same direction. Here, we may postulate an uncontrollable effect stemming from the layout of the messages.

Conclusions

Conclusions of interest to both academic and managerial circles can be drawn, and not only because of the innovative character of the concept being studied.

First, from an academic point of view, the research study clearly shows that the relationship between message and media effectiveness is very complex and must not be oversimplified. The high visibility of the medium does not guarantee the success of the message. Many variables can affect the results; in particular, attitudes towards a new media vehicle seem to be strongly affected by the innovation proneness of the audience and, more specifically, age (which seems to be the main explanatory variable). It is quite unusual in market research for one socio-economic variable to account for so much explanatory variance. Of course, before any further generalizations are made, this research should be duplicated elsewhere and/or other new media should be similarly studied. Perhaps an even more sophisticated measurement of the relative effectiveness in comparison to other media should be carried out. And finally, the attractiveness of the message layout should be controlled as it acts as a moderating variable.

Table 4

**Relationship Between Total Message Awareness
and Global Attitudinal Score Towards the Medium**

Brands	Awareness *	Total Attitudi. Score **	Eta Squared	F	Sign.
"Budget"	0	37.17	.0296	8.15	.0047
	1	40.25			
"Chez 106"	0	34.78	.0439	12.26	.0005
	1	39.76			
"Woodfield Homes"	0	38.27	.0141	3.81	.0518
	1	40.63			
"Remax"	0	38.53	.0011	.28	.59
	1	39.14			
"Frisby & Michelin"	0	36.87	.0322	8.89	.0031
	1	40.16			
"Bel Air Toyota"	0	38.13	.0190	5.17	.0237
	1	40.82			
"Pizza-Pizza"	0	37.75	.0103	2.77	.0972
	1	39.61			
"National Gallery"	0	38.70	.0015	.39	.5308
	1	39.44			
"Destination 88"	0	38.88	.0000	.01	.9101
	1	39.03			

* 0 = No / 1 = Yes

** On a 5-point scale, where 5 means "Know very well" and 1 means "Do not know at all"

From a managerial perspective, the overall evaluation is quite positive, although there are some limitations. First, message comprehension is irregular, which may indicate that the practical rule of using 'simple message layouts' should be even more strictly applied here. Second, the bus company must not underestimate the discontent of the older segment and should consider limiting these buses to a reasonable number. Third, and in the interest of advertisers, "total paint buses" are not appropriate for all types of messages. For example, it is not so surprising that the more "serious", "adult-oriented" brands register the worst awareness rates (*National Gallery* is a museum of fine arts, *Destination 88* is a public service message from a government agency and *Woodfield* is a contractor specializing in luxurious residences).

Consequently, segmentation must also apply to the media choice. The findings strongly suggest that "total paint buses" are much more appropriate for brands targeting the youth market.

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A CRITICAL ASSESSMENT OF THE FREQUENCY QUESTION AND ITS ABILITY TO PROVIDE VALID MEASUREMENTS OF READERSHIP FIGURES: LESSONS FROM A STUDY INVOLVING A VOICE RESPONSE BASED PANEL OF RESPONDENTS

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Abstract

The paper presents a new way of gathering data: A panel of respondents is instructed to perform a daily call to a voice response computer (VR) which has been programmed to pose pre-recorded questions regarding media contacts yesterday (day-after recall). Respondents are then providing answers using the buttons on their push-button phones i.e. they push the numbers of the titles read - these numbers figuring on a list containing approx. 50 titles which has been mailed to the respondents. The paper describes how the voice response technology might be used for media research purposes. The paper also discusses the construct validity of a frequently used readership measurement. The study involved indicates a considerable disagreement (low convergent validity) regarding readership reported when comparing data which were gathered (1) using continuous measurement (VR-method) with data gathered using the so-called (2) frequency question (mail-interview). Some crucial questions regarding a popular way of measuring readership are raised. Implications for advertising strategy are discussed.

Introduction: Using Voice Response Technology for Data-gathering

During recent years the Voice Response (VR) technology has gained huge popularity regarding commercial customer information. Financial institutions like banks supply services for customers who phone the VR-computer. They can get information about their accounts, actual exchange rates, interest on deposits etc. Tourist agencies and hotels supply VR-services which provide activities information. Today students at many universities can call the VR-computer at their business school and get information about their examination marks etc.

In most application of VR-services the service has been designed with the single aim to supply information to customers. Since the individual who phones is demanding the information calls might be relatively expensive (1-900-numbers).

As can be easily understood it is possible to organize the VR-approach in such a way that the flow of communication is reversed: A VR-system that is designed to gather or demand information from individuals (customers or respondents) who phone the VR-computer and deliver information to the computer. In such cases one might use the VR-system for marketing and media research. Since the individual is supplying the source (i.e. a marketer or the market research agency) all calls under this condition must be free (1-800).

A few comments on how a VR Interview Application might work in a market or survey research context might be appropriate¹:

- A panel consisting of a random sample of respondents is established, using traditional recruitment techniques. Of course the panel has to be representative regarding the recruiting criteria ("Head of Household", "Voter", or the like).
- Each respondent must have easy access to a push-button telephone (either at home or at work)².
- A media list is mailed to all respondents in the panel. The media list contains a fixed two-digit-number regarding each major daily, weekly, and monthly. I. e. the digit "27" might indicate readership of Donald Duck "yesterday".
- The respondents are trained to phone an 800-number once a day. When hearing a pre-recorded voice saying "welcome" they are supposed to press their individual password. The respondent then just has to press the buttons according to his/her yesterday readership. I.e. "12" (Reader's Digest), "27" (Donald Duck), and "52" (Jyllands Posten - National Daily).

- Next, the respondent is asked a question by the pre-recorded voice (repeated for each medium read), i.e.

Was this issue of Donald Duck the most recent one ?

Press "1" for yes
Press "2" for no, old issue
Press "3" for don't remember etc.

It is, of course, possible to 'go backwards' in the questionnaire - as long as the line-connection exists - by using other buttons like the "#"- or "*" - buttons, when one wants to have the question repeated, correct errors etc. Response selection errors³ do not exist when using VR, because it is the respondent, not the interviewer, who presses the buttons (of course the respondent himself might press the wrong buttons).

¹For a more comprehensive discussion of the methodological aspects involved see Jansen and Schmidt (92 - working paper version).

²According to KTAS - the Public Copenhagen Telephone Company - 90% of all Danish households own at least one push-button telephone. Almost all office-phones are push-button phones.

³Pressing the wrong within-range key on the computer.

Skip pattern errors⁴ are ruled out because it is the programming logic of the VR-computer that decides which is to follow next (CATI-like). While interpretation errors⁵ might still exist when using VR, their scope is different and their shape is reversed as compared to CATI-interviews: The respondent might misunderstand "the interviewer" (the pre-recorded voice) but not vice versa. Even if the call is disconnected during the interview, the data gathered so far will be stored, which means that each numeric answer (keystroke) is recorded separately in ASCII-character format on the VR-computer.file.

Table 1 summarizes how a VR-panel approach to data gathering might be structured.

The Pilot Study: The VR-TelePanel

In late 1990 the management of the Danish subsidiary of the commercial market research agency GfK⁶ decided to sponsor a pilot project concerning the establishment of a VR-panel (: 'TelePanel'), which had been proposed by the authors.

The appropriate technology (a VR-computer with 16 lines) was rented from KTAS⁷. A joint task force was established consisting of employees at KTAS, the agency, and a researcher at a Business School. Then an 800-number was established. During the next months the task force developed the sufficient software programs. The programs had to be tailored to the specific context, namely gathering of market research data.

Next a panel (random sample) of approximately 500 respondents was recruited using face-to-face interviews.

Each respondent in the panel agreed to phone the VR-computer once a day during the test-period: March 1st - June 30th.⁸ Due to the use of passwords it was quite easy to check if a person was performing several phone calls on the same day or if he/she did not call the VR-computer on a given day (each respondent had promised to perform the call "each day" (!) during the period).

Likewise, it proved easy to register a lot of important facts regarding every call: time of day, length of call in minutes and seconds, and so on.

The authors were using modest incentives (value of \$25 for each participant in the panel), which may have improved the frequency of calling.

⁴Moving from one question or section to another incorrectly.

⁵Incorrect selection of a response due to the CATI-interviewer's misunderstanding of the respondent's verbal answers.

⁶Headquarters in Nuremberg FRG, 2000 employees worldwide.

⁷Public Copenhagen Teleph. Company.

⁸Approximately 30% of all persons interviewed agreed to participate in the panel - a percentage quite normal for ordinary panel-recruitment.

TABLE 1
A VOICE-RESPONSE-BY-PANEL APPROACH TO INTERVIEWING

R = Respondent, Q = Questions

Research Design	Voice Response Panel
Where does interview take place?	Home of R., office, at friends, hotel, phone box, car, street (portable phone), abroad (!) etc.
How is the interview initiated?	R. is phoning VR-computer
How does interview take place?	R. provides answers to Q. posed by pre-recorded voice using the keys on press-button phone
Who fills in questionnaire?	Respondent
Where are data stored when the interview has been finished?	On VR-computer at Agency
How does data gathering take place?	(No need since data are at processing destination)

According to some researchers (i.e. Brennan, Hoek, and Astridge 1991, James and Bolstein 1990) incentives may affect response rate and quality. The authors were aware of this problem (However, no test was carried out with respect to evaluating the effect of the incentive) since this was not a subject of the present study. The length of the average interview did not exceed 5 minutes. The daily questionnaire in the pilot-project consisted of only two topics:

1. One opinion-poll question (reported in Jansen and Schmidt 1992)
2. Questions concerning media habits (day-after-recall)

Measuring media habits using mail interviews

All respondents were contacted by mail after having agreed to participate in the test and before the continuous VR-registration began. The mail questionnaire contained questions regarding geographics, socio-demographics, behavioralistics, and psychographics. The questionnaire also dealt with media habits. For each medium involved (major dailies, weeklies and monthlies) the respondent of the panel was asked the following question with respect to the frequency of readership during the mail interview:

"Reg. *Jyllands-Posten Søndag*⁹ how many of the recent 6 issues did you read?"

- | | |
|--------------------------|----------------------------|
| <input type="checkbox"/> | No one at all (0 out of 6) |
| <input type="checkbox"/> | 1 out of 6 |
| <input type="checkbox"/> | 2 out of 6 |
| <input type="checkbox"/> | 3 out of 6 |
| <input type="checkbox"/> | 4 out of 6 |
| <input type="checkbox"/> | 5 out of 6 |
| <input type="checkbox"/> | All (6 out of 6) |

This measurement approach made it possible to estimate readership frequency figures regarding each medium, and the method is a quite often used way of gathering data regarding readership all over Scandinavia and - as far as the authors know - in many other countries in the industrialized world.

⁹The most widely read Danish newspaper appearing on Sunday

Voice Response measurement of media habits

After the mail interview the respondents began performing their daily phone call to the VR-computer. The respondent had to take a look at the media list and then press the buttons (digits) assigned to the very media he or she had been reading "yesterday". This task was performed by each respondent every day as long as the pilot study went on. This approach (VR day-after recall) made it possible to accumulate readership figures.¹⁰

Again, it was possible to estimate readership frequency regarding each medium.

Convergent Validity: Frequency question (mail) versus day-after recall (VR)

Prior to the study the authors suggested it might be an interesting task to correlate readership figures which had been estimated using the two alternate ways of estimating readership. According to theory convergent validity indicates that measurement scales designed to measure the same construct should be related.

Convergent validity is generally assessed by the extent to which two (or more) measurement scales designed to measure the same construct correlate.¹¹ See table 2 and table 3. Ideally all diagonal entries in figures should contain 100%-figures, with all off-diagonal entries being 0% ! In such a case the correlation between the two measurement approaches would be 1,00 indicating perfect convergent validity between the day-after recall (VR) and the frequency question (mail).

¹⁰At least the authors hypothesize that this "day after recall" approach provides readership figures which are more correct as compared to the figures estimated using the frequency question.

¹¹See Dillon, Madden, and Firtle (1990) p. 373.

TABLE 2
VALIDITY OF READERSHIP MEASUREMENTS - MAIL INTERVIEWING AND VOICE RESPONSE INTERVIEWING: THE DANISH WEEKLY "JYLLANDS-POSTEN SØNDAG" / COLUMN-%

Frequency q.(mail)	Day-after recall (Voice Response)						
	0 : 6	1 : 6	2 : 6	3 : 6	4 : 6	5 : 6	6 : 6
0 : 6	75%	47%	21%	12%	-	-	7%
1 : 6	8%	11%	24%	-	-	-	-
2 : 6	6%	11%	5%	19%	-	-	-
3 : 6	4%	4%	-	5%	13%	-	-
4 : 6	2%	6%	15%	6%	11%	-	6%
5 : 6	3%	4%	5%	7%	27%	8%	4%
6 : 6	2%	17%	30%	51%	49%	92%	83%
Sum	100%	100%	100%	100%	100%	100%	100%
(n= 500)	363	63	23	15	9	12	15

TABLE 3
VALIDITY OF READERSHIP MEASUREMENTS - MAIL INTERVIEWING AND VOICE RESPONSE INTERVIEWING: THE DANISH WEEKLY "JYLLANDS-POSTEN SØNDAG" / ROW-%

Frequency q.(mail)	Day after recall (Voice Response)							Sum	n
	0:6	1:6	2:6	3:6	4:6	5:6	6:6		
0 : 6	89%	9%	2%	-	-	-	-	100%	314
1 : 6	72%	15%	13%	-	-	-	-	100%	45
2 : 6	67%	22%	3%	8%	-	-	-	100%	29
3 : 6	74%	15%	-	4%	7%	-	-	100%	17
4 : 6	49%	20%	19%	4%	4%	-	4%	100%	20
5 : 6	23%	23%	12%	8%	18%	10%	6%	100%	12
6 : 6	12%	17%	12%	11%	6%	21%	21%	100%	63

Frequencies in the lower left part of **tables 2 and 3** indicate an *overclaim* of readership according to the frequency question (mail) as compared to the day-after recall (VR-approach). Likewise figures in the upper right part of the tables indicate *underclaim*. **Table 3**: 89% of the respondents who had reported no readership at all (0:6) regarding "Jyllands-Posten Søndag" in the mail interview were continuously recording equivalent answers during the VR-interviews: (1.) They denied any readership when providing answer to the frequency question/mail. (2.) They never pressed the digits indicating readership of that media "yesterday" during the week (VR). However, among those respondents having claimed no readership of Jyllands Posten Søndag in the mail interview, 11% recorded actual reading of the title in one or more of the subsequent VR-interviews.

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Now take another look at the row percentages in **table 3**. Only one out of five respondents (21%) who reported readership of Jyllands-Posten Søndag everytime (6:6) when they were providing answers to the frequency question (mail) actually confirmed this claim during the VR interviewing phase - that is they pressed the buttons indicating readership of the medium every monday (day after recall).
The rest - approximately 80%! - provided incorrect answers when providing answers during the mail interview (frequency). One out of ten (12%) claimed to read each issue - but did not verify readership of one single issue according to the VR-approach in that specific week!

¹²Assumed that the day-after recall (VR) is providing readership figures which are more correct than those estimated using the frequency-question (mail).

We are well aware of the fact that our data base is rather weak (5:6-readership in the above example is equal to 12 persons¹³).

However, the results we found were quite the same across all three month and across all media! So, the inter-method reliability of the VR-approach was good. Our study seems to confirm the presence of a considerable degree of *backwards telescoping* and *overreporting/underreporting (overclaim/underclaim)* of readership (Sudman and Bradburn 1982 p. 44) when using the frequency question. In all cases the convergent validity (correlation) between the two measurement approaches was low. See **table 4**. The highest correlations were found regarding dailies (average 0.56). However, in several cases the correlation was quite below 0.5. The correlations with respect to newspapers (appearing on Sundays) and weeklies (most of them being ladies' magazines) were even lower (in two cases lower than 0.3!).

TABLE 4
 CORRELATIONS OF READERSHIP BETWEEN FREQUENCY QUESTION (MAIL) AND DAY-AFTER RECALL (VR) / SAME RESPONDENTS (PANEL)

<u>Dailies:</u>	R ²
Berlingske Tidende	.66
B.T.	.38
Børsen	.43
Det Fri Aktuelt	.60
Ekstra Bladet	.46
Fyens Stiftstidende	.74
Jyllands-Posten	.48
Politiken	.54
Aalborg Stiftstidende	.61
Aarhus Stiftstidende	.70
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	.56
<u>Weeklies (Sunday):</u>	
Berlingske Søndag	.57
B.T. Søndag	.41
Ekstra Bladet Søndag	.47
Jyllands Posten Søndag	.46
Morgenposten	.65
Nordjysk Søndag	.36
Politiken Søndag	.61
Regionale Søndag	.26
Aarhus St. Søndag	.43
---	---
	.43
<u>Weeklies (Magazines):</u>	
Alt For Damerne	.29
Anders And (Donald Duck)	.35
Billed Bladet	.32
Familie Journalen	.48
Femina	.38
Hendes Verden	.44
Hjemmet	.45
Se & Hør	.46
Tipsbladet	.48
Ugemagasinet Søndag	.32
Ugens Rapport	.26
Ude & Hjemme	.36
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	.38

¹³Since the data are weighted it is not possible to compare percentages in the table with the "n" which is also shown in the tables.

Discussion

The purpose of this paper was to compare two measurement approaches, one of which was an established and frequently used method the "n:out of 6"-scaling technique, and a new way of estimating readership (panel based voice response with day-after-recall).

As has been indicated by Jansen and Schmidt (92) in another technical paper, the VR-panel approach seems to provide survey data which are at least as reliable as established technologies like CATI and mail-panels. The authors even hypothesize that it is possible to gather data with *even better validity* when using a panel based VR-technique than by using other known methods!

Based on the study the authors argue that a considerable amount of the media research which has been carried out so far only seems to provide information with limited validity. At best such information is useless while at worst it might cause severe damage regarding sales and profits. This is due to the fact that a campaign planning which is based on inappropriate figures regarding media-usage of consumers might lead to an inoptimal allocation of the media mix. So, marketers should be warned about a careless use of readership figures. The marketer should always demand at least some 'double-checking' regarding the way in which the data have been gathered. While this might seem somewhat cumbersome, time consuming, and costly, it might be irresponsible of the management not to carry out such a control procedure.

The study found a very low convergent validity between the two measurement approaches. Since both methods are based on survey data they both must contain a random error component. However, the deviation found can definitely not be explained by randomness¹⁴. Because "true" readership figures are unknown we cannot say which method is providing the best readership figures. Both methods (frequency, day-after) may contain systematic sources of error. Besides, the low convergent validity might be due to poor experimental design and/or field work. The authors suggest that the frequency question tends to provide inaccurate readership figures because of over-reporting/underreporting. This need not be correct. Theoretically, the day-after recall might measure readership in some erroneous systematic way. But the problem of getting erroneous information due to telescoping should be smaller when the interview is gathered only one day back in time (VR) as compared to one week or more (frequency question). While one might forget to report readership of a monthly 6 months ago the probability of forgetting yesterday-readership should be much less. Another problem of the present study is the deviation in terms of data-gathering: Voice response versus mail. Perhaps the convergent validity would have been better if the figures regarding the frequency question had been gathered using face-to-face interviewing.¹⁵

It should be stressed that the present paper is a "spin off" from a more comprehensive study of using VR for gathering survey data (reported elsewhere).

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¹⁴This has been indicated in a much more technical version of the present paper by the authors. The matrices involved (all in the form of **table 2** but with cell entries containing absolute figures (n)). The authors were using 1. models only requiring nominal classifications (quasi independence, symmetry, and quasi symmetry), 2. models based on variations of symmetry for tables with ordinal classifications (conditional symmetry, diagonal parameter symmetry, and 3. association models (linear by linear association, quasiuniform association, and uniform association plus extra agreement). This working paper (Schmidt, Drengsgaard, Jansen, and Hansen) can be obtained by the authors.

¹⁵However, the authors do not think that this would be the case.

INFORMATION CONTENT ANALYSIS OF TV ADVERTISING - THE SPANISH CASE

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Abstract

After analyzing the information content of 477 ads aired by the two main Spanish TV channels we found that not all ads provided objective information, but that the proportion of informative ads and the amount of information carried by them seems to be greater than in other countries of our economic environment. There were no significant differences in informative content between the two channels, but there were differences with regard to product categories advertised. Future research could be directed towards expanding the categories for information analysis of TV ads given their continued presence in the life of the average consumer.

Introduction

In 1991, investment in media advertising in Spain exceeded 10,000 million dollars (annual report on media advertising investments published by the J. Walter Thomson agency), occupying the fourth place in the ranking of media advertising investment in the countries of the European Economic Community, behind Britain, France and Germany, and ahead of countries like Italy and Holland. The investment in the main media (press, television, radio, cinema, street hoardings) for brand name advertising was over 5,000 million dollars, 60% of that figure corresponding to the medium of television. Within this average, and taking into account only those channels with national coverage in uncoded transmission, approximately 2,438.5 million dollars were invested, and a total of 212,000 ads were broadcast (annual report on advertising investment by Reprax / Nielsen).

Advertising plays an important informative role since it is one of the main sources of information for consumers regarding the characteristics, uses, benefits, contents, results, guarantees, prices, offers, availability, whereabouts, etc., of the supply of goods and services. This was expressed by Bucklin (1965) saying that advertising as a part of companies' marketing plays an important informative role since it is one of the main sources of information for the demand in relation to the supply of goods and services and this function of information to the consumer is one of the reasons, perhaps the main one, for its existence in a free market economy.

According to Albion and Farris (1981) and from the point of view of economists regarding the role played by advertising in the economy, the latest school of thought considers advertising to be information, its effect on the economy being to make demand curves more elastic and to achieve lower prices

Concentrating on the advertising aired by television there can be no doubt that it has had and will have critics who consider that it is very often used to create image and awareness and to associate the brand with certain life styles or situations, its informative role being relegated to secondary importance. However it is also true, as

Dameron pointed out in 1942, that advertising is only one variable in the commercial function, that it is often used only to create interest and to stimulate the desire to buy, that many advertisers use a combination of media, one of them in a more informative way than the others, and that the medium and type of advertising used depend mainly on the nature of the product, its distribution methods and the marketing policy followed by the advertiser.

Television is the medium which by its very nature offers greatest creative and persuasive possibilities, a fact known and exploited constantly by advertising agencies who think that very creative, but perhaps not informative, ads are the best way of attracting the attention of the audience and being effective for the advertiser.

However, from the point of view of the consumers' perceptions, there seems to exist a difference between the advertising they receive on a daily basis from the agencies and what they would like or need to receive, as made clear in the studies by Bauer and Greyser (1968) or Soley and Reid (1983), according to which one of the reasons given by consumers for valuing advertising is its informative value, the television medium being less informative than others such as press or radio. In another study carried out by Aaker and Norris (1982), although the percentage of ads perceived as informative was not very high, they had high coefficients of correlation with other characteristics of the ad such as memory, conviction, effectiveness and interest, which indicates that the ads perceived as informative were at the same time the most notorious and persuasive.

However, we can also find that even when the ads are giving relevant information to the consumers, they may in some cases have difficulty in understanding and evaluating it. On this point, a study by Aaker (1984) based on three different samples, one of ads for two types of product (cars and pharmaceutical products), one of consumers and one of experts (in both types of product), found that for the consumers the ads were quite a lot more informative than for the experts, reaching the conclusion that although the consumers could be capable of evaluating the information content of ads for certain products (cars) for other types of product their evaluation capacity was shown to be incompetent (pharmaceutical products).

That advertising should fulfil its informative role is a matter of concern not only for consumers and the authorities, but also for the advertisers, who should reconsider their creative strategies in order to achieve advertising which responds more closely to the information needs of consumers, especially when one takes into account the higher level of education and demand of consumers with regard to their consumption (Resnik and Stern, 1991).

In Spain, the rules currently in force in matters of advertising such as the Ley General de Publicidad (General Law on advertising) of 1988, and the rules for self-regulation of advertising established privately by the advertising profession

constitute a legal framework to ensure that consumers receive legitimate, truthful, but not necessarily informative advertising. In this direction the Instituto Nacional de Consumo (National Consumer Institute) acts through the advertising Commission to ensure that advertising, without forgetting its creative and persuasive aspects, satisfies minimum criteria for information to the consumer (Campana, 1990).

Literature Review

The first study carried out to measure the advertising information content of the television medium, using Content Analysis, was done by Resnik and Stern (1977). Although they recognize that the true meaning of information is in the eyes of the viewer and in consequence the creation of an infallible measuring instrument is not a realistic possibility, they did manage to establish a list of 14 information criteria which provided the consumer with useful information regarding the characteristics of the product or brand and which could potentially be used to make more intelligent buying decisions. Nelson (1974) also expressed on these lines when he established four functions of advertising as information for the consumer, one of which is to supply direct information regarding the brand in such a way that the consumer can order brands according to their utility and / or reduce the risk associated with the act of buying.

With respect to the possible discriminating powers of the informational cues, it can be said that for the mathematical theory of information, the signals (acoustic, visual, etc) have an information content in virtue of their potential to perform or make choices. These signals operate on the alternatives, forming the doubts of the receiver, giving the power to discriminate between, or choose from, these alternatives. It should also be said that the information contained in the signals is always relative, since consumers are not in a state of total ignorance before receiving advertising messages, and depends on the difference created in the doubts of the receiver before and after receiving the signal (Cherry 1968 pp 170 & 182).

According to Resnik and Stern an ad of a product, service or institution only needed to communicate one of their information criteria to be considered informative, without questioning the truthfulness of the information given by the spot. This system of classification proposed for the evaluation of the information content of advertising has been the most used subsequently by a number of researchers. A summary of the majority of research studies is shown in Table I.

The abovementioned authors, with a sample of 378 different ads aired by the main U.S. channels during part of April 1975, found that only 49.2% of the ads could be considered informative, this percentage sinking to 16% and 1% if the ad had to communicate two or three information criteria respectively in order to be considered informative.

Stern, Resnik and Grubb (1977), applying tests of statistical analysis to the same sample found: a) the ads broadcast in the evening (20h - 24h) were more informative than those aired during the morning (08h -12h) and afternoon (12h - 16h); b) the ads for certain categories of products were more informative; c) there were no significant differences as to information content between the channels used, and d) the ads for products or brands in the introductory phase of their life cycle tended to be more informative than the ads for products or brands in stages of maturity.

TABLE I
EMPIRICAL SUMMARY OF THE INFORMATIONAL CONTENT RESEARCH

Author and year	Sample Size	Country and Period	Type of Research	Type of Sampling	n of Inf. Cues, % of Inf. Ads	Interjudge Agreement
Resnik and Stern (1977)	n=378	USA April 1975	Pioneering	Multi-stage random	14 49.2%	Dependent Agreement
Dowling (1980)	n=163 N=239	Australia April 1978	Cross-cult. Replica	Multi-stage random	14 74%	90%
Renforth and Raveed (1982)	n=108	Ecuador	Cross-cult. Replica	Multi-stage random	14 82.4%	Dependent Agreement
Tom, Calvert, Goolkasian and Zumsteg (1985)	n=348	USA Oct-Nov 1981	Longitudinal Replica	Multi-stage random	14 52.7%	Dependent Agreement
Sepstrup (1985)	N=506 ZDF Feb.-Apr 1984	Europ. Satel. Sky Ch. ZDF Feb.-Apr. 1984	Longitudinal	-	24 and 14* SK 50%* ZDF 39%*	Near to 100%
Martenson (1987)	Sweden n=102 USA n=22	Sweden and USA 1980	Cross-Cult.	Not Random	14 Sweden 55% USA 64%	-
Weinberger and Spotts (1989)	USA n=566 UK n=301	USA Jun-Jul. UK Sep-Oct	Cross-Cult. Replica	Stratified random	14 USA 65.3% UK 55.8%	88% to 96% on the inform critr.
Stern and Resnik (1991)	TV Netw. n=340 Cable Net. n=122	USA Fall 1986	Longitudinal Replica	Multi-stage random	14 TV Net. 51.2% Ca. Net. 65.6%	95.2%

However, two studies stand out due to the changes introduced in the methodology used for measuring the information content, especially as regards the information criteria used.

Pollay, Zaichowsky and Fryer (Lucki & Pollay, 1981) modified the methodology of Resnik and Stern (1977) by adding 5 information categories. Using two samples, one random one of ads aired on one U.S. and three Canadian channels during April 1977, and one historical sample of ads broadcast in Canada during 1971, 1972, and 1973, reached both longitudinal and cross-cultural conclusions. In the first, three quarters of the ads analysed possessed 2 or less bits of information, nor did they find any increase in information in ads from 1970 to 1977. In the second, they did not find any differences in the information content between the ads aired in Canada and the USA.

In the European sphere, Sepstrup (1985) analysed the population composed of all the ads aired by Sky

Channel during February, March and April 1984, and the German channel ZDF (West German Channel 2) for the week 9-14 April 1984, using 24 information criteria including the 14 proposed by Resnik and Stern in 1977. Following the same procedure as these authors, he found that 50% of the ads aired by Sky Channel were informative as against 39% on ZDF. However, when the remaining information criteria were taken into account, Channel ZDF emerged as more informative than Sky Channel.

In general, it can be said that all the studies to which we have referred have used Content Analysis to analyse objectively, systematically and quantitatively the information content of TV spots. Practically all of them are replicas of the first study carried out by Resnik and Stern in 1977 and pursue longitudinal or cross-cultural aims. Replication is one way of constructing and developing theory in the field of marketing (Jacoby, 1978)

To sum up, having reviewed the literature, two conclusions can be extracted which will be taken into account in this study:

- The proportion of informative ads on television, on the basis of studies carried out and the methodology used, is less in countries which are more developed in economic terms such as U.S.A. and Britain than in other less economically developed countries.
- The differences between countries in the proportion of informative ads aired on the television medium seems to be due to the stage in the life cycle of the product or brand advertised (Resnik and Stern 1977; Renforth and Raveed, 1983), rather than to stricter legislation or self regulation of advertising (Dowling, 1980; Weinberger and Spotts, 1989)

Methodology

The study carried out belongs to the group of replies already undertaken in other countries taking Content Analysis as a methodological basis (for a greater understanding of the subject, the paper by Kassarian, 1977, and the books by Krippendorff, 1980; Weber, 1985, may be consulted, among others).

Twenty criteria or information dimensions which could be communicated by an ad, apart from the discriminatory criterion informative - not informative, were used: price - value, quality, performance, components or contents, availability, offers / promotions, taste, nutrition, packaging and shape, guarantees, safety, independent research, company research, new ideas / products, makes it easy to obtain more information, instructions of use varieties of the product, comparisons, name of the firm / author, financing. The first 14 were those used by Resnik and Stern in 1977 and 1991. We added six more information criteria with the aim of covering a greater number of possibilities of information (equally useful to the consumer) which could be communicated by an ad and which would not have been taken into account with a restrictive and/or mistaken interpretation of the 14 original criteria. Of the six, 5 had been used by Sepstrup (1985) and the remaining one (financing) was introduced particularly for this study, given the weight of the financial sector concerning advertising investment in the television medium.

All the informational cues represent objective marketing stimuli with discriminatory potential regarding a set of possible buying alternatives for the consumer, even if this discriminatory potential

depends on the consumer himself and on the factors influencing his behaviour.

All the ads broadcast in the time blocks morning (9h-13h), afternoon (13h-17h) and evening (20h-24h) on the first channel of the state-owned TVE (TVE-1) in the week of 6th to 12th April 1992, and by the private channel T-5 in the week of 26th October to 1st November 1992, were recorded on video. In the first week, we obtained 775 ads, 211 of which were different. and in the second week 1505, of which 354 were different. The information content analysis was carried out only on the different ones.

The channels were selected on the basis of the number of ads aired, the audience figures and whether they were state or privately controlled. Tele-5 is the private channel with highest audience figures and number of ads broadcast. The same can be said of the state-owned channel TVE-1. The choice of dates was made with regard to the seasonal nature of advertising investment over the year, and the existence of seasonal campaigns which might bias the results obtained. The result on applying both criteria of the choice of sampling date was the choice of the months of April and October - November. In both months there were fewer seasonal campaigns and the figures of advertising investment approached neither the minimum nor the maximum monthly investment. Also, with a separation of six months we could compare both channels, since the airing of the same ad on both channels and in both months would be possibly non-existent, and in fact it was so.

Anyway, we found that in the second wave of ads, of the 354, 87 were for toys, while in the first out of 775 only one ad was for toys. For this reason we decided to eliminate the ads for this product categorie from both samples in order to avoid differences between the two channels due to this seasonal component. (Toy ads are subject to special regulations regarding a certain type of information which they must supply).

Also, unlike other studies, we added a further analytical criterion, relating to whether the main message was aimed at the creation of image, awareness or association of the brand with the user or certain situation of use apart from communicating any of the informational cues.

The division into six product categories is a consequence of the need to analyse more deeply and detect differences in the advertising of the different products, both in the proportion of informative ads and in the amount and type of information supplied.

An ad only needed to communicate one of the information criteria in order to be considered informative, without questioning the truthfulness of the informational cue communicated.

In order to enhance the reliability of the analysis, two independent and properly trained judges carried out the information content analysis on the same advertising material, achieving a degree of agreement of 94.3% in the critical criterion of informative - not informative, applying the formula of Holsti (Fletcher and Bowers, 1986, p.183). The degree of agreement in the different informational cues varied between 86.1% and 100%. Degrees of agreement higher than 85% established as desirable by Kassarian (1977).

Hypotheses and Research Questions

H₁: The proportion of informative ads and amount of information communicated by ads aired on TV by a state-owned channel and a privately-owned one will not necessarily be different, given the existence of advertising regulations which affect all channels equally, and also because there is no clear segmentation of audience figures by channel taken into account when planning media advertising which results in a alteration in the advertising content of the different channels.

H₂: The proportion of informative ads and amount of information communicated by ads aired on TV in Spain will be higher than the proportions found in other countries with higher economic development due to the fact that in these countries there are more products and brands at a mature stage (see Table I).

Research Question - 1: The proportion of informative ads may vary according to the time block due to differences in the type of audience.

Research Question - 2: The proportion of informative ads and amount of information communicated may vary according to the type of product advertised due to the greater possibility of differentiation on the basis of objective attributes of the product.

Results

H₁: In relation to Hypothesis N^o 1, we found no significant differences between the proportions of informative ads aired by both channels ($Z = -1.3945$; $p < 0.08$) Seeking to deepen the analysis, we applied an ANOVA to it to find out if there were any differences in the average number of information criteria communicated for the total number of ads in the two samples as well as by product categories. But we didn't find any significant differences as can be seen in Table II.

Table II

	Average number of cues n=210 April 1992 TVE1	Average number of cues n=267 Oct-Nov 1992 T-5	F-Value
Total Sample	1.31	1.43	0.768
Food ads	0.81	1.00	1.706
Institutional ads	1.00	1.35	1.376
Pers. Care ads	1.76	1.98	0.537
Laundry and Household ads	1.71	1.67	0.008
Hobb. and Transp. ads	2.22	1.67	2.588
Other ads	1.32	1.68	0.565

It can be noted that in both channels the ads for certain product categories (the last 4) supply more information than the average for the samples, whereas the opposite is the case for the categories of Food and Institutional ads.

H₂: The results obtained (see Table III) indicate that 68.1% of the ads aired were informative, with an average of 1.38 information criteria per ad.

However, if the criterion for considering an advertisement to be informative had been its possession of 2, 3, 4 or more informational cues, the proportion of informative ads would have dropped to 42.5%, 15.7% and 4.8% respectively, as can be seen in Table IV.

TABLE III
N^o AND % OF INFORMATIVE ADS

	N ^o of ads	% of ads	% of Inf. ads	Inf ads with main message inf. % Hor.
Total Sample	477	100	68.1	79.1
Day and time block				
Total weekdays	406	85.1	69.0	78.8
Weekdays Morning	80	16.8	75.0	73.3
Weekdays Afternoon	174	36.5	69.5	78.5
Weekdays Evening	152	31.9	65.1	82.8
Total weekend	71	14.9	63.4	79.9
Weekend Morning	11	2.3	54.5	66.8
Weekden Afternoon	24	5.0	70.8	76.5
Weekend Evening	36	7.5	61.1	86.4
Total Morning	91	19.1	72.5	72.7
Total Afternoon	198	41.5	69.7	78.2
Total Evening	188	39.4	64.4	83.4
Products Categories				
Food ads	178	37.3	57.9	67.9
Institution. ads	53	11.1	64.2	88.2
Person. Care ads	69	14.5	84.1	89.6
Laundry & Household ads	42	8.8	83.0	97.2
Hobbies & Transp. ads	42	8.8	85.7	75.0
Other ads	93	19.5	63.4	74.6

On the other hand not all the informative ads based the central theme of the advertisement on the information communicated. Thus, of the 325 informative ads, 68 did it this way, i.e. 20.9% of the informative ads, even when they fulfilled some information criteria, aimed their main message towards the creation of awareness, image or some other type of symbolic association. When this complementary element of analysis is taken into account, the proportion of informative ads whose main message is also informative is 53.9%.

The results are clearly greater both in the proportion of informative ads and in amount of information than the findings of Stern and Resnik (1991). However, the results of both are the effect of applying to the analysis the 20 informational cues. If only the 14 criteria used by Sterna and Resnik (1991) are applied, the proportion of informative ads falls to 61.6% with an average of 1.04 information cues per advertisement. As regards the testing of Hypothesis 2, this is difficult due to the heterogeneous nature of results, methodology used and the time difference between them. The only study which we could use for comparison is that by Resnik and Stern (1991), but on the one hand we do not have sufficient information on it, and on the other our sample does not fulfil the necessary condition of randomness to enable the test of difference of means and proportions to be applied to it. We can only make an approximate indication of significant differences between the two samples when the test of proportional difference was applied ($Z = -2.34$; $p = 0.0096$).

TABLE IV
% OF ADS AND N^o OF INFORMATIONAL CUES

	N ^o of Ads	1 Cue	2 Cues	3 Cues	4 or more cues	Average n ^o of cues
Total Sample of Ads.	477	25.6	26.8	10.9	4.8	1.38
Food Ads	178	30.9	21.3	4.5	1.1	0.92
Institutional Ads	53	26.4	28.3	7.5	1.9	1.13
Personal care Ads	69	18.8	36.2	20.3	8.7	1.88
Laundry and household Ads	42	35.7	26.2	14.3	7.1	1.69
Hobbies and toys Ads	42	7	47.6	23.8	7.1	2.02
Other Ads	93	23.6	19.3	10.7	8.6	1.58

Research Question - 1: With respect to the time blocks analyzed, the proportion of informative ads is lower in the evening (1.8 :1) (number of informative ads ; number of uninformative ads) than in the morning (2.64:1) and afternoon (2.3:1). This greater proportion of informative ads in the morning and afternoon as opposed to the evening is maintained on weekdays (3:1 and 2.28:1 as against 1.86:1) but changes during the weekend when the proportion in the afternoon block is higher than the morning and evening blocks (2.4:1 against 1.2:1 and 1.57:1 respectively). All time blocks considered, whether over the week as a whole or on weekdays or at weekends, have a proportion of informative ads higher than 64%, except the morning block at the weekend (54.5%) and the weekend evening block (61.1%). See Table III. As regards Research Question - 1 we applied chi-squared test but did not find significant differences between time blocks ($\chi^2 = 2.26$; $p < 0.4$) or between weekdays and weekends ($\chi^2 = 0.63$; $p < 0.4$).

Research Question - 2: There was a clear difference in the proportion of informative ads between different product categories, those of Hobbies and Transportation (6:1), Laundry and Household (5.3:1) and Personal Care (5.3:1) being especially high. The lowest proportion was that of the Food category (1.4:1) followed by those of Institutional and Others with proportions of (1.7:1) and (1.8:1) respectively. A χ^2 test confirmed the significance of the differences ($\chi^2 = 28.48$; $p < 0.001$). So we can say that there exists a strong association between the information level and the type of product advertised, except for ads in the "Others" category (see table IV). In the latter, although having a proportion of informative ads lower than the average for the sample, the amount of information supplied per advertisement is on average higher than the average for information criteria in the sample as a whole (see Table II). This apparent anomaly is due to the existence of a group of products (TV Shop) whose ads were highly informative regarding the number of informational cues communicated per ad.

The reason for the lower information content of the Food ads and Institutional ads categories lies in the objectives pursued by the campaign; usually the creation of Image, Awareness or other types of symbolic association such as the situation of use or the characteristics of the user. Also, even when the ads had one of the informational cues, these were not used as a base for the main message. This is especially true for the Food ads, 32% of which, even when they carried some information, this was not used as the main message of the advertisement. (See Table III).

The ads for Personal Care and Laundry and Household are perhaps the most informative, not only because of the proportion but also because the information is used as the main message in most of the ads for these product categories, 89.6% and 97% respectively (see Table III). Also, the ads for these products gave information about attributes of the product or other related and differentiating marketing stimuli such as Performance, Components, Availability, Safety, Varieties of the Product, or comparisons with competitors. Though not very original, they do convey some objective information. A summary of the information criteria used can be seen in Table V.

TABLE V
INFORMATION CUES USED AS MAIN MESSAGE

Information Cues	n ^o f cues % Vert	n ^o f. cues as main mess. /% Hor.	food ADS	Inst. ADS	Per. ADS	L. & Hou- se- hold ADS	Hob. & Tran ADS	Oth ADS
TOTAL	657	572/ 84.0	164	60	130	71	85	147
Price-value	46/ 7.0	35/ 76.0	0	5	1	1	19	20
Quality	20/ 3.0	17/ 85.0	5	3	1	0	1	10
Performance	96/ 1.6	91/ 94.8	11	0	43	27	1	14
Components	129/ 19.6	105/ 81.4	48	5	32	6	19	19
Availability	61/ 9.3	51/ 83.6	5	15	9	2	2	28
Offers/promot.	55/ 8.4	45/ 81.8	22	13	2	4	8	6
Taste	0/0	0/0	0	0	0	0	0	0
Nutrition	26/ 4.0	18/ 69.2	26	0	0	0	0	0
Packaging and Shape	13/ 2.0	11/ 84.6	4	0	4	4	0	1
Guarantees	13/ 2.0	12/ 92.3	5	0	0	1	0	7
Safety	16/ 2.4	13/ 81.2	2	0	9	0	2	3
Indep. research	0/0	0/0	0	0	0	0	0	0
Company research	2/ 0.3	2/ 100.	0	1	1	0	0	0
New Ideas	21/ 3.2	20/ 95.2	2	1	4	6	1	7
More information	13/ 2.0	11/ 84.6	2	8	0	0	0	3
Intruc. of use	31/ 4.7	29/ 93.5	10	0	9	7	0	5
Varieti. of the product	40/ 6.1	32/ 80.0	13	4	10	1	3	9
Compar.	20/ 3.0	20/ 100.	2	1	4	11	0	2
Name of the firm	38/ 5.8	26/ 68.4	6	0	1	0	27	9
Financ.	17/ 2.6	14/ 82.3	1	4	0	1	2	9

Conclusions

Advertising is an important tool for the promotion of the advertiser's products in the market, but

this market is made up of consumers for whom advertising is also important for its informative value in relation to the supply of products and the buying decision process.

We have analysed the information content of 4// different advertisements aired on the two main TV channels in Spain, in the light of a list of objective information criteria based on the advertiser's marketing mix, which for their value to both the consumer and to the advertiser himself could be communicated by an advertisement.

As a result of the analysis the following conclusions can be extracted:

- There is no difference in the information value of the advertisements aired by either channel.

- The level of information given by TV advertising in Spain seems to be higher than in other countries with higher economic development, although this conclusion requires further checking.

- There is no significant difference in the information supplied by the advertisements aired at different times of the day, but there is such a difference between advertisements for different product categories.

Also, the analysis of performance has enabled three types of advertisement to be identified in relation to their information content and their main message. Thus, we can differentiate between advertisements which use the information as their main message, advertisements which communicate a certain amount of information but do not base their main message on it (the least numerous), and advertisements which communicate no objective information and whose main message aims to create awareness, image, or association of the brand with a certain type of user or situation of use. The second group usually also aims its main message in this direction.

We think that future research should perhaps contribute to a closer definition of what is to be understood by information in an advertisement, taking into account not only objective criteria but also criteria of a more subjective nature, which together would enable the information value of an advertisement to be appreciated as a whole.

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AN APPLICATION OF MEANS-END ANALYSIS IN A CROSS-CULTURAL CONTEXT

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Abstract

The role of values in creating effective mass communication in a cross-cultural context is briefly reviewed. In particular, the laddering process relating product attributes to ultimate life goals is examined. Within this framework, a means-end analysis of automobiles is conducted for samples of Anglos and Hispanics. Results show that the primary and secondary means-end chains are different for the two groups. The impact on mass communications to the two groups is discussed.

Values Research

Values can play a fundamental role in the creation of effective mass communication. For example, an application would include market segmentation based on values, followed by the development of values-laden messages targeted at specific, values-defined population segments.

With the opening of a free trade environment and increased competition in much of the western hemisphere, businesses will require information on how to most effectively communicate with the coming, greatly expanded marketplace. Values research promises to provide such information. We focus on similarities and differences between English-speaking North Americans (Anglos) and Latin Americans (Hispanics). We particularly focus on the way they process mass communications.

Vinson, Scott, and Lamont (1977) have suggested four ways in which values may be useful in marketing: market analysis and segmentation, product planning, promotional strategy, and public policy. We focus on segmentation and promotion, specifically mass communication, to include advertising, publicity, and public relations. More specifically, we focus on the use of values to create abstract images which can be more effective in mass communications than concrete, high information, argument-based ads which primarily rely on extensive problem solving.

Milton Rokeach has probably contributed more to the study of values than any other single individual. Rokeach (1973, p.7) 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.*"

From this definition (which has withstood the test of considerable time and much scrutiny) several statements about values are possible: 1) Values are fundamental beliefs about what is important in life. As elements of cognition, values reside deep in the human psyche where they can exert a profound influence on behavior. 2) Values can be of two types, instrumental (concerning modes of behavior) and terminal (concerning end-states of existence). 3) Values are motivational. They concern

end-states of existence, goals or objectives. They serve as standards, promoting and guiding action toward specific ends via specific means or instrumentalities. 4) They are enduring, relatively resistant to change. Once specific values or a value "system" has taken shape it tends to direct the entire course of an individual's future behavior or lifetime. Specific patterns of behavior are characteristic of specific value systems. 5) Common values held by group members (socially preferable) give direction to the future behavior of the group. By knowing which specific values an individual or group holds dear, we may be able to predict which specific courses of action they are likely to choose in given, future situations.

Rokeach's 18 terminal values (representing end-states of existence) are: 1) A comfortable life, 2) An exciting life, 3) A sense of accomplishment, 4) A world at peace, 5) A world of beauty, 6) Equality, 7) Family security, 8) Freedom, 9) Happiness, 10) Inner Harmony, 11) Mature love, 12) National security, 13) Pleasure, 14) Salvation, 15) Self-respect, 16) Social recognition, 17) True friendship, and 18) Wisdom. Rokeach's 18 instrumental values (representing modes of behavior) are: 1) Ambitious, 2) Broadminded, 3) Capable, 4) Cheerful, 5) Clean, 6) Courageous, 7) Forgiving, 8) Helpful, 9) Honest, 10) Imaginative, 11) Independent, 12) Intellectual, 13) Logical, 14) Loving, 15) Obedient, 16) Polite, 17) Responsible, 18) Self-controlled. Rokeach's typologies of values are the standard against which all others are measured. Research on these values typologies has been substantial (e.g., Vinson, et.al. 1977, Munson and McIntyre 1978, Valencia 1989, Laskey, Seaton and Shepherd 1989).

Hispanic Values

Research on Hispanics, generally, has been slow to develop in the United States. Hispanics have frequently been viewed as lacking in purchasing power and relevant research in marketing is, therefore, particularly underdeveloped. What little marketing research has been done tends to have been done as in-house proprietary studies by major retailing and other firms in regions with large Hispanic populations. Very little research has been conducted in Latin America. No attempt has been made to integrate these proprietary research results into broader conceptualizations, theories useful to marketers (Menendez and Yow 1989).

One exception to the general dearth of cross-cultural marketing research on Hispanics is Valencia (1982, 1983, 1989). Valencia has focused on whether Hispanics differ from non-Hispanics ("Anglos") in important cultural values, beyond such manifestations as language, music, food, and folklore. He has also attempted to broaden cross-cultural research on U.S. Hispanics by investigating possible values differences among major Hispanic national subgroups living in the U.S.: (New York Puerto Ricans, California Mexicans, Texas Mexicans, Florida Cubans).

Valencia (1989) has directly applied Rokeach's values typologies to his study of differences between groups of Hispanics and Anglos. While Valencia was able to distinguish significant differences in Rokeach values between Hispanics and Anglos, he was unable to detect differences across these subgroups of Hispanics.

Values in Mass Communication

Laskey, Day and Crask (1989) have extensively studied American television advertising. They have developed an exhaustive classification scheme of the message strategies employed in television commercials. Their fundamental distinction is that messages are of two basic types: 1) informational, and 2) transformational. The terms informational and transformational were first proposed by Puto and Wells (1984). An *informational* ad is one which "provides consumers with factual (i.e., presumably verifiable), relevant...data in a clear and logical manner such that they have greater confidence in their ability to assess the merits of buying...after having seen the advertisement". A *transformational* ad is one which "associates the experience of using...with a unique set of psychological characteristics which would not typically be associated with the...experience to the same degree without exposure to the [advertising]". Thus, transformational message strategies clearly contain a dominant psychological element. They are often referred to as "image-type" ads.

Roughly speaking, informational and transformational ads are matched to the two primary forms of consumer information processing: extensive problem solving (i.e., high involvement, central route, objective, rational) and limited problem solving (i.e., low involvement, peripheral route, subjective, emotional). Each is based on Values. However, the relationships between each form and values, has tended to develop separately in the literature.

Howard (1977) proposed a complex relationship between values and conventional consumer behavior variables, primarily in high involvement situations. His theory involves a two-level model of value influence for extensive problem solving. Values are employed as the consumer needs to form choice criteria for use in evaluating a product class and brand and relies upon his values for these criteria. Values are involved in the processing of an informational ad as the cornerstones of a consumer's judgement. They are the basis of arguments, framing the logic from which argumentation develops and unfolds. All arguments can be reduced to a fundamental statement of values (see Ricke and Sillars 1984). Thus, traditional forms of persuasion, based on argumentation, are, upon closer inspection, actually based on values. This perspective opens new avenues for the study of informational-type mass communications.

In recent years, many marketing researchers (e.g. Assael 1992), have concluded that the majority of consumer decision-making does not involve extensive problem solving. Values, nevertheless, are involved. Values are involved in situations where only limited effort is expended to process information, primarily as images. These consist of mental linkages across various levels of abstraction. The general idea in creating image-based mass communication is to guide the audience through the abstraction-associations, or "ladders"

necessary to mentally visualize the image intended. These abstraction associations are often referred to as "Means-end Chains" (Guttman and Reynolds 1984).

In the processing of a transformational ad, values determine categorization schema and information processing heuristics. Images are probably processed faster than information-based advertising because of these heuristics or "short-cuts" in thinking.

An advertising image can be thought of as stimuli related to "tri-level" cognitive structures or responses emanating from three levels of abstraction: functional, instrumental, terminal. The functional level deals with specific product characteristics, often described as product attributes, and is much more concrete than abstract. The terminal level is highly abstract and deals with the ultimate life benefits or end-states sought by consumers; i.e., their terminal values. The instrumental level is moderate in abstraction and deals with the consequences of use, or how the product will provide benefits-in-use necessary to attain the terminal level. Excellent examples of image-based mass communications developed in this fashion (laddered across instrumental and terminal values) can be found in Peter and Olson (1993).

While means-end analysis has been developed primarily in the context of explaining and influencing individual behavior, we believe it is also likely to have significant impact at the macroeconomic level. To the extent that instrumental and/or terminal values, or perhaps other typologies of values, e.g., Hawkins, Best and Coney (1992), emphasize those aspects of life which engender economic activity, such values would be seen as important to national economic progress. For example, one would hypothesize that such values as the role of work and delayed gratification would be central requirements of the development of advanced, Western-type economies. We hypothesize that as efforts progress to aid economic development in third world countries, these types of values will need to be fostered, developed and nurtured, on a large scale within these populations.

Methodology

We collected and analyzed (Attributes/ Consequences/ Values) data on motor vehicles from matched samples of Hispanics and "Anglos" living in the United States. Our previous research had demonstrated significant differences in the values structures of these two groups (Laskey and Seaton 1990). Thus, we hypothesized that different means-end chains would emerge from each group.

Data Collection Method

The research proceeded in two phases: pre-test and scale-up. The pre-test employed a three step data collection process, each of which was conducted during semi-structured, personal interviews. First, Kelly's (1955) Repertory Grid was used to stimulate thinking about automobiles, and identify their differentiating dimensions. Second, a constant sum scale was used to assess the relative importance of the dimensions specified by each respondent. Finally, the iterative probing method developed by Guttman and Reynolds (1984), consisting of successive "why" questions, was used to uncover the means-end chains. This pre-test

involved approximately 40 undergraduate students about equally split in terms of Anglo/Hispanic. These Hispanic students, generally, were either born in the U.S. of immigrant parents, or migrated at an early age (less than 10 years of age).

The second phase, the scale-up, replicated the results obtained in the pre-test. Including the pre-test, we obtained 281 usable sets of results from the persons interviewed. The Hispanic component of the scale-up sample represented a cross-section of the Hispanic community. The majority were Cuban but other nationalities (e.g., Nicaraguan) were also represented.

Data Analysis

Two trained coders independently evaluated each set of responses and developed means-end chains for each subject. The pre-test had established that there was a high degree of consistency between the coders. However, only those chains that the two coders agreed upon were incorporated into subsequent analysis. Our final sample consisted of 119 Anglos and 162 Hispanics. A hierarchical value map was developed for each group and every node on each map was assigned an identification code, in a manner following Valette-Florence and Rapacchi (1991). Their computer program was then used to determine the dominant means-end chains that characterized each group (Hispanics and "Anglos") in an aggregate sense. Essentially, the algorithm performs a counting function which tracks the number of occurrences of each segment of a chain.

Results

Each hierarchical value map, one for "Anglos" and one for "Hispanics", is presented in Figures 1 and 2. The two groups differ in both primary and secondary chains. For Anglos, the primary chain terminates with "inner harmony." For Hispanics, it terminates with "happiness". The secondary chain for Anglos terminates with "a sense of accomplishment," for Hispanics it terminates with "a comfortable life." The tertiary chains for Anglos culminate in family security, national security and social recognition. For Hispanics, the tertiary chains end in family security and inner harmony.

Discussion

The means-end analysis indicates that Anglos and Hispanics differ in terms of what they see as important in the ultimate appeal of automobiles. Furthermore, there seem to be at least two distinct market segments among Anglos and also two distinct market segments among Hispanics. Because our sample was limited to Anglos and Hispanics living in the South Florida area at the time of this study (Spring and Summer 1991), we should be cautious about drawing general conclusions.

Despite this caveat, however, these results appear to be particularly significant because of the large array of common stimuli present to both groups in the South Florida region. Despite these commonalities, there are distinctively different media targeted at the two groups,

FIGURE 1
HIERARCHICAL VALUE MAP OF AUTOMOBILES - ANGLOS

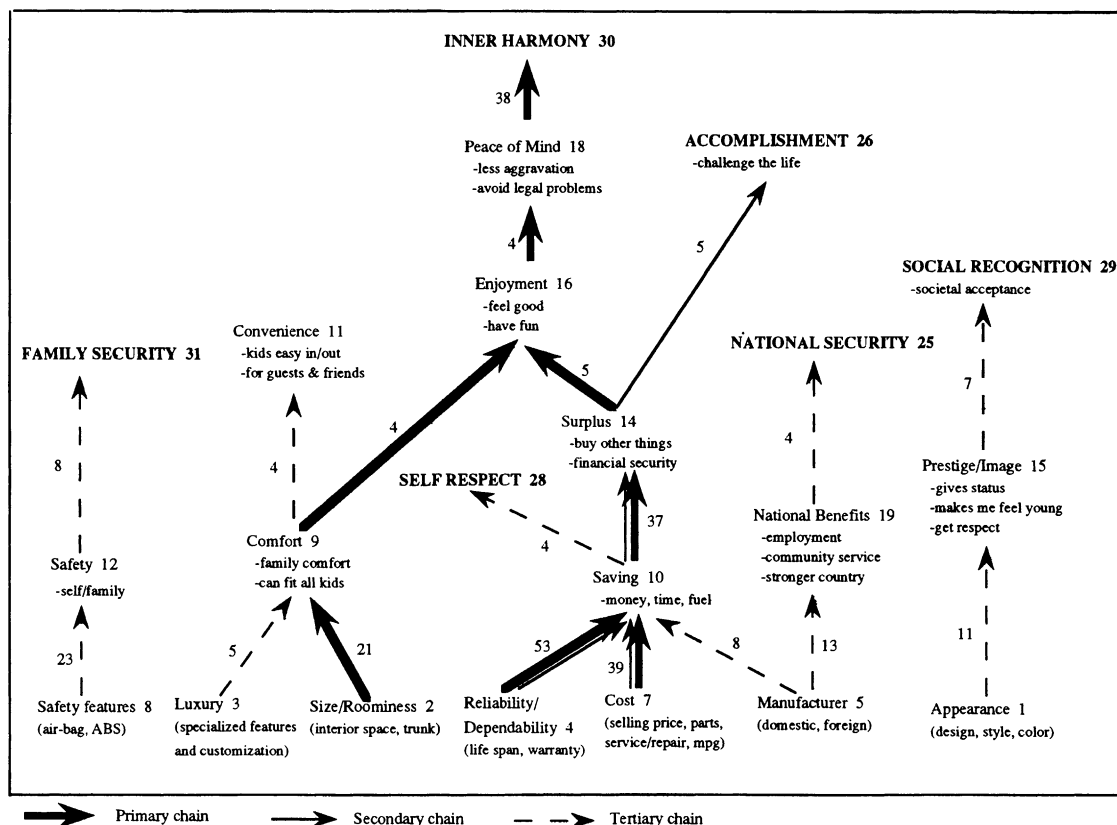
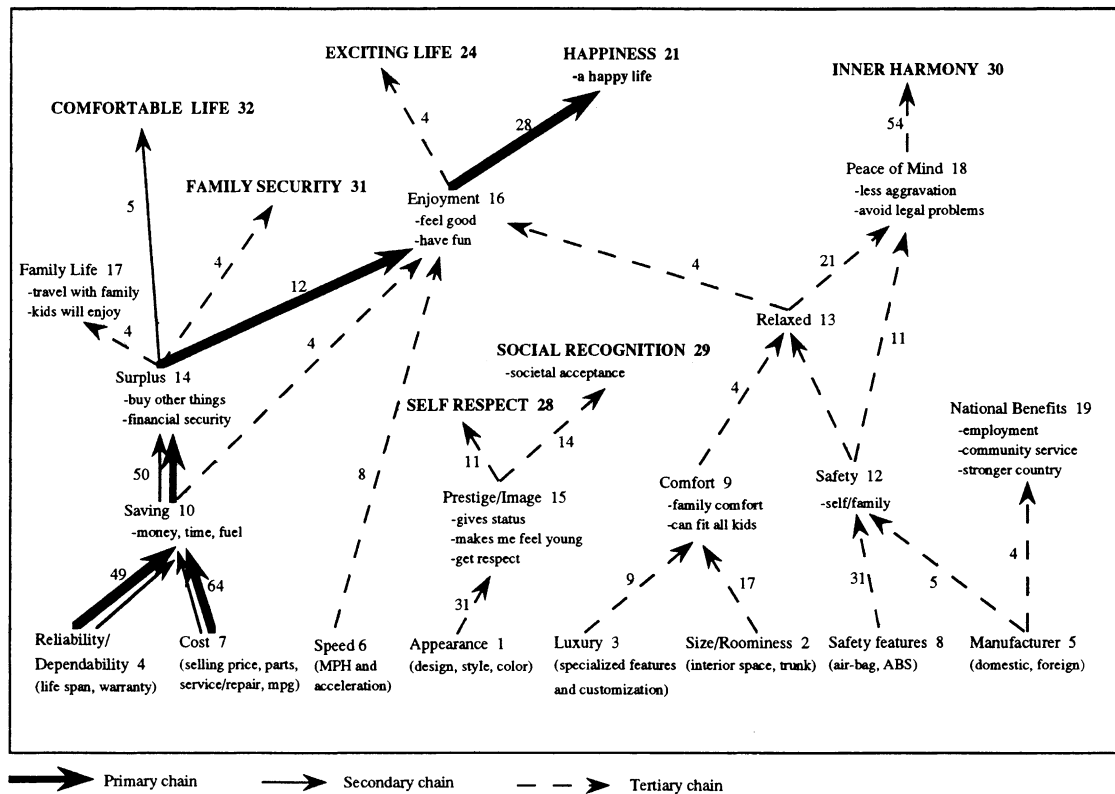


FIGURE 2
HIERARCHICAL VALUE MAP OF AUTOMOBILES - HISPANICS



with Spanish television stations, radio stations, newspapers and magazines. Thus, there are commercial mechanisms in place for preserving cultural distinctiveness in addition to the more traditional preservation modes of church and family. Marketers of automobiles would appear to be well advised to be cognizant of these differences in end-states and, particularly when using image-based advertising, proceed differently with each group.

Future Research

The next step in this research is to create alternative image-based advertisements for each of the four segments, based on the means-end chains identified. Following the results of the present study, we hypothesize that the ads will vary in impact across the two groups, with terminal appeals to "inner harmony" and "a sense of accomplishment" more effective with Anglos and appeals to "happiness" and "a comfortable life" more effective with Hispanics.

Another development in this research stream would be the use of alternative methodologies. The advantages of hierarchical mapping are typical of those associated with quantitative research methods, namely richness of insight, lack of respondent pre-conceptions, and the ability to uncover unanticipated information. The offsetting disadvantages include subjectivity of analysis and inability to employ standard statistical techniques.

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EFFECT OF COLOUR IN ADVERTISING: A COMPARATIVE STUDY OF BRITISH AND FRENCH ADVERTISING CREATIVE EXECUTIVES

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Abstract

This paper offers a conceptual framework which integrates all those variables that historically have been considered independently in the use of colour in advertising literature, with data pertaining to the importance attached by creative executives. The study examines this question in relation to particular product categories and across cultures (Britain and France). Cluster analyses are performed on the data to develop a taxonomy of colour effects objectives in advertising. The findings suggest that British and French advertising creative executives attach similar importance to different effects of colour use in print advertising per product category, apart from the case of specialty goods.

Background literature and review

The field was first explored about 70 years ago: (Luckiesh 1923), (Warden & Flynn 1926), (Birren 1930), (Oswald 1931), (Poffenberger 1932), (Barkley 1932), (Burt 1938), (Birren 1945), (Rudolph 1947), (Evans 1948), (Cheskin 1951, 1954, 1957), (Birren 1956, 1958), (Starch 1956, 1959, 1966, 1968), (Hall 1960), (Luscher 1960), (Itten 1961), (Dichter 1962, 1968), (Greenberg & Garfinkle 1963), (Binder 1963), (Biggs 1965), (Guest 1966), (Slackman 1968), (Danger 1968, 1969), (Rowan 1969). In most of these early studies, colour in advertising and its effective use is viewed as function of one or several independent variables considered separately. Apart of the work of these early theorists, there have been few studies of the overall effectiveness of colour in press advertising and little is known about the determinants of colour performance. Most recent research has been concerned with individual components of colour cues, for instance, attention value, colour preferences, memory value or cross-cultural colour comparisons: (Sharpe 1974), (Gatto 1974), (Evans 1974), (Adams 1979), (Coleman 1980), (Hornik 1980), (Austin 1980), (Varley 1980), (Chevreul 1980), (Panigyrakis 1981), (Feucht 1987), (Gail et al. 1987), (Costigan 1988), (Lee & Barnes 1990), (Jacobs et al. 1991). However, the literature lacks evidence concerning the way in which advertising creative executives use colour in their creativity work according to the product advertised and the effect they wish to create.

Creativity objectives in using colour in print advertisements.

For the purpose of this study a list of ten (1-10) possible colour contributions was developed for creative executives engaged in print advertising in different product categories.

1. Colour is used for its attention related effects. Research on the attention value of colour in advertising represent a

search for facts of practical value. The general lesson to be learned from the above studies is that the various factors affecting attention value scores can't safely be considered alone. For an ideal check on attention appeal an examination should be made of field readership figures which relate to advertisements, identical in layout, size, position and type of publication.

2. Colour is used to create genuine affective responses. These are meanings derived from effects that are inherent in the colour. Such research is difficult for the reason that human emotions and feelings are unstable and the psychic make-up of individuals varies from person to person. These findings are treated with a certain skepticism that can be attributed mainly to the analysis followed in which colour stimuli themselves and not their roles as elements of complex stimulus patterns are studied. The advertiser must be particularly careful when considering results of tests conducted in this area. Not even the most rigidly standardized experimental situation appears to have been conducive to stable results.

3. Colour is used for its symbolic value. A symbolism for colour has been build upon many centuries of history, religion, tradition and superstition. Colour associations may be nationalistic, political, religious or racial in origin and widespread in their effect, or they may be completely individual. The fact that many symbolic systems have been suggested creates great difficulty in fashioning any orderly interpretation because the different systems often posse mutually contradictory explanations.

4. Colour is used for its suggestion of prestige value. Colour can also be used in an advertisement in such a way as to imply prestige. On the basis of advertising research and experience the use of colour alone leads to more highly regarded advertisements and gives an element of additional importance to the company sponsoring the advertisement. However, more research is needed in this area, particularly research that would use multiple criterion measures and would control carefully the nature of the appeal and the degree to which surrounding advertisements were also in colour.

5. Colour is used to create emotional analogies with physical feelings. Man finds, in the hues of a spectrum, emotional analogies with physical feelings of warmth and cold, size, weight, form and shape, appetite, sound, space, and smell. It could be suggested that every category of products has its own colour according to its ability to create emotional analogies with physical feelings.

6. Colour is used to meet consumers preferences. Some of the early writers on colour have stated that there exist universal colour preferences which are almost identical for all races and sexes. The importance of the general order of preference is rather limited. For, colour preferences depend on the situation and colour is hardly ever isolated from imagery or patterns. Evidence todate suggests that individual preferences are closely related to environmental factors: climate and geography, social-cultural factors such as level of economic development and social concept of beauty and individual factors: age, sex, race, personality characteristics, education and income. Relying on relevant

studies we can argue that the advertisers task of discovering colour preference is still complicated by the fact that colour preference is based not only on instinctive motivation and on the fact that colour preferences may be individual and universal at the same time.

7. Colour is used for its memory value. Surveys of advertising audiences based upon recognition value give indirect evidence of colour memory. Direct measurement of the influence of colour memory of advertisements has relied almost entirely upon test conditions which were unnatural. have all found significant advantages for colour in recall as measured by the naming of advertising products. The memory impact of colour is particularly high compared with black and white treatments. There is no conclusive evidence, however, that the increase in retention is greater than the increase in cost. Other functions must account for the difference, but the monetary value of pleasing atmosphere, psychological effect, aesthetics and other intangibles cannot be appraised. Another interesting research finding about colour retention is that it does not necessarily coincide with colour preferences, (Crossley and Twymen 1969).

8. Colour is used for its realistic value. It has been found that one of the primary values of colour in an advertisement, although its monetary value is unknown, is to aid in a more effective interpretation or translation of the desires/want-satisfying qualities of a product. Realism is of importance, particularly, where emphasis is placed on the utilitarian qualities of the product itself.

9. Colour is used to satisfy fashion trends. There is no easy answer to the problem of trends. Research has not yet provided any decisive information about the nature of the movement within the colour fashion cycle. More particularly, whether a colour fashion cycle flows vertically, though several socioeconomic strata or moves horizontally and simultaneously within several strata.

10. Colour is used for its aesthetic qualities. Aesthetics refer to aesthetically pleasing colour arrangements and interactions within an individual and between visual responses to patterns of stimuli. Different studies underline the following facts :

- aesthetic qualities attract attention and the material is remembered longer,
- the communicated message is more easily comprehended,
- insensitivity to aesthetic values regarding colours leads not only to ineffective advertising, but may also create a negative impression.

These research findings indicate to the creative executive to borrow from artists their principles of proportion and harmony that are universally recognized as the basic essentials of beauty.

Hypotheses analysed

The comparisons-hypotheses analysed in this study were:

1. To question whether French and British advertising creative executives differ in the way they rank the importance of the different colour effects in their creativity work relying on a list which includes all the ten possible colour effects presented earlier. Thus:

H1: There is no difference between French and British creative executives in the rank order of the

importance they attach to the colour effects in press advertising,

2. The hypothesis tested here is that particular colour effects will be particularly emphasized according to whether the product advertised is a convenience, shopping or specialty goods, Thus:

H2: There is no difference between French and British advertising executives opinions in using colour effects per product category.

Methodology: research setting, sample and instruments used

This study was conducted over a period of eighteen months (December 1990-July 1992), in France(Paris) and Great Britain(Stirling). The author conducted a mail survey designed for distribution to a wide range of French and British members of the International Advertising Association (600 advertising creative executives). Prior to the collection of numerical measures and administration of the questionnaire, interviews were performed with advertising executives in Paris, Strasbourg, Lyon, Bordeaux, Marseille, Edinburgh, Glasgow, Birmingham, Manchester and London. The questionnaire was pretested with 35 graduates of the Ecole Supérieure des Sciences Economiques et Commerciales (ESSEC-Paris) and 22 students of the M.B.A. programme of the University of Stirling-Scotland and 12 advertising executives. Respondents were assured of complete anonymity in the cover letter. Two months after the first mailing, a second and a third mailing.

The responses were received from 245 executives, after the first mailing, 49 executives after the second, and 15 after the third, that is a total of 309 completed questionnaires (or 51.5 % response rate), 169 from Britain and 140 from France. A total of 178 (two subsamples: 89 from France and 89 from Britain) form the data base of this study. The two response groups have been formed by following the technique of matching in order to control independent variables which might affect the results. Chi-square analysis indicated that there were negligible differences in the size of their agency ($p > .19$), education level ($p > .68$), experience ($p > .71$), age ($p > .12$), income ($p > .07$) and gender ($p > .22$). The same statistical test proved no significant difference between the two response groups in regard to advertising media employed ($p > .18$). Print media were rated as first, television second and other media come third as indicated by their total media budgets. Cronbach's Alpha reliabilities were calculated for each scale. In addition, both Likert-like and open ended questions were also used for the questionnaire. The rank of importance of the ten colour values in question consisted two 89 by 10 matrices. Each cell in matrix contented a participant's ranking of the importance of a particular colour value (scale 1-5).

It is widely accepted that advertising creative executives' decision making can vary widely between products To account for such situation and to provide a conceptual framework to guide advertising planning, for the purpose of this analysis, consumer goods were viewed in term's of the Copenland's (1954) long-used classification into convenience, shopping and specialty goods.

Results

H1. Rank importance of colour effects.

Cluster analyses were performed on the collected data to develop a taxonomy of colour effects objectives. Several different cluster analyses were performed, all generating a high level of consistency across the different clustering results, suggesting quite solid findings. This study reports in detail only the analysis where all ranks were recorded in a binary form (1=an effect was ranked among the top five most important by a respondent, 0=otherwise). Rankings across cultures (Britain & France) were considered simultaneously in developing the taxonomy of objectives. The clustering algorithm used was CONCOR although other algorithms generated quite similar results. These ranking data are presented in [Table 1](#).

The application of various statistical tests suggested that three clusters adequately grouped the data in the present analysis. To examine how the importance of these three different clusters of objectives varied across cultures, the cluster solution was applied to each of the data matrices for British and French advertising executives. This was done by rearranging the rows of each of these data matrices to match the partition of objectives obtained in the cluster analysis. The average ranking of all participants in each cluster for each nationality shows the percentage of respondents who thought that the goals in a given cluster of objectives were among the five most important. The objectives grouped together in cluster One ([table 1](#)) suggest that colour is used as a mechanism for creative executives to obtain a higher degree of attention for their advertisements.

TABLE 1
CLUSTERING RESULTS. ALGORITHM WAS CONCOR. ALFA CUTOFF WAS 0.95. DATA WAS BINARY. RANKING ACROSS CULTURES (BRITAIN & FRANCE) WERE CONSIDERED SIMULTANEOUSLY IN DEVELOPING THE TAXONOMY OF OBJECTIVES.

Cluster number	Objective numbers*	Description of objectives
One I	1	Colour is used for its attention value
Two II	2, 5, 7, 8	Colour is used for its inherent meanings
Three III	3, 4, 6, 9, 10	Colour is used to deliver meanings that are associated with it through the learning process

* The list includes all ten (1-10) possible colour effects proposed in this study.

The objectives grouped in cluster Two suggest that colour is used for its inherent meanings to the individuals: genuine effective responses, emotional analogies, memory value and realism.

The objectives in cluster Three suggest that colour is used to deliver meanings that are associated with it through the learning process. That's, for its external to the individual

colour effects: symbolic value, prestige suggestion, preferences, fashion and aesthetic qualities.

The resulting averages are presented in [table 2](#). The findings of this table were also used in order to rank the pattern of advertising objectives by using the Spearman's r(s) measure of rank correlation.

TABLE 2.
PERCENTAGE OF TIMES OBJECTIVES OF SPECIFIC CLUSTERS ARE COTED AS IMPORTANT AMONG BRITISH AND FRENCH ADVERTISING CREATIVE EXECUTIVES.

Cluster number/Nationality	One (I)	Two (II)	Three(III)
British creative executives	0.290 "M"	0.729 "H"	0.715 "L"
French creative executives	0.087 "L"	0.712 "H"	0.778 "H"

The relative importance of each objective cluster for the two different nationalities is shown in [table 2](#). The overall average of the importance of objectives for the two different types of nationals was 0.39 with a standard deviation of 0.31. A designation of "H" (for high) was given to any cell average that is one standard deviation or greater above the overall mean. A designation of "L" (for low) was given to any cell average one standard deviation or more below the overall mean. Averages with one standard deviation below or above the mean was designated by an "M" (for medium). For both British and French advertisers cluster two and three emerge as dominant. For British advertisers cluster One emerge as moderate when for French advertisers is considered of less importance. In studying the aggregate responses of British and French advertisers, a correlation coefficient of $r=0.141$ was found. A chi-square test $\chi^2=3.602$ was calculated and was proven insignificant at $p=0.01$. When the rows were examined only one of the three contrasts was significant at the traditional acceptable levels (t-value), cluster One. The Spearman's r(s) measure of rank correlation was computed. A value $r(s)=-0.905$ was calculated, indicating a high degree of similarity between the two different nationalities indicating a monotonic decreasing relationship between British and French advertisers in the rank order of the importance they attach to the colour effects in advertising.

H2 : Relative importance of colour effects per product category.

[Table 3](#) refers to the reported degree of relative importance of colour effects for the two surveyed groups and is concerned with the reported level of importance of ten different colour effects for the French and British advertisers per product category. Analysing [table 3](#) the comparison of the French and British creative executives' mean score for the use of colour effects was found to be statistically similar across convenience and shopping goods. All the twenty contrasts were not significant at a traditional acceptable level. They were also found to have the same rank ordering to the importance of colour effects with a Spearman rank coefficient $r(s)=0.932$ for the convenience goods and $r(s)=0.854$ for the shopping goods. A multivariable analysis of variance (MANOVA) showed an insignificant main effect of the source (product category/nationality) of rating, $F=3.02$.

$p < .001$ with a multivariable test Wilks: $F = 3.77$. A two sample t-test produced $t = -0.23$ ($p = 0.82$) for the convenience goods and $t = -0.20$ ($P = 0.85$) confirming the findings. Therefore, the data provided support for the hypothesis H2(a) and H2(b) of no differences between French and British advertising executives about the creativity use of colour in convenience and shopping goods advertisements. In the case of the shopping goods nine of the ten contrasts of means were significant. Their opinion was found to vary across the specialty goods with $r(s) = 0.006$ and a two sample t-test $t = -2.30$ ($p = 0.85$), indicating statistically important differences between these two groups when they advertise specialty products rejecting the hypothesis H2(c). A MANOVA showed a significant main effect of source of rating ($F = 15.61$, $p < .001$). In a future study stepwise discriminant analysis would be useful to be chosen for further analysis of the colour effects variables.

TABLE 3
RELATIVE IMPORTANCE OF COLOUR EFFECTS PER
PRODUCT CATEGORY, RESULTS OF MANOVA

	Product Category (Mean, t-value, F-value)					
	Convenience		Shopping		Specialty goods	
	t-value	F-value	t-value	F-value	t-value	F-value
Attention effects	-0.84	0.94	0.23	0.03	-3.78	18.84*
- Internal colour effects						
Emotions & feelings	0.17	0.07	0.91	1.10	0.91	1.88
Physical responses	-1.22	2.14	-0.72	1.66	5.49	24.22*
Memory value	-0.98	1.87	-0.70	1.61	-5.89	25.16
Realism	0.91	1.88	0.50	1.88	1.98	15.55
- External colour effects						
Colour symbolism	-0.76	0.82	-1.17	1.89	3.60	17.87
Prestige suggestion	0.88	1.64	1.46	2.24	-6.67	19.96*
Colour preferences	1.17	1.87	-0.24	0.08	1.47	4.71
Colour trends	-1.20	2.21	-0.98	2.24	5.20	28.16*
Colour aesthetics	-1.16	1.91	0.52	1.87	3.57	17.08*

Multivariate test-Wilks: F-value 4.88, d.f. 876, sig.000, $p < .01$.

Discussion of findings - implications per product category.

1. Convenience goods. According to the present study, the only product category where the attention getting attributes of colour effects are used more, is that of convenience goods. For, the consumer of such goods has well defined habits and the advertiser has to face advertising situations which call for a good deal of continued attention and a high degree of interest in order to convey the message.

The necessity for a realistic presentation in the advertising of these goods is another factor. Realism is important because convenience goods usually have to be described physically in terms of their functional, sensory or physiological characteristics. Colour is an important element in this description.

2. Shopping goods. Psychological colour values were used to a much higher extent than attention getting value in the advertising of shopping goods. Within the group of psychological colour effects, the external/socially induced ones are used slightly more than the internal/personal effects. This can be explained by the fact that in the case of shopping goods, the advertiser is not confronted by an advertising situation which calls for a good deal of continued attention and a high degree of interest in order to convey the message or motivate purchases.

When psychological colour values are used in shopping goods advertisements it can be seen that advertisers on the whole are very careful to use the colours people want. This is particularly the case of durable goods and furniture. Trends in interior decoration are also carefully considered. Emphasis is usually placed on those comparatively few shades which are likely to be best sellers. Moreover, colour increases the consumers' awareness of what is going on and what other people are doing and thus helps to create desire. As a result, the advertiser must give particular emphasis to the concept of colour preferences and fashion.

3. Specialty goods. Colour effects in the case of specialty goods are used in almost the same way as with shopping goods. The only difference lies in the theme requirements that colour is called to play in shopping goods advertisements. However, French and British advertisers don't seem to agree in the order of their preference regarding the use of colour effects. In practice, all colour effects are used in combination with the other elements of the advertisement to improve, or maintain, the brand image. Colour is used in such a way as to increase the meanings already inherent in the brand. This can be more effectively achieved if external colour effects are used to evoke feelings which are familiar to large segments of a society and are associated arbitrarily with a product or brand. In contrast, internal colour effects are used in a way which evokes feelings personal to the individual and his ego involvement. Both internal and external colour effects are used in order to highlight the physical attributes of the product which affect images of a psychic kind as well as those relevant to sensory and performance satisfaction. The use of colour in that case is very closely linked with the overall brand image.

Conclusions - directions for future research

The findings suggest that colour's creativity role is a function of the delivery of two major categories of effects (predictor variables) to prospects: (1) attention getting and (2) psychological effects. The relationships among these two factors are likely to be multiplicative. If a colour advertisement is deficient in any one factor, effectiveness is likely to be low. Each of the two determinants of colour performance is influenced by a variety of antecedent variables. These variables include among others personal characteristics of the creative man, characteristics of the agency, media used, the company, type of product, corporate culture, the marketing support and factors in the

broader economic environment. This study concentrates primarily on suggesting the effects of the controllable variables on colour creativity effectiveness in print advertising, by isolating colour from the other elements of the creativity mix. The proposals supported by the present study, it is hoped that provide a conceptual framework which integrates many variables that historically have been considered independently in the use of colour in advertising literature.

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RELATIVE POSITIONING OF SELF IMAGE PROJECTIVE PRODUCTS ACROSS EUROPE: A CONTENT ANALYSIS OF PRINT ADVERTISING

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ABSTRACT

A relative positioning schema was developed for self image projective products within the context of advertising standardization and localization. Advertising for three self image projective products (perfume, cosmetics and women's apparel) were content analyzed in the *Vogue* editions of U.K., Germany, France, Spain and Italy. The research objective was to analyze advertisements according to the relative positioning schema proposed for these products over a four month period. Managerial implications and recommendations for Euro-marketers/advertisers of these products suggest that perfume ads are positioned with an emphasis on image and universal themes that lend themselves to a standardized approach. Apparel advertisements satisfy experiential needs through an outward demonstration of the product and a stylized, culture specific approach. Cosmetic advertisements are positioned to satisfy functional needs through greater use of information based advertising.

INTRODUCTION

The global or standardized advertising theory is based on the assumption that "people all over the world have the same tastes and desires, and they are remarkably alike regarding, for example, love, beauty, fear, etc. (Lynch, 1984).

Advertising theorists supporting the localized messages suggest that advertising is one of the most difficult marketing elements to standardize especially as culture is viewed as all pervasive (Mueller, 1987). In fact, Douglas and Dubois (1977) maintain that cultural factors affect advertising in four ways: 1) the choice of advertising theme, 2) the connotation of words and symbols, 3) the way pictorial conventions are interpreted, and 4) media selection.

Within advertising, the issue of product positioning becomes ever more critical due to the emergence of the single European community by the end of 1992 - a market of 340 million consumers in the 12 nations of Europe. As a result, many companies are creating "Eurobrands" giving products a single brand image throughout most of Europe. Eurobrands, thus would need to be supported by "Euro-ads" - advertisements that except for the language are similar in message and often identical or nearly identical in execution.

Yet other advertisers are positioning their products differently across Europe based on the premise that even though the market will be more accessible, "cultural, historical, institutional, physical, and economic differences among the EC countries will survive the 1992 process (Quelch, Buzzell and Salama 1990, p. 62)."

The two most common positioning approaches used by advertisers to influence consumer choice may be categorized as Ogilvy's (1963) Image Strategy and Unique Selling Proposition (USP) strategy suggested by Reeves (1961). Johar and Sirgy (1991) have related these two approaches to value-expressive or utilitarian. They have argued that when the advertiser wants to build a "personality" for the product or to create an image of the product user an image strategy using value expressive advertising is appropriate. On the other hand, in order to highlight a brand benefit the advertiser must also highlight a USP (Unique Selling Proposition) of the brand. This advertising strategy has

been termed utilitarian or informational. Furthermore, Mueller (1991) showed that highly standardized messages contained fewer information cues than messages defined as highly specialized. Hence, the purpose of this paper is to explore positioning approaches that are practiced in print advertisements in Europe for self image projective products.

Our position is that advertisers tend to use image strategies for perfumes and a combination of image and utilitarian strategies for cosmetics. Whereas, the image component is standardized cross nationally, the utilitarian component is more localized by country. Furthermore, it is argued that the country in which the cosmetic advertisement is placed would influence the extent of information provided in the cosmetic advertisements. For example, for a German or Spanish audience more information would be presented than for French or Italian audiences (*New York Times*, Thursday May 31, 1990, p: D1, D2: "Selling in Europe: Borders Fade").

In brand selection consumers base their decisions on various needs. Park, Jaworski, and MacInnis (1986) categorized these needs as Functional, Symbolic, and Experiential. Functional needs are those that drive consumers to search for products that solve consumption - related desires. Such desires may revolve around searching for products that solve a current problem, prevent a potential problem, or resolve conflict (Fennell, 1978). For example, a woman may have problems with wrinkles and solves this problem by purchasing a brand of cosmetic cream that serves this function of eliminating them. In another case, a woman may use cosmetics to enhance one's self image whereas another would use them to hide facial problems.

Symbolic needs are those that result in desires for products that satisfy internal needs that include self-enhancement, group membership, role definition, and/or ego-identification. Essentially, such a brand that fulfills this type of need often embraces the individual's desired group, role or self image (Levy 1959; Martineau 1958; Sirgy 1982; Solomon 1983; Nicosia and Mayer 1976; Wallendorf and Reilly 1983).

Finally, experiential needs are those desires for products that enhance an individual's sensory pleasure, variety and/or provides cognitive stimulation as well (McAlister 1979, 1982; McAlister and Pessemier 1982; Hirschman and Holbrook 1982; Holbrook and Hirschman 1984; Holbrook et. al. 1984). More specifically, a brand that fulfills experiential needs satisfies needs for stimulation and/or variety that may be projected in an externally demonstrable manner.

Many products offer a mixture of symbolic, functional, and experiential benefits. It therefore may be possible to develop a product position that fulfills two or more needs. However, managing this strategy could be difficult and confusing to the consumer.

This study examined advertisements of a specific group of products - considered 'self projective products': perfumes, cosmetics and women's apparel. These products were chosen since advertising costs are a very high component of the total marketing costs of these products. Moreover, Sommers and Kernan (1967) recognize that standardization of advertising is possible when the product serves the same needs across cultures such as beauty, love and fear; hence, a likely approach by multinational companies with such products. Based on the above discussion a relative positioning schema is proposed below for self image projective products.

**Relative Positioning Schema For Self
Image Projective Products**

<u>Experiential Needs</u>	<u>Functional Needs</u>	<u>Symbolic Needs</u>
Demonstrable Products (Culture Specific)	Products Which Solve a Common Problem	Universal Products
Women's Apparel	Cosmetics	Perfumer
Stylized Positioning	Informative Advertising	Image Positioning
Localized Advertising	-----	Global Advertising

As mentioned previously, the prime objective of this research study was to investigate whether print advertisements in Europe are positioned cross-culturally, in practice within the context of the proposed relative positioning schema. This study attempted a comparison of advertisements as they appeared in a selected publication using the content analysis methodology. As a research tool, content analysis provides the opportunity to examine the feelings, beliefs and attitudes of a culture in their environment (Rice and Lu, 1988).

Based on the above discussion the following hypotheses were tested:

1. Advertisements of perfumes will explore symbolic needs through image positioning to a greater extent than cosmetics or apparel.
2. Cosmetics ads will visualize functional needs through informative based positioning to a greater extent than apparel or perfumes.
3. Advertisements of apparel will demonstrate experiential needs through stylized positioning to a greater extent than cosmetics or perfumes.

METHOD

Population and Sample

The researchers conducted a content analysis of print advertisements of women's apparel, cosmetics and perfumes across different European countries. Five of the largest countries in the European Community were selected (France Pop. 56M., Germany Pop. 79.5M., Italy 58M., Spain 40M., and U.K. Pop. 57M.) as they are widely different culturally. Together, they account for 83 percent of the E.C.'s population.

Media Vehicle

The content analysis of print advertisements was conducted using Vogue magazine editions of the countries selected. Vogue is considered the most appropriate print magazine as women's apparel, perfumes and cosmetics are the most advertised products.

Results and Discussion

An appropriately modified Model for Testing Advertising Standardization developed by Whitelock and Chung (1989) was used for this study. Furthermore, the reported findings covered a four month period between November 1991 through February 1992; however, this study was part of an on-going project.

Seventy two ads were examined. Those brand advertisements chosen for inclusion for further analysis were based on the number of months and country editions that the ads appeared. As a result three brands each of perfumes, apparel and cosmetics were chosen for further analysis. For perfumes - YSL "Y", Paloma Picasso, and Lancome Tresor. For apparel - Guess, Chanel, and Giorgio Armani. And for cosmetics, the three brands were Helena Rubinstein, Guerlain, and Lancome Definicils.

Perfume. YSL "Y" appeared in the German, U.K., and Spanish editions of Vogue (Figure 1). Advertisements for Paloma Picasso perfume were included in the U.K., French, Spanish and German editions (Figure 2). Advertisements for Lancome's Tresor were featured in the U.K., French, Spanish and German editions (Figure 3) of Vogue.

It was quite apparent from the advertisements of the perfume brands (YSL "Y," Tresor, and Paloma Picasso) that advertising positioning across the European countries were standardized using a global approach. This testified to the appropriateness of the universal theme approach with an image emphasis to satisfy the target consumers' symbolic needs.

Women's Apparel. Advertisements for Chanel (Figures 4a, 4b) were featured in the German, Italian, U.K. and French editions of Vogue. Advertisements for Guess apparel were featured in the Spanish, French, and Italian editions (Figures 5a, 5b). Advertisements for both brands were highly localized. Advertisements for Giorgio Armani apparel were featured in the German, Spanish, U.K., French and Italian editions of Vogue (Figures 6a, 6b). The ads for Italian, French and Spanish editions were standardized; however, the ads for U.K. and Germany were localized.

The localized approach used by women's apparel advertisers was supportive of the positioning strategy that would project the country's unique culture based identity. Hence, women's apparel may be classified as a demonstratable product through which the target consumer satisfies experiential needs. In this case, evidence showed a combined use of localized as well as global positioning strategies with a stylized approach utilized in advertisements for Guess and Chanel and an image emphasis approach apparent in advertisements for Giorgio Armani.

With Guess and Chanel, using a localized position was justified based on their strategy of marketing "Street Fashions." Overall, their target market is directed to youth oriented women in their twenties and early thirties in the middle to upper socioeconomic levels. More specifically, Guess is directed to the younger woman from the middle socioeconomic level, whereas Chanel appears to be aimed at the older woman from the upper socioeconomic class.

Giorgio Armani appears to be using image positioning strategies directed to the sophisticated, high style, classic, middle thirties upwardly mobile global segment. According to Ohmae (1989), fashion oriented premium priced global products, such as Gucci and Louis Vitton, are often marketed the same worldwide to the upper income bracket of the market. Ohmae (1989) purported that this market shared similar tastes and preferences which permitted a globalized approach. Like Gucci, a universal/global target market existed that Giorgio Armani directed its advertising efforts to as well. Their ads for the Italian, French and Spanish markets were identical, and although different ads were used for the U.K. and German markets the positioning across all five countries was the same.

Tansey, Hyman and Zinkham (1990) supported the assumption that print ads reflect the targeted (sub) culture. They referred to consumer behavior literature (e.g. Belk and Pollay, 1985) to support this position and advocated that advertising mirrored and reinforced the values of its target audience. Holbrook (1987, p. 100) also concurred and noted that "most advertising appears to mirror or reflect the values of its target audience and that many scholars have regarded the content analysis of advertising as a useful index of social norms." Hence, advertisements of women's apparel are, generally, designed by marketers to reflect local tastes and preferences in appearance.

Finally, Tansey et. al. (1990) concluded that advertisers recognizing the underlying values and lifestyles of their target audience, develop ad themes to reflect such similarities and differences cross culturally. This was evident in the advertisements of Guess and Chanel which used a localized approach. However, the use of global positioning for Giorgio Armani sought the universality of a sophisticated image.

Cosmetics. The ads for Helena Rubinstein (Figures 7a,7b) appeared in U.K., Spanish, French and German editions. All the advertisements were similar with the exception of France where the focus of the ad shifted from the model to the product. Ads for Guerlain cosmetics were highly standardized (Figure 8) and were featured in the German, U.K., Spanish and French editions of *Vogue*. Advertisements for Lancome Definicils were moderately standardized (Figure 9) and were featured in the German, Spanish, Italian and the U.K. editions.

Advertisements for the cosmetic brands also appeared to use dual positioning strategies: Informative (Helena Rubinstein and Lancome Definicils) and Image (Guerlain). Guerlain ads were standardized across the five European countries examined testifying to a global position. Furthermore, the effort was seemingly to create a universal theme with the emphasis on a sophisticated looking model (Ohmae, 1989) rather than informative copy.

Initial findings support the proposed hypotheses. Perfume advertisements were positioned with an image emphasis to a greater extent than cosmetics or apparel ads. Such ads were positioned overall to satisfy symbolic needs more so than experiential or functional needs. Furthermore, perfume ads were more highly standardized through the presentation of universal themes.

Cosmetic advertisements generally incorporated more information based positioning strategies than perfumes or apparel. Such ads satisfied consumers' functional needs by solving a current or potential problem (e.g. wrinkles or short eye lashes) and/or self enhancement. Finally, apparel advertisements overall, appeared to satisfy consumers' experiential needs through an outward demonstration of the product. Most advertisements were localized and were stylized to be culture specific to a greater extent than perfumes or cosmetics.

Managerial Implications

The implications of the study's findings are several. First, as the European community merges into a single market in the next few years, marketers and, particularly advertisers, must concern themselves with presenting a unified brand image. Presenting such an image has advantages, specifically, by providing economies of scale in ad expenditures. Managers, however, must be sensitive when creating advertisements for perfumes, cosmetics and apparel, that even though they represent women's desires for love and beauty, their interpretation is not the same worldwide. For example, advertiser's would best create and maintain a unified image with perfume products through standardized advertisements. A Pan-European approach would take advantage of the economies of scale possible with standardize advertisements as well present a unified image for the brand.

Marketers should also recognize that when advertising products cross nationally that identical positioning strategies for different product categories may not be an effective approach even though similarities exist. For example, in advertisements for Lancome perfumes and cosmetics different positioning strategies were employed. In the case of perfumes, symbolic needs were satisfied through image based approach while an information based strategy was employed in advertisements of their Definicils cosmetic product. Although both products are image enhancing they satisfy different consumer needs.

Furthermore, given such company goals as image building in a global market, marketers have different strategies available to them. For example, in the advertisements for Giorgio Armani, an image based strategy, satisfying consumers' symbolic needs with universal themes, was employed. These ads were directed to what Ohmae (1989) referred to as the "upper bracket market" of sophisticated consumers. Whereas, Guess and Chanel employed a stylized approach satisfying experiential needs of its target market. Marketers must be sensitive to the needs of their target market when choosing positioning strategies for self image projective products in today's global market or risk failure. To summarize, a global market does not equate with global or universal consumer needs.

CONCLUSION

This study examined positioning strategies employed by marketers of self image projective products in print advertisements across Europe. Initial findings support the proposed hypotheses and suggest that although marketers are pursuing a global market in their advertising practices, product positioning strategies varied for the three product categories examined.

Perfume advertisement were positioned with an image emphasis to a greater extent than cosmetic or apparel ads. Such ads were positioned overall to satisfy symbolic needs more so than experiential or functional needs. Furthermore, perfume ads were more highly standardized through the presentation of universal themes. Cosmetic advertisements generally incorporated more information based advertising strategies than perfumes and apparel. Such ads satisfied consumers' functional needs by solving a current or potential problem and/or self enhancement. And apparel advertisements overall, appeared to satisfy consumers' experiential needs through an outward demonstration of the product. Most advertisements were localized and were stylized - culture specific to a greater extent than perfumes and cosmetics.

As the European community merges into a single market in the next few years, marketers and, particularly advertisers, must concern themselves with presenting a unified brand image. Presenting such an image has advantages, specifically, by providing economies of scale in ad expenditures. Managers must be sensitive when creating advertisements for perfumes, cosmetics and apparel that even though

they represent women's universal desire for love and beauty, product influences may lend themselves to globalized advertising strategies (perfumes/cosmetics) while others do not (apparel).

REFERENCES (Furnished upon request)



1. YSL "Y" - Germany



2. Paloma Picasso - France



3. Lancome Tresor - Germany



CHANEL

25, RUE MONTENAPOLEON - 75002 PARIS

11, RUE MONTENAPOLEON - 75002 PARIS

4a. Chanel - U.K.



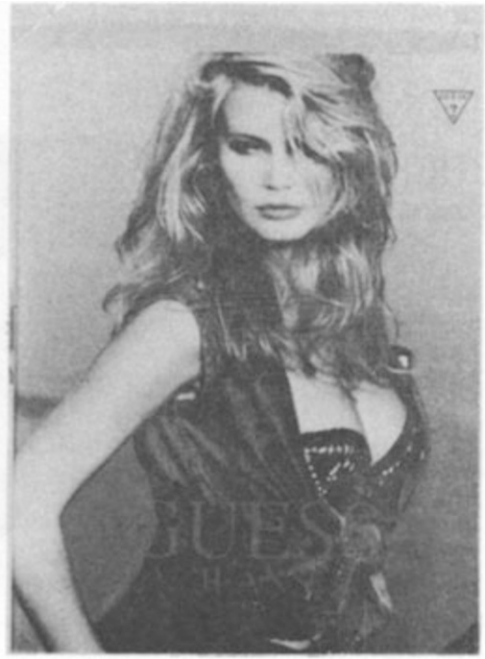
CHANEL

11, RUE MONTENAPOLEON - 75002 PARIS

4b. Chanel - France



5a. Guess - Spain



5b. Guess - Italy



6a. Giorgio Armani - France



6b. Giorgio Armani - U.K.

NUTRITIONAL
RESPONSE.



Die Haut ist ein Organ, das
auf Nahrung reagiert. Sie
braucht Vitamine, Mineralien
und Proteine, um gesund zu
bleiben. Helena Rubinstein
hat eine neue Kosmetik
entwickelt, die die Haut
von innen ernährt. Das
Ergebnis ist eine strahlende,
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HELENA RUBINSTEIN

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HELENA RUBINSTEIN



7a. Helena Rubinstein - France

7b. Helena Rubinstein - Germany



8. Guerlain - Germany



9. Lancome Definicils - Germany

A CROSS CULTURAL COMPARISON
OF SELECTED EFFECTS OF LANGUAGE ON
CONSUMERS' ATTITUDES AND INTENTIONS

John H. Holmes, Skidmore College
Dale N. Shook, Skidmore College

Abstract

This paper illustrates and compares the differential responses of Puerto Rican and non-Hispanic United States consumers to English language and Spanish language print advertisements. Respondents from the two populations respectively evaluated one of two versions of messages [English-Spanish] for four hypothetical consumer products. The analysis examines subjects attitudes toward the test message, the brand, and their intention to respond to the advertisement. The findings from this cross-cultural comparison indicate that both domestic and international marketers need to be more aware of consumers' foreign language proficiency.

Global marketing activity continues to grow at an accelerated pace. Today multinational corporations, whether headquartered in the United States or abroad, must continuously address whether the same strategies which have produced success in domestic markets can be transferred into foreign markets (Kotler, 1986; Onkvisit and Shaw, 1987; Link, 1988; Greco, 1989). Simon-Miller (1986) asserted that firms should think global and act local. Ryans and Ratz (1987) contend that promotional strategy can often be uniform, but the tactics should conform to the cultural norms of individual markets. Holmes (1990) suggested that both the level of product need satisfaction as well as cultural commonalities should be considered in determining whether programs should be standardized or customized. To be sure, as Ricks, Arpan and Fu (1974) argued, many factors must be carefully considered before making such decisions.

One major consideration in developing international advertising messages is language. Should the message be written in the language of the marketer and/or the native language of the prospective consumer? Undeniably, language when properly used facilitates effective communication; conversely improper use of language not only impedes understanding but also can generate ill will between the receiver and the sender. Language is an integral part of one's cultural heritage and the society in which the individual resides; moreover, language proficiency frequently serves as an measure of one's position within the social structure (Czinkota, Rivoli, and Ronkainen, 1992). Language is symbolic communication. Beyond the spoken or written word, international marketers must be familiar with the "silent language" which either

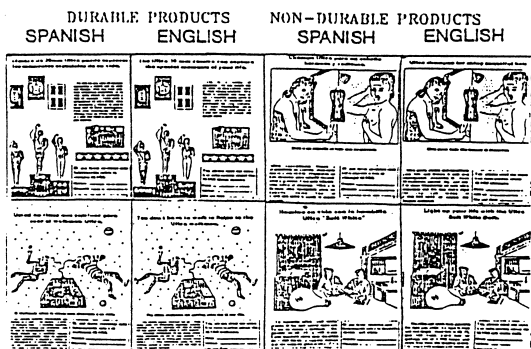
bonds or separates prospective buyers and sellers (Hall, 1959). More specifically, message language serves as an external cue which likely will affect the attitude of prospective buyers towards both the message and the product being advertised (Dommermuth, 1989). Foster, Sullivan, and Perea (1989) found that the use of foreign language in advertising creates attention, and for selected items it contributes to brand "mystique"; whereas the use of prospects' native language produces a more literal acceptance of the advertiser's claim.

Both behavioral theory (Petty, Cacioppo, and Schuman, 1983) and empirical evidence suggest that the choice of language [native or foreign] would can either favorably or unfavorably upon one's attitude toward the message (Ajzen and Fishbein, 1980); attitude toward the sponsor's brand (Shimp, 1981); and intention to respond (Holmes, 1989). Petty and Cacioppo (1981) described two differing routes for processing information. The first depicts a central route whereby a reader would directly absorb information from a message's headline and/or body copy, the second depicts a peripheral route where a reader unable to fully comprehend message language would likely rely on the illustration as the principal cue in processing the content. Consequently, it is probable that foreign language messages will be processed differently than those printed in one's native language.

Despite the apparent importance of the role of language in cross-cultural communication, surprisingly few studies directly compare the relative effectiveness of using native language *vis-a-vis* foreign language in product promotions (Gaillard, 1982). This situation likely will change as domestic marketers within the United States come to appreciate the growing significance of the Hispanic market (Meyer, 1991). In this setting, Faber and O'Guinn (1991) compared and contrasted responses to English language commercials to Spanish language commercials among 205 Hispanic Chicago residents. Sixty-eight percent found the Spanish version easier to understand, whereas 22% believed it was more informative. Further, respondents did not perceive the Spanish commercials as more believable, persuasive, or honest than the English language messages. Subjects' responses to specific messages for soft drinks, laundry detergent, and a fast food restaurant generated similar findings, but the Spanish version was judged as more likely to produce action.

Two other empirical studies have directly considered the relative effectiveness of English language versus Spanish language print advertisements. The first, Holmes and Carrero (1991), investigated Puerto Ricans' responses to both Spanish and English versions of print advertisements for both durable and non-durable products. Three hundred and eighty-one students enrolled in Puerto Rican universities participated in a between-subjects experiment in which they responded to Spanish language or English language test messages for fictitious brands of 35mm cameras, "walkmen", shampoo, and light bulbs. Each version was evaluated on the basis of expressed attitudes toward the ad, the brand advertised, and their intention to respond. The second study (Holmes, Shook, and Carrero, 1992) was nearly identical to the first, but with two major exceptions. First, the Spanish language and English language messages incorporated in the Puerto Rican study were presented to 197 students at a small liberal arts college in the northeastern United States. The questionnaire used in the latter study additionally asked respondents to indicate their level of Spanish language proficiency. Illustrations of the eight test messages are shown in Figure 1. Each product was promoted with the same brand name, ULTRA, which has the same connotative meaning in both Spanish and English. The use of this hypothetical brand precluded possible bias resulting from prior familiarity with existing brands or any advertising for those brands/products.

FIGURE 1
Test Advertisements



Cross-cultural Comparison

This paper (1) presents a side by side comparison of the results obtained from the two investigations and (2) provides possible explanations for both the similarities and differences which occurred between them. Prior to making comparisons, certain contextual differences between the two studies should be noted. Among Puerto Ricans, Spanish is the native language; yet almost all university students are bilingual and can both read and speak English.

Secondly, Puerto Ricans are more accustomed to purchasing imported products; especially items produced in the United States. The majority of advertisements shown in Puerto Rico are written in Spanish; however, an English language message would not be viewed as unique or unusual. Conversely, non-Hispanic Americans generally have fluency only in English and with very few exceptions, ie. Volkswagen's "Fahrvergnugen" campaign or when travelling overseas have not been exposed to foreign language advertising. Further, all four of the test products included in the two studies are frequently purchased by Puerto Rican students as well as by students from the continental United States. The products' country of origin was not mentioned; nevertheless, all of the items considered could have been made either in the United States, Puerto Rico or some other foreign country.

The questionnaires used in the two studies were identical except for the language in which they were written. Questions pertaining to attitude toward the message were measured by responses to nine seven point scaled attributes (Holmes and Crocker, 1987). Attitude toward the brand was measured by responses to one question with seven response categories ranging from extremely positive to extremely negative (Holmes and Urban, 1990). Intention to respond was measured by two questions: (1) the likelihood of calling a listed toll-free number, and (2) the likelihood of completing the coupon included in the message. The seven item response categories for each ranged from extremely likely to extremely unlikely (Holmes and Kilbane, 1992).

Within Sample and Between Sample Comparisons

Table 1 presents the arithmetic differences in mean scores for the two durable products, viz., a 35 mm camera and a "walkman". More specifically, it illustrates differences between the mean responses obtained from (1) the Spanish language version of the message vis-a-vis the English version among Puerto Rican subjects and (2) the English language version vis-a-vis the Spanish version among the non-Hispanic American subjects.

TABLE 1

Durable Products:
Mean Differences between English and Spanish Language Messages
Within and Across Sample Groups

Dependent Measure	Camera			Walkman		
	Spanish Mean ¹	Non- Hispanic ²	Difference	Spanish Mean ¹	Non- Hispanic ²	Difference
Attitude toward message						
Appelling	-.22	-.19	.01	-.15	-.23	.08
Believable	-.14	-.11	.03	-.11	-.12	.01
Attractive	-.27	-.11	.16	-.06	-.42	.36
Informative	-.18	-.08	.10	-.19	-.18	.01
Clear	-.19	-.03	.16	-.17	-.18	.01
Convincing	-.20	-.27	.07	-.19	-.09	.10
Stimulate	-.17	-.43	.26	0	-.07	.07
Impressive	-.24	-.01	.23	-.07	-.28	.21
Appropriate	-.41	-.41	0	-.11	-.01	.10
Attitude toward brand - overall	-.10	-.29	.19	-.10	-.40	.30
Intention to Respond						
Coupon	-.03	-.15	.12	-.20	-.31	.11
Telephone	-.02	-.10	.08	-.30	-.04	.26

¹ = Spanish mean - English mean; - = English mean - Spanish mean
² = English mean - Spanish mean; - = Spanish mean - English mean

The + signs indicate the preference of the Puerto Rican respondents for the Spanish language message and the non-Hispanics' preferences for the English version; whereas, - signs designate the preference of the Puerto Rican respondents for the English language message and the non-Hispanics' preferences for the Spanish version. The two "Difference" columns respectively depict the algebraic differences between the two sample groups. (The magnitude of the differences was obtained by adding numbers with the same sign, or by subtracting numbers of the opposite sign.)

TABLE 2
Non-Durable Products:
Mean Differences between English and Spanish Language Messages
Within and Across Sample Groups

Dependent Measure	Shampoo		Light Bulbs		
	Puerto Ricans	Non-Hispanics ¹ Difference	Puerto Ricans	Non-Hispanics ² Difference	
Attitude toward message					
Appealing	-.81	+.17	.19	+.13	-.68
Subsidiary	-.82	+.81	-.81	-.13	+.63
Attractive	+.83	-.81	.81	-.87	+.14
Informative	+.88	-.13	-.88	-.19	+1.88
Clear	+.14	+.87	.11	+.86	+.13
Convincing	-.81	+.11	-.88	-.88	+.36
Realistic	-.14	+.18	-.84	-.88	+.54
Impressive	-.19	-.81	-.11	-.86	+.68
Appropriate	+.11	-.81	.18	-.83	+.41
Attitude toward brand overall					
	-.87	-.81	-.88	-.83	-.34
Intention to Respond					
Coupon	-.14	-.17	.11	-.14	.81
Telephone	-.83	+.81	0	-.87	-.18

¹ = Spanish mean - English mean; ² = English mean - Spanish mean
³ = English mean - Spanish mean; ⁴ = Spanish mean - English mean

As expected, Puerto Rican subjects consistently ranked the Spanish version of the 35mm camera message more favorably than the English version. None of the differences within the sample means were statistically significant beyond the .05 level. Similarly, non-Hispanics responded more affirmatively to the English language camera message than the Spanish version. The only statistically significant difference occurred in response to message clarity. Moreover, the 1.12 difference between the two sample means is statistically significant. In evaluating messages for the "walkman", the American subjects consistently ranked the English language message more favorably, especially in terms of message clarity and as the more informative. Puerto Ricans for the most part preferred the Spanish version but rated the English version as more convincing and equally realistic. Statistically significant differences between the samples were obtained for message clarity and informativeness.

As expected among Puerto Ricans, the Spanish version of the advertisements for both the camera and the "walkman" produced more positive evaluations of the brand than did the English language message. Surprisingly, among non-Hispanics the Spanish versions again produced more favorable attitudes toward the products. These results are further supported by a pooled variances T-test of the mean value attitudes toward the message. The hypothesis that each group formed more positive attitudes towards the message when the ad was in the foreign language produced observed significance levels (2-tail probabilities) of .0443 and <.001 for the camera and walkman ads, respectively.

Unanticipated findings also were uncovered in terms of the respondent's intentions to respond either by completing the coupon or calling the toll-free number.

Table 2 presents the mean response differences for the two non-durable products: viz., shampoo and light bulbs. For the former, both Puerto Ricans and non-Hispanics seemed ambivalent concerning the presentation of the message in English or Spanish.

None of the differences within the samples or between the samples were statistically significant. Both sample groups expressed preferences for the English language light bulb message. In addition, for each non-durable product both groups gave slightly higher product evaluations when the message was presented in the foreign language. The Puerto Ricans were also slightly more prone to respond when the message was presented in English.

The relationships across the three dependent variables were assessed in each of the two studies. The comparative correlation coefficients are presented in Table 3. As illustrated, all r values were statistically significant beyond zero, with the strongest associations occurring between attitude toward message and attitude toward brand.

Table 3
A Comparative Correlation Analysis of the Relationship
Across Dependent Variables

Dependent Variables	Durable		Non-Durable	
	Puerto Ricans	Non-Hispanics	Puerto Ricans	Non-Hispanics
Attitude toward message and brand advertisement	.674	.778	.761	.786
Attitude toward message and intention to respond	.515	.526	.684	.698
Attitude toward brand and intention to respond	.564	.536	.631	.669

Discussion

The cause and effect possibilities illustrated by the data shown in Tables 1 and 2 both confirm and refute much of the conventional wisdom concerning the use of foreign language advertisements. As would be expected, Puerto Ricans formed slightly more positive attitudes toward the Spanish language camera advertisement than to the English language version, while the non-Hispanics ranked the English language version better. The significant difference which occurred between the two groups on the "clarity" attribute is not surprising for two reasons. First, the majority of Puerto Ricans have a familiarity with English language ads. Second, nearly all those included in the Puerto Rican sample had reading knowledge of English, while only a limited number of the non-Hispanics

had reading knowledge of English, while only a limited number of the non-Hispanics had Spanish language proficiency. The Holmes, Shook, and Carrero study (1992) assessed subjects' language proficiency; a positive linear relationship was found between one's proficiency and attitude towards messages whereas negative relationships occurred for attitudes towards brands and intention to respond.

Responses to the the "walkman" message, with two exceptions, closely paralleled the respondents' attitudes toward the camera message. Interestingly, the Puerto Ricans found the English version to be as realistic and more convincing than the Spanish ad. One possible reason for these unanticipated responses is that Puerto Ricans had not previously seen a Spanish language ad for this type of product and, therefore, concluded that the message reflected reality and that the copy could be relied upon. The significant differences between the samples on the informative and clarity dimensions is not surprising and is likely based on the same reasons as those stated in the preceding paragraph.

As expected, Puerto Ricans formed more positive attitudes toward both the camera and the "walkman" when the message was presented in their native Spanish. Surprisingly, the non-Hispanics formed more positive attitudes towards the brands when the message was presented in the foreign language. These unexpected results may have occurred because of the familiarity non-Hispanics have with the generic product. Both 35 mm cameras and walkmans have been on the market for several years and respondents are familiar with existing brands. The Spanish message is out of the ordinary, and perhaps creates a "mystique" which surrounds the two new ULTRA brands.

Comparisons on intention to respond are noted, but explanations are extremely tentative given that the subjects could respond either by calling the toll-free number or completing the coupon. Hence, an affirmative response to one type of action simultaneously could lessen the likelihood of an affirmative response to the other action/discussion. In both the Holmes and Carrero (1991) investigation of Puerto Rican subjects and the Holmes, Shook, and Carrero (1992) study of non-Hispanics, there were linkages between intention to respond by either completing the coupon or calling the number. Based upon respondents' preferred method of obtaining additional information, no significant differences for language were found for either product category within each of the two sample groups.

As shown in Table 2, the data concerning subjects' attitudes towards messages for the non-durables are not nearly as

consistent as are the data for the durables. Puerto Ricans rated the English language ad as being more appealing, more believable, more convincing, more realistic, and more impressive than the Spanish version. Conversely, the non-Hispanics showed slightly more affirmative responses on the attractive, impressive, and appropriate dimensions. Puerto Ricans' feelings toward the English light bulb message were even more pronounced. The Spanish message was preferred only in terms of clarity. As expected, Non-Hispanics ranked the English language version higher on each of the nine dimensions. A pooled variances T-test of the mean value attitudes toward the non-durable product messages, showed more mixed results than occurred with the durable product messages. The observed significance levels of .3565 for the shampoo and .0144 for the light bulb again indicates that use of the foreign language may create a more positive attitude toward the message.

Possible reasons for the differences between the results from Table 1 and Table 2 stem from the fact that both shampoo and light bulbs are comparatively less expensive and are purchased more frequently than the durables. As a result, there would be less perceived risk and correspondingly less need to absorb detailed information. Quite possibly, subjects would respond more to other message cues such as the illustration. The illustration for the shampoo, which is an expressive product, could in and of itself convey the requisite information. Light bulbs, on the other hand, are perceived as being more technological and thus there is an assumed association between this perception and the language used in conveying such product related information.

For both non-durables, non-Hispanics rated the brands higher when the ad was presented in Spanish, while Puerto Ricans evaluated the brands higher when the ads were presented in English. This finding among Puerto Ricans is not surprising in view of their responses to the two versions of the advertisements. The corresponding result for shampoo among the non-Hispanics, therefore, is not surprising. Non-Hispanics' attitudes toward the ULTRA light bulbs is, however, more difficult to account for. One plausible explanation is the "mystique" of the unknown, especially when the perceived risk would be extremely low. Another possible explanation might be a perception that the bulb presented in a foreign language is an imported item and therefore more highly evaluated.

Given the results, it seems probable that subjects from both studies may have used two distinct routes in processing message information. According to Petty and

Caccioppo's (1981) theories, Spanish speaking consumers might have used a central route in processing Spanish language messages and a peripheral route using external cues, i.e., message illustration, in processing English language messages. Conversely, English speaking consumers might have followed a central route in processing English language messages and a peripheral route for the Spanish language layouts. Since subjects were not debriefed, evidence supporting this theoretic position is not available.

The differences noted in comparing the results from these two studies suggest many different courses of action for advertisers. Before tendering possible alternatives, the limitations inherent in each should be carefully noted. First, the respondents used in both investigations were college students. Had other subjects from the two countries been used dissimilar findings may have occurred. Second, the studies were limited to four products. Had other test items been used, the results may have been different. Third, both investigations were conducted in an experimental situation. The subjects were exposed to layouts placed inside a questionnaire as opposed to seeing actual advertisements in a magazine or newspaper. The responses were based upon a single exposure to the respective messages and thus such initial impressions may not hold up under repeated exposures.

Given these limitations, considerable caution is urged in drawing conclusions. Notwithstanding, these comparative results suggest that the selective use of foreign language in advertising can be beneficial. More specifically, among non-Hispanic Americans, foreign language advertisements produced somewhat more favorable attitudes towards new brands than did identical English language advertisements. This result occurred despite the preference of non-Hispanics for the English language message. Here, it would seem that prospects are reacting either to the "novelty" of the message, the introduction of the new brand, or the impression that a connotative "foreign" association enhances either the product or the prospect. Such knowledge may benefit foreign manufacturers desiring to introduce new brands into mature U.S. markets. The information may also suggest how domestic producers may be able to launch new brands into such markets, as well as develop creative approaches for expanding into markets where English is understood but infrequently read or spoken.

In conclusion, the authors recommend additional research which addresses other product-market situations. Particular attention should be directed to country of origin and its possible interaction with

the use of foreign language. Research should also investigate the extent to which peripheral cues such as product illustrations and/or models mediate the effects of foreign language on consumer response.

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PREFERENCES FOR PROMOTION PROGRAMS

A STUDY OF JAPANESE CONSUMERS

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Acknowledgements

This is the first of two studies pertaining to promotion programs in Japan. This paper examines Japanese consumer's attitudes towards consumer promotion programs. The second examines business attitudes towards promotion programs. Data was collected between October and December 1991.

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Abstract

The study's primary objective was to obtain information about Japanese consumer's attitudes towards various promotion programs. This information will enable promotion planners to make more objective decisions regarding the allocation of promotion dollars.

The study was designed to determine: Japanese peoples' attitudes towards various consumer promotion programs, to ascertain which programs they prefer most/least, which they participate in the most/least and to predict which promotion program(s) will be the most/least important in the 21st Century.

A major conclusion is that Marketers must differentiate between "private" and "public" promotion programs. Private programs are those in which others are unaware that a person is participating in. Examples are: stamps, sweepstakes, novelties (distributed at home), and direct mail. Public programs are those in which others may be aware that a person is participating in. Examples are: in store promotions, novelties (distributed in public places), rebates (in store), and coupons.

Promotion programs deemed to be very important during the 21st Century are: Novelties (Specialty Advertising), Stamps, Events and Rebates. Promotions of moderate importance are: Direct Mail, Sweepstakes, Cause Related, Premiums, Coupons and Contests. Promotions of lesser importance are: In Store, On Pack, Novelties and Coupons.

A medium's ability to efficiently and effectively deliver a message to targeted audiences is of utmost concern to those spending "mega" dollars on advertising and promotion. The annual increase in total advertising and promotion expenditures is well documented. From 1987 to 1990 Japanese advertising promotion expenditures increased 49 percent. During this period advertising expenditures increased 30 percent while promotion expenditures increased 59 percent.

During the past five years marketers have placed greater emphasis on promotion in their advertising-promotion mix. Increased emphasis on promotion can be attributed to the short term impact promotion programs have on sales and the perceived benefits of promotion methods over advertising.

Promotion programs offer greater intimacy and interaction of the media with target audiences than advertising. For example, were a firm to use novelties to create product awareness the novelty items would be distributed to members of the firm's target audience. Recipients of novelty items, receiving a tangible item, have greater involvement and intimacy with the advertiser than would be obtained from equivalent monies spent on broadcast or print media.

Knowledge of customer preferences for various promotion methods is essential to select which promotion method(s) to use. Selection of the "optimal" promotion method(s) provides greater assurance that customer participation and response rates to the promotion offer would be greater than from promotion programs utilizing promotion methods less preferred by the program's target audience.

Study Objectives

The study's primary objective was to obtain information about Japanese consumer's attitudes towards various promotion programs. This information will enable promotion planners to make more objective decisions regarding the allocation of promotion dollars.

More specifically, the study was designed to determine: Japanese peoples' attitudes towards various consumer promotion programs, to ascertain which programs they prefer most/least, which they participate in the most/least and to predict which promotion program(s) will be the most/least important in the 21st Century.

Methodology

A personal survey of 630 people (consumers) was conducted to collect information on their preferences and attitudes toward promotion programs. Data was collected from October to December 1991. The study's population consisted of people aged 18 and over. Sample members resided in the greater Tokyo metropolitan area.

Random selection was used to obtain respondents. A conscious effort was made to include people representative of all age groups. Estimated sampling error for a sample of 630 people having a 95 percent level of confidence is +/- 4 percent. Accordingly, sample estimates obtained from this study should differ by no more than +/- 4 percent from those obtained were a census of all Japanese residents taken.

Limitations

Prior to acting upon results of this survey, readers should be aware of the following potential limitations:

- 1) Sampling was limited to people residing in greater Tokyo. Information is not available on how people in other prefectures feel towards promotion programs.
- 2) The sample was younger, better educated, more affluent, and consisted of more females than the country's total population. For marketers information from a sample of younger, more affluent, better educated, and a greater proportion of females could be more desirable than information from a sample exactly matching the countries demographic profile. Because people comprising this sample have the financial resources to respond to promotion programs, are better educated and younger they may be more likely to participate in promotion programs.
- 3) In the Japanese language, the word Yes (Hai) can have any of 4 interpretations. These are: Definitely yes, does not matter, no reason to say no, or I don't care, however, I do not want to cause you problems by saying no. Accordingly, yes responses to questions should be judiciously interpreted.
- 4) The study is deemed exploratory. Ideally, additional research will be conducted to replicate and substantiate findings and conclusions. This study can be used as a benchmark to measure changes in attitudes towards promotion programs over time.

Findings

When asked what comes to mind when you hear the term promotion, 27 percent indicated they did not know what it meant and 20 percent of the respondents confused promotions with advertising. A third of the respondents (35 percent) named a specific promotion method in response to this question. Direct Mail, flyers and in store sampling were the most frequently mentioned promotion types coming to mind when the term promotion is heard.

To ensure all respondents had a common understanding of what promotions were and that they were familiar with various forms of promotion programs, survey enumerators were instructed to provide respondents with examples and definitions of various promotion programs. Programs mentioned were: In store samples, POP, events, sweepstakes, contests, stamps, novelties (Advertising Specialties), rebates, premiums, cause related, direct mail, coupons, and on-pack.

After reviewing the various types of promotion programs, respondents were asked if they had recently seen any of these programs. Eighty one percent indicated they had seen one or more promotions. When asked how they felt about promotions three quarters (78 percent) of the respondents expressed favorable attitudes. Twelve percent thought they were a waste of money, did not like them, or created too much pressure to buy products.

Most frequently mentioned as their "favorite" promotion program(s) were: in store samples, events, sweepstakes, stamps and novelties. Least mentioned were: direct mail, coupons and on pack promotions (Table 1).

TABLE 1
FAVORITE PROMOTION PROGRAMS
All Respondents

	Times	
	Mentioned	Percent
In Store	164	14
Events	164	14
Sweepstakes	161	13
Stamps	124	10
Novelties	111	9
Rebates	116	9
Cause Related	102	8
Premiums	96	8
Direct Mail	73	6
Coupons	57	5
On Pack	37	4
Totals	1205	100

Three quarters of the study's respondents believed stores should offer more promotions. When asked, would you purchase a product for which a coupon or rebate was offered, 60 percent of the respondents said yes.

The propensity to purchase items featured in a promotion program varied by a person's age, household income, education and sex. Females, the college educated, younger consumers and people having annual household incomes of 2 to 4 million yen were most likely to respond to promotion programs.

While the Japanese people are a fairly homogeneous population, sharing a common value system, differences in promotion program preferences were found to exist based on one's age, household income,

education and gender. Younger consumers preferred events, sweepstakes, in store, rebates, cause related and stamp promotion programs. Their least preferred promotions were contests and on pack promotions. Consumers aged 30 to 70 expressed similar preferences for in store, sweepstakes, novelties, premiums and stamps.

Promotion preferences varied directly with household income. Generally, families having higher incomes (over 8 million yen) expressed preferences for a greater variety of programs than lower income families. Preference for coupon programs, however, was greatest in lower income households. This could reflect their desire to save money. Also, preference for direct mail programs was highest among people having household incomes greater than 4 million yen.

Promotion preference varied according to one's level of education. Direct mail was most preferred by people whose last year of education was junior high school. Sweepstakes and novelties were preferred by people of all education levels. In store promotions and premiums were more preferred by people with graduate level educations.

With the exception of novelties, which were most preferred by males, preferences for the other promotion programs were similar for both males and females.

Direct mail was overwhelmingly mentioned as the most recalled promotion program. The high preference for direct mail may be attributed to the peoples' strong desire for information. Direct mail is used to provide information about product comparisons, to provide product quality assurance and to inform buyers of services available after the product purchase. Direct mail is also considered by many as an invasion of privacy. Least mentioned promotions were rebates, sweepstakes and on pack programs.

Nearly two thirds of the people had recently participated in a promotion program. Reasons given for not participating in a promotion program were: not interested in the program, did not have a chance to participate, the program was not easy to participate in and not having enough time (Table 2). Four percent of the respondents indicated they did not participate because of the personal embarrassment of doing so. This response warrants further investigation and may be a major reason why promotions as coupons are not currently popular with consumers.

TABLE 2
REASONS FOR NOT PARTICIPATING
IN PROMOTION PROGRAMS

	Times Mentioned	Percent
Not interested	32	36
Not have chance	22	25
Not easy	17	19
No time	14	16
Embarrassing	4	4
Totals	89	100

Most frequently mentioned as promotion programs they had participated in were: direct mail, events, stamps, novelties and in store promotions (Table 3). Few people mentioned participation in premium programs.

TABLE 3
PROMOTION PARTICIPATION

	Times Mentioned	Percent
Direct Mail	105	20
Events	96	19
Stamps	74	15
Novelties	59	11
In Store	55	11
Cause Related	42	9
Sweepstakes	34	7
Rebates	29	6
Premiums	10	3
Totals	504	100

Conclusions

Responses to the survey on attitudes and preferences for promotion programs indicate that consumers have favorable attitudes toward them and are favorably inclined to participate in promotion programs offering the potential of saving money. For marketers three essential questions requiring answers are: 1) which promotion programs are most/least preferred, 2) which are most likely to have the greatest participation and 3) which will be popular in the 21st Century.

Marketers must differentiate between "private" and "public" promotion programs. Private programs are those in which others are unaware that a person is participating in. Examples are: stamps, sweepstakes, novelties (distributed at home), contests, stamps, gifts and direct mail. Public programs are those in which others may be aware that a person is participating in. Examples are: in store promotions, novelties (distributed in public places), rebates (in store), and coupons.

Differentiation by program participants between public and private promotion programs may account for low preference and participation rates for coupon promotions. The desire to save money is universal. In Japan, however, a desire for "others" not to know you are saving money (preservation of privacy) outweighs the desire to save money. For public promotion programs to be successful they must be made private. For coupons, this can be accomplished by changing distribution and redemption methods. Coupons sent to the house and redeemed by mail (similar to rebates) preserves privacy and is likely to achieve rates of program participation comparable to other promotion programs.

Table 4 categorizes promotion programs of the 21st Century into three groups; those considered to be very important, of moderate importance and of lesser importance. The procedure used to categorize promotions was based on responses given to the survey questions.

Promotion programs utilizing those promotion types deemed "very important" are likely to be more preferred by program

ART SPONSORSHIP AND PROMOTION STRATEGY:
AN INVESTIGATION OF FIRM CHARACTERISTICS THAT RELATE TO THE CHOICE OF
SPONSORSHIP AS A TOOL IN THE PROMOTION MIX

Sema Sakarya Tapan

Abstract

This country specific study investigates a set of firm characteristics as discriminating variables that influence the choice of art sponsorship as a tool in the promotion mix. Data were gathered from 110 sponsoring and nonsponsoring companies in Turkiye. The results indicate that company size, tangibility of product, market type, capital structure and the decision maker's position in the company are variables that have considerable discriminating power between the two groups of companies.

An Overview

Marketers are enhancing nonadvertising expenditures by creating and or expanding nontraditional marketing functions like direct marketing and sponsorships. Corporate sponsorships can be an important element in the communication mixes. Companies of all sizes are using them as positive addition to advertising, personal sales, sales promotion and public relations. The popularity of corporate sponsorship in promotional strategies has been increasing. Total sponsorship expenditures of companies in the United States of America increased from USD 400 million in 1981 (Trachtenberg 1984) to USD 2.5 billion in 1990 (Hume and Magiera 1991). A similar trend is observed in the United Kingdom where the sum for arts sponsorship increased from L 600.000 in 1976 to around L 30 million in 1988 (Gwyther 1988). Corporate involvement in fine and performing arts programs that tour several markets is expected to increase and satellite television will provide more opportunities for selective targeting of audiences.

Corporate sponsorship provides financial or material support for events and activities that are not directly a part of normal business but from which commercial benefits are derived by association (Witcher, Craigen, Culligan and Harvey 1991). Sponsorship is a commercial and not a philanthropic activity in which a firm underwrites a special event to achieve certain objectives. Related concepts and terms used in literature include marketing public relations (Harris 1991), incentive

marketing (Euchner 1991), events targeting system (Penzer 1990), cause related marketing (Varadarajan and Menon 1988), megamarketing (Kotler 1988) and fundraising (Kotler and Andreasen, 1987). Sponsorship is a way to focus the attention of a specific audience which can later be the target of the companies communications (Gross, Taylor and Shuman 1987). Benefits of sponsorship can be the association of company with the sponsored event, avoiding competition in conventional media advertising, reaching specific target markets and achieving promotional synergies. Sports and popular and fine arts are possibilities for sponsorship. Corporate sponsorship's basic benefit to the company is improved corporate image via enhanced publicity. Through sponsorship the company may pursue the objectives of creating, maintaining or developing corporate image, generating sales revenue or providing community support (Gross, Taylor, Shuman 1987), as well as higher company morale and dedicated employees (Garrison, 1990).

Sponsorship is seen as an element of overall marketing strategy. As a modern marketing technique sponsorship is being used by different types of companies. Sponsorship attempts to influence the target markets attitude and behavior and is related to marketing strategy for a particular product. Sponsorship enables a company to target demographic groups and communicate with them on common ground - participation in the event (Ukman 1984), thus creating shared experiences for effective communication. The variety of events and activities available for sponsorships offer companies the flexibility to reach divergent target markets. Theoretical base underlying sponsorship is promotion and communication. Sponsorship however is not specified among the historically recognized elements of the promotion mix and companies tend to classify it into various elements of the mix.

Most of the literature about corporate sponsorship has been of a descriptive nature. The links between the objectives and categories of sponsored activity and organizational function (Witcher, Craige, Culligan and Harvey 1991), football sponsorship and target markets (Wright 1988), and sponsorship from the perspectives of all participants (corporations - channel members- the public and sponsored

organization) (Gardner and Shuman 1987) are examples of previously conducted empirical studies.

Theoretical and empirical investigation of sponsorship in the marketing literature is needed. Analytical and empirical research will help to identify and define the strategies and operational implications of corporate sponsorship. The research reported below investigates a set of subjectively selected firm characteristics as discriminating variables that might influence the choice of art sponsorship as a tool in the promotion mix. The opinions of a convenience sample of executives contributed to the selection of firm characteristics as existing literature doesn't suggest any variables that relate to the choice of sponsorship.

The Research

Sponsorship research was conducted to determine corporate characteristics that contribute most to differentiating sponsoring and nonsponsoring companies. Due to the exploratory nature of the study, the population frame was limited to the companies that were approached for the sponsorship of arts and cultural events organized by the International Istanbul Festival (IIF). 110 firms from the "potential sponsors list" of the IIF organization were chosen as the sample. IIF is an organization of the Istanbul Foundation of Culture and Arts and is a member of European Festivals Association. The accredited international festival has been regularly organized in the last 20 years and is an important institution in the initiation of art sponsorship practice in Turkiye. 110 sponsoring and nonsponsoring firms in the sample made up to % 65 of the total number of companies in the IIF organization's list of potential sponsors.

Data were collected on firm characteristics as independent variables (Table 1) that might have the potential of differentiating between the firms that include sponsorship in their promotion strategies and firms that do not. Sponsorship practice was chosen as the criterion variable and the two groups of firms were analyzed using firm characteristics as predictor variables. SPSS/PC+ was used for discriminant analysis. Sponsorship research cited earlier were limited to sponsoring firms only and were of descriptive nature. The present study adds a new dimension to the previous empirical findings by including both sponsoring and nonsponsoring firms and

by determining variables that relate to the choice of sponsorship as a tool in the promotion strategy.

TABLE 1
SPONSORSHIP DISCRIMINANT ANALYSIS
LIST OF VARIABLES

Variable	Explanation
Criterion	Choice of sponsorship in the promotion mix G1= sponsoring firms (SPF) G2= nonsponsoring firms (NSPF)
Predictor	X1 = company size X2 = capital structure X3 = age of the company X4 = degree of institutionalization X5 = geographic scope X6 = product type 1 (consumer product) X7 = product type 2 (industrial product) X8 = tangibility of product X9 = decision maker status 1 (top management) X10= decision maker status 2 (public relations) X11= market type X12= intensity of promotion

Data were collected by a questionnaire developed for this purpose. The questionnaires were personally delivered to and collected from the general or marketing managers of the firms in the sample. 98 usable questionnaires (% 89 response rate) were included in the final analysis. Inclusion of sponsorship in the promotion mix was chosen as the criterion variable. The firms specified on a two point scale whether or nor they had allocated budget for arts and sports sponsorship. The sample was divided into two groups of companies as sponsoring and nonsponsoring firms. The group of sponsoring firms (55.1 % of the sample) included those firms that allocated some part of their promotion budget to sponsorships. Nonsponsoring firms (44.9 % of the sample) were those firms that didn't allocate any budget to any type of sponsorship (arts or sports). The average lenght of the practice of sponsorship in the first group was 8.94 years and % 30 of the sponsoring firms have been using sponsorship as a promotion tool for more than 10 years.

The set of firm characteristics (Table 2) used as predictor variables for sponsorship practice were intervally measured. Company size was taken as the total yearly sales turnover in Turkish Liras (both national & international). Capital structure was specified as % 100 local capital, local &

foreign capital, and % 100 foreign capital. Around % 66 of the firms in the sample were operating with local capital and % 11 were founded by % 100 foreign capital. The age of the company was measured in years on five categories. The average age of the sample was determined as 30 years. Degree of Institutionalization expressed the extent of dominance of professional and/or owner manager in decision making. Respondants specified whether owner manager, owner & professional manager equally, or professional manager was/were dominant in decision making. Frequency distribution of the above alternatives were around % 17, % 45 and % 36 respectively. Geographic Scope of the company can be regional, national, international, and global. Around % 48 of firms stated their scope of operation as international, and % 20 as global. Product type-1 measures whether the company basically produces consumer products, and product type-2 measures whether the company produces industrial products. Tangibility of product measures whether or not the company is basically a service producer. Decision maker status for sponsorship was measured at two levels. Decision maker status -1 measures whether the ultimate decision for sponsorship is made at the top level management and decision maker status-2 measures whether the decision is made at the public relations department level. Decision maker's status variables were reported by checking one of the alternatives of always, sometimes, and never. The respondents clarified whether or not a declining market would represent their market type on a scale that ranged from represents well to doesn't represent. Intensity of promotion in the industry was measured on a scale that ranged from very intense to not intense at all. Around % 50 of the firms were operating in industries with very intense and intense promotional efforts.

Responding companies were also asked about their agreement on the appropriateness of several promotional objectives to sponsorship. Appropriateness of sponsorship to promotional objectives were indicated on a five point scale ranging from completely appropriate, to not at all appropriate. Sponsorship was considered appropriate for generating awareness among potential customers for the company (4.02), enhancing company image (4.47), and for stressing the social responsibility of the firm (4.22).

Sponsorship and Company Characteristics

Discriminant analysis was performed to determine the explanatory power of company characteristics as predictor variables (Table 1) on a firm's choice of sponsorship as a tool in the promotion strategy. The resulting canonical discriminant function coefficients are given in Table 2.

TABLE 2
SPONSORSHIP DISCRIMINANT ANALYSIS
UNSTANDARDIZED CANONICAL DISCRIMINANT
FUNCTION COEFFICIENTS

Predictor Variable	Explanation	Coefficient
X1	company size	.22
X2	capital structure	.63
X3	age of the company	-.01
X4	degree of institutionalization	.15
X5	geographic scope	-.06
X6	product type 1	.75
X7	product type 2	.25
X8	tangibility of product	1.42
X9	decision maker status 1	-.13
X10	decision maker status 2	.60
X11	market type	1.11
X12	intensity of promotion	.30
Constant		-8.03

Chi square ~ 38.945 DF ~ 12 p = .0001
 Canonical correlation ~ .7036
 Wilks' Lambda ~ .5050
 Group means G1 ~ 1.0528
 G2 ~ -.9024

(G1 ~ sponsoring firms, G2 ~ nonsponsoring firms)

Data from 65 firms were used in the analysis and 33 firms were ignored because in their responses there were missing values for one or more of the predictor variables. The canonical discriminant function was significant (p=.0001, chi square = 38.945, DF 12) and the group centroids (G1=1.0528, G2=-.9024) differed significantly. Canonical correlation was found to be .7036, the square of which (.495) can be interpreted as the proportion of variance in the function explained by the groups (Klecka, 1975). The probability of the two groups having similar means within the function is low.

Correlations between discriminating variables and the canonical discriminant functions are given in Table 3.

TABLE 3
SPONSORSHIP DISCRIMINANT ANALYSIS
CORRELATIONS BETWEEN DISCRIMINATING
VARIABLES AND CANONICAL DISCRIMINANT
FUNCTIONS
(Variables ordered by size of
correlation within function)

Variable	Explanation	Correlation
X1	company size	.4125
X10	decision maker status 2	.3887
X8	tangibility of product	.3506
X11	market type	.3480
X2	capital structure	.3154
X4	degree of institutionalization	.2745
X12	intensity of promotion	.2546
X9	decision maker status 1	.2396
X7	product type 2	.1908
X5	geographic scope	.0946
X3	age of company	.0641
X6	product type 1	.0341

The function can be used for interpretation. The contribution of predictor variables (firm characteristics) in differentiating between the two groups of firms (sponsoring and nonsponsoring) can be assessed by using the structure matrix (Hair 1979). The variables in table 3 are ordered by size of correlation within the function. For sample sizes of + 100, variables with correlations .30 or above can be considered significant (Hair 1979).

TABLE 4
SPONSORSHIP DISCRIMINANT ANALYSIS
UNIVARIATE ANALYSIS OF PREDICTOR
VARIABLES

Predictor Variable	Group Means SPF	Group Means NSPF	Wilk's Lambda	F	Significance
X1	4.53	3.45	.86	10.51	.002
X2	1.63	11.23	.91	6.14	.015
X3	2.43	2.31	.99	0.25	.616
X4	2.40	2.03	.93	4.65	.034
X5	2.90	2.74	.99	.55	.459
X6	1.43	1.40	.99	.70	.789
X7	1.37	1.20	.96	2.25	.138
X8	1.70	1.37	.89	7.59	.007
X9	1.73	2.14	.95	3.54	.064
X10	1.50	1.06	.87	9.33	.003
X11	1.43	1.06	.89	7.48	.008
X12	2.70	2.23	.94	4.00	.049

(SPF ~ sponsoring firm, NSPF ~ nonsponsoring firm)

Company size (X1), decision maker

status -2 (X10), tangibility of product (X8), market type (X11) and capital structure (X2) were found to be the predictor variables with correlations .30 or above within the function (Table 3). Univariate analysis of predictor variables are given in Table 4. Group means of predictor variables for G1 (sponsoring firms) are higher relative to group means for G2 (nonsponsoring firms).

The results indicate that there is a positive relationship between using sponsorship as a tool in the promotion mix and being a large company, being a service producer, being a company with joint capital structure (local and foreign), having public relations manager as the decision maker for sponsorship and competing in declining markets. In order to test its discriminating ability, the canonical discriminant function was used to classify the sample firms into two groups as sponsoring (G1) and nonsponsoring (G2) firms (Table 5). The function correctly classified % 80 of group one (sponsoring) companies and % 91.4 of group two (nonsponsoring) companies.

TABLE 5
CLASSIFICATION RESULTS FOR
SPONSORSHIP DISCRIMINANT ANALYSIS

Actual Group	Number of Cases (n)	Predicted Group Membership			
		G1 (SPF)		G2 (NSPF)	
		n	%	n	%
G1 (SPF)	30	24	80.0	6	20.0
G2 (NSPF)	35	3	8.6	32	91.4

Percent of grouped cases classified correctly ~ 86.15

(G1 ~ group 1, G2 ~ group 2)

(SPF ~ sponsoring firm, NSPF ~ nonsponsoring firm)

Total percent of grouped cases classified correctly was 86.15. When compared with proportional chance criteria (.503) the percentage of cases that would be classified correctly due to chance (.503) was found to be significantly different than the classification accuracy of the function, %86.25 (Z= 5.79, higher than Z= 3.60 p= .0002) (Lehman 1990). The comparison leading to the conclusion that the classification power of the function is high.

Summary and Conclusion

Sponsorship discriminant analysis yielded a significant function that has considerable discriminating power

between sponsoring and nonsponsoring firms. Company size, decision maker's status within the company, tangibility of product, market type and capital structure were identified as variables which contribute most to the difference among the two groups of companies. Sponsorship objectives (Witcher 1991; Gardner & Shuman 1987), measurement of sponsorship results, type of sponsored activity (Gardner & Shuman 1987) and recall of sponsoring company name (Wright 1985) were previously researched topics related to sponsorship. Present findings contribute to the body of knowledge in this field by adding a new dimension to the investigation of sponsorship in marketing literature. The country specific nature of the study brings in an opportunity to test the relevance of findings cross culturally. The results summarized above are tentative and provide partial answers to the relationship between firm characteristics and choice of promotion mix. The findings are limited to a defined population frame and a single type of sponsorship activity - art sponsorship. Theoretical interest in this widely used promotion tool has been negligible. Further empirical research is needed for determining strategy implications and theoretical standing of sponsorship practice in promotional strategy and marketing theory.

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EMERGENCE OF THE EUROPEAN COMMUNITY

**EUROPE 1992: THE IMPACT OF REGULATORY FORCES
ON U.S. GLOBAL FINANCIAL MARKETING**

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ABSTRACT

Several industries will be greatly affected by the changes in Europe especially the financial services. These new changes have made smaller financial institutions reconsider their options of globalizing their services while larger corporations are concerned about their marketing strategy in order to maintain a competitive advantage in Europe. These forthcoming changes and their implications are of great concern to U.S. banks which have invested or plan to invest in Europe. This paper attempts to explore these changes and their implications for U.S. banks and also suggests strategies for the global marketers.

INTRODUCTION

Having a single, unified European market in 1992 has been a goal set by the European Community's (EC) founders since 1957. However this unification has brought both concern and unanswered questions to many individuals and corporations. The EC's plan to design a common market for goods, services, capital and labor can either bring opportunities or threats to many European and foreign businesses.

The opportunities for many industries to go overseas and compete for shares in the global market are endless. The new Europe, so-called "United States of Europe," will provide international companies with the ability to do business throughout the community in a more efficient and productive manner. With the right product or service, sufficient funding, good management and proper marketing strategies any industry would have a fair chance to compete in the European market. But what would an industry do if they were put at a competitive disadvantage even before they were able to enter the market? This is the general scenario for the United States banking industry abroad. The U.S. government has basically laid down banking regulations that have left U.S. banks with no choice but to back out of a potentially growing market? This paper therefore attempts to explore changes and marketing strategies that U.S. banks need to overcome. The balance of the paper is organized into four sections. Section two examines perspectives of European and American banks. Section three explores regulatory forces affecting U.S. banks. Section four discusses strategies for U.S. banks. Concluding remarks are summarized in section five.

**PERSPECTIVES OF EUROPEAN AND
AMERICAN BANKS**

European Banks

Financial market integration is a major building block in the planned single market program. The financial sector forms an important part of the infrastructure and is really the heart of the market economy. The elimination of economic barriers across Europe should increase business activity and therefore create a greater demand for financing. Europe's industries should also see a greater need for restructuring and in turn will require additional funds for mergers, acquisitions, recapitalizations, etc. Competition will become greater probably causing financial services to become more efficient and resulting in lower prices. This in turn will create an even greater demand for financial services across Europe and eventually will produce economic growth. Competition is assumed to drive down prices from 7%-8%, putting the annual benefit to consumers at \$26 billion (22 ecu) (Letovsky and Murphy 1991).

European banks have already begun to take advantage of some of the opportunities set by the single market program. They have started expanding their operations through acquisitions of other banks, through mergers with each other to create larger institutions spanning intra-EC borders, and through cooperative agreements between various EC-based banks to provide reciprocal services for each other's customers. Capital should be free to flow wherever customers and suppliers need it most. The EC banks are all eager to have a good position in the huge financial market.

To expand their services, European banks are offering their customers new products, such as insurance, by forming links with insurance companies. This should result in stronger customer relations within their own countries. They will also be able to provide services ranging from lending and leasing to security trading and underwriting. The playing field for financial services will eventually be leveled by a common legal structure, harmonization of monetary and tax regimens, and common regulations for competition and mergers (Orr 1989).

American Banks

Presently U.S. banks have approximately a \$240,000 billion stake in the EC, representing about 5% of banking assets. There are 33 U.S. banks that are operating about 149 branches in the EC and 17 banks own subsidiaries. In the past, the presence of U.S. banks has been relatively well established (McNees 1991). They have operated branches in the EC because the

branches have been less costly than subsidiaries. But with EC 92 on its way, many of the benefits U.S. banks have been able to enjoy may just be a thing of the past. Today, we are seeing a general withdrawal of U.S. banks in non-domestic markets, causing their competitiveness to shrink. Many U.S. banks have withdrawn from European product markets, such as gilts, Eurobonds and Eurocommercial paper. Banks such as Manufacturers Hanover and Chemical have entirely sold their European branch networks. Other banks, such as Chase, have just limited their international presence. Why are U.S. banks bailing out at a point in time when we are seeing a growing number of global companies doing substantial business abroad? Before we can try to answer this question we have to look at some of the banking regulations that will affect the U.S. operations in the EC-1992 market.

REGULATORY FORCES AFFECTING U.S. BANKS IN THE EUROPEAN COMMUNITY

Problems of International Bank Expansion

Whenever a business enterprise decides to do business in a nation other than its own, it must learn how to cope successfully with the legal environment of the new host nation. In many industries, this task does not involve merely the shedding of the home nation's legal requirements and replacing them with the host nation's laws and regulations. The banking industry often requires a bank which expands internationally to add the regulatory requirements of the host nation to those of its home nation, and then to comply with a third regulatory network which is formed by the merger of the regulations of the home nation and the host nation.

More than one hundred U.S. banks have accepted this challenge and have expanded internationally through hundreds of branch locations. A large number of these branch locations have been established in the twelve European Community nations by satisfying each nation's regulations. After 1992, however, U.S. banks operating within the Community will face the additional obstacle of a cohesive set of banking regulations issued by the European Community. These regulations are designed to create one banking market in the Community, but they will allow each Community nation to continue to regulate certain aspects of banking within that nation. This additional layer of regulation creates some opportunities and some obstacles for U.S. banks who want to do business in the Community. Success will depend on whether a U.S. bank learns how to minimize the obstacles while seizing the opportunities.

The Basle Efforts to Improve International Banking

The leading banking nations which formed the Basle Concordats already have removed some of the obstacles which existed for banks expanding to the European Community. These nations include the United States and many European Community nations and others who have

intensified their supervision of the soundness of banks registered in their nations. They placed a degree of responsibility with each nation for the acts and financial soundness of its banks. They took their most significant step towards fostering international banking competition in December 1987 when they agreed to establish uniform capital requirements of banks operating internationally. They subsequently agreed that by December 31, 1992, an international bank doing business in any of the twelve participating nations must have capital which is equivalent to no less than 8% of its assets weighted by risk (Letovsky and Murphy 1991). This allows much greater equality in the treatment of banks than that which existed before.

The agreements of this so-called "Group of Twelve" are useful. They provide the groundwork for an international system of bank regulation that might exist in the future. However, they are very limited in the scope of what they cover. Also, the protection they provide is far from perfect, as demonstrated by the losses incurred by investors when the Bank of Commerce and Credit International recently failed.

European Community Regulations

The supreme law of the European Community is the Treaty of Rome, which was adopted in 1957. The Treaty of Rome gives to each business within the Community the right to sell services to persons throughout all Community nations. Usually there is no requirement that a provider of services must be established in the Community nation in which the services are provided, as long as the business is established or authorized to do business in one Community nation.

Community banking institutions have long enjoyed the right to sell banking services throughout the Community without the need to create a subsidiary in the Community nation in which the services are sold. Beginning in 1993, Community banks will have even greater access to Community customers, who will be able to maintain bank accounts in various Community currencies.

Under Council Directive 89/646, the "Second Banking Directive," a bank which obtains a license to do business in any Community nation normally will have the right to conduct banking in every Community nation without obtaining an additional license. In essence, the Community has become the equivalent of one nation for the purposes of bank licensing. Branches of Community banks also will enjoy liberalized reporting requirements and tax benefits under the Eleventh Company Law.

Community banks still will face certain limitations. For example, banks will be required to maintain minimum capital levels, to meet solvency ratios, to disclose major shareholders, to limit their participation in non-financial entities and activities, and to adhere to sound accounting practices (Letovsky and Murphy 1991). Community Banks also will be subject to some regulations imposed by Community nations.

A Community nation will still have the right to pass regulations determining the qualifications of bank management and major shareholders of banks licensed by it, while host nations may pass liquidity requirements and other risk-protection requirements. The primary requirement for such national regulations is that they apply equally to domestic and non-domestic banks. Large bank mergers, takeovers and joint ventures will be regulated both by the Community and Community nations. Community nations will regulate small bank mergers and takeovers.

Community banks also will enjoy wide latitude of their permissible activities. Community banks may deal in securities, participate in financial leases and conduct other investment services, regardless of whether they form a separate subsidiary for such activities. A Community nation which licenses a bank may not restrict these activities in other Community nations, although it can prohibit such activity in its own nation to protect the public welfare.

U.S. banks doing business in the European Community will desire the same benefits and opportunities enjoyed by Community banks. However, the Community requires that U.S. laws provide "effective" access to the U.S. banking market before U.S. banks will share the privileges of Community banks. Since U.S. banking laws are quite restrictive, this requirement poses a significant problem to U.S. banks. Current operations may be grandfathered, but those banks seeking new access or expansion in the Community may be hampered.

The vast majority of U.S. banking locations in the Community are in the form of branches (i.e., unincorporated extensions of U.S. banking corporations). A U.S. bank that desires full and equal participation in Community privileges should create a Community subsidiary if U.S. banking law continues to restrict banking access. Apparently, such a subsidiary would be a "Community bank" and enjoy the same privileges enjoyed by other Community banks. Of course, further regulations, laws or European court decisions can change this situation.

United States Regulations

United States banking regulations have developed in an odd fashion which generally allowed each state to determine under the McFadden Act how U.S. banks could expand within the state. Some states allowed banks to have only one branch; others limited bank branches to a county; and others allowed expansion throughout the state. Until 1975, U.S. banks generally could not open branches in other states due partially to the Douglas amendment. Since then, branching and bank services have begun to expand interstate, but usually on a reciprocal or regional basis, or to save a failing institution. The current environment rewards banks who monitor developments in other states and remain ready to pounce on opportunities to expand through these loopholes. Oddly enough, it will be more

difficult for a U.S. bank to expand throughout the United States than to expand throughout the European Community.

The Glass-Steagall Act of 1933 prohibited U.S. banks from underwriting, selling or distributing securities in the U.S. Although significant inroads have been made upon the Glass-Steagall prohibitions, it remains a formidable limitation on U.S. banks. Commercial banks also cannot have officers, directors or employees in common with securities firms, and deposit-taking banks cannot act as investment houses (Litovsky and Murphy 1991).

U.S. banks doing business in the European Community face far less restrictions. Branching limits depend on the law of the "host" country, and Community law has been much more liberal than U.S. state limits. The Glass-Steagall limits upon securities transactions and many other limitations on U.S. banks do not apply outside the U.S. This allows U.S. banks operating in the Community to underwrite, sell and distribute securities, to manage mutual funds, and to conduct more insurance and other activities there. U.S. bank holding companies are allowed to invest directly in Community companies, although some U.S. restrictions exist. The U.S. allows a U.S. bank to establish branches in the Community (and elsewhere) if it commits \$1,000,000 of capital and surplus to do so. Permission to form subsidiaries of U.S. banks may be similarly obtained.

Since "effective" access to the U.S. market will be required by the European Community before branches of U.S. banks enjoy Community privileges, the regulatory restrictions placed on Community banks in the U.S. are very important. Community banks are allowed to open branches and subsidiaries in the U.S., and even to acquire U.S. banks. Until 1978, all foreign banks could open branches without the limits placed on U.S. banks, but the International Banking Act applied these limits to foreign banks. U.S. branches of Community banks are subject to many of the same regulatory requirements as U.S. banks (reserve requirements, limits on non-banking activities, etc.).

It is difficult to determine whether the Community would view the application of limits on U.S. banks to Community banks as denying Community banks effective access to the U.S. market. Such a view would, of course, support the conclusion that U.S. banks also do not have effective access to the U.S. market (and some U.S. banks might agree with this)! However, it is also possible that U.S. government approval of Community banks' requests for interstate expansion, where legally allowed, has been denied or limited to the extent that effective access can be viewed as not available in the U.S.

STRATEGIES FOR U.S. BANKS

The evolution of the new European market will dramatically affect operations of U.S. financial service suppliers. Financial institutions that understand both the changes and their

ramifications will be able to move ahead of their competitors. Suggested strategies for the U.S. financial marketers and policy makers are:

[1] Research and study the marketing environment: In order for banks to successfully compete in Europe they would have to research and study the changes in commercial, financial, legal and tax issues. Banks would have to carefully consider all the implications and consequences of these issues in order to analyze their own strengths and weaknesses and to examine their opportunities and risks from this new market in 1992. In addition, they should consider all strategic options available to them for marketing their services. In spite of all the changes in legislation concerning financial services, banks seem very eager to participate in the European Market. Banks have reorganized their management and marketing strategies to meet their new competition. Furthermore, they have organized and participated in several bank organizations set up by the Economic Community such as EBIC, ABECOR and Europartners providing information regarding available options for competing in the new EC market. However banks will have to initiate their entering the European Market now in order to gain a competitive advantage. For the most part banks will have to think "national" in regards to governmental regulation but would have to think "local" in regards to consumer tastes.

[2] Satisfy local needs: It can be expected that non-EC banks will try to establish more intensive customer relations on a regional basis. For example, American Express is facing many challenges in trying to implement a pan-European strategy. Each market has a different set of problems and local managers have to address them differently. For instance in order for American Express to market their credit cards in Germany they were forced to cut their annual fee by 28% because bank cards were perceived to be less expensive but equally useful (Levin 1992). In the U.K. Amex successfully targeted the most frequent card users by advertising free restaurant meals or discounts as rewards for repeat use of their cards. Yet they were not successful in France due to a big difference in commission rates with other charge cards such as Visa charging 0.8% and Amex charging 3%-4%. American Express like many other financial institutions is faced with the dilemma of standardizing or customizing their services. It is clear that by forming a unified European Market the laws will not eliminate cultural differences that are found in Europe. Banks will have to diversify their services to meet all types of consumers needs.

[3] Consider investing in and expanding R & D in order to focus on markets in Europe: Banks should research the cultural differences of the different target markets and their impact on the services they want to market. American Express has followed a "build rather than buy strategy." For instance, they planned to target close to five million households in the United Kingdom with annual incomes of over 20,000 pounds (about \$35,000) through their new financial

planning unit, ACUMA, based in London. Amex has already set up five companies southeast of England where there is a fairly large percentage of people who earn more than 20,000 pounds per year. ACUMA's main focus is to train UK citizens to sell UK products. It has taken Amex two years to get ACUMA ready and working. With the purchase of Devonshire Life, a small British life insurance company, in 1989, they were able to set up an operation for selling insurance and pension products to the British under UK law. They designed their computer system IDS, which maintains their financial activities in the UK to interface with ACUMA. With this they were able to determine how much British save for their future. They evaluated that the British have more money than they think and have relatively no plan of saving for their future. Many British subjects die without wills and a good percentage of them have a considerable change in lifestyle when they retire. Another difference is that British wives have very little knowledge of their family financial affairs. By evaluating the differences in British financial plans Amex has a better understanding of how to market their services. Amex is planning to implement ACUMA into the rest of Europe but on a country by country basis due to the cultural difference they will encounter. This offers an advantage to American Express in that if this plan fails in one country it will not necessarily fail in others. American Express has the option of enhancing their services in order to meet the necessary requirements for improving their image. However this could offer drawbacks to firms in that it's time consuming and very expensive to maintain.

[4] Differentiate U.S. financial services. It is imperative that banks learn to distinguish between American and foreign financial services. For instance, in Europe a lot of financial activities do not take place in the stock markets but between private companies. For this reason EC banks offer better services to businesses than branch networks. Although branches are facing stipulations of being limited in their services they are still relatively low in cost and can provide banks with specific information about impending transactions. U.S. banks could consider reorganizing their European branches into subsidiaries, thereby allowing them to take advantage of a single license for their financial services.

[5] Increase penetration of EC market: American banks can also consider increasing their activities in Europe by buying into the EC before possible protectionist barriers are implemented in 1993. However U.S. banks better act now because according to a survey performed by KPMG Peat Marwick, Germany increased their acquisitions by 400% and Swedish companies were not far behind with a 12 fold increase. As the European banks continue to grow so will their knowledge and experience thereby decreasing the U.S. competitive advantage. At this time Regulation K still limits American banks in their activities overseas.

[6] Apply niche marketing to consumer markets: U. S. banks may want to focus on certain retail banking services thereby providing for them a niche. American banks could center their services to residential mortgages, credit cards, and private banking (customized services for wealthy individuals). Morgan Bank is utilizing such a strategy in their European Plan for 1992. In essence they want to strengthen their reputation as a client based international bank. J.P. Morgan & Company has a long history in Europe starting with their parent institution Peabody and Company in London. They trail other institutions in Paris, Frankfurt and Brussels. Although Morgan has a reputation for conservative management, it has innovated a new mode of risk management including currency and interest rate swaps. In 1988 the bank structured the Mexican debt-for-equity swaps in an attempt to alleviate the LDC debt problem. Morgan Bank is one of the many U.S. banks which offer their skills in the areas mentioned. Their services are expected to grow in demand. Banks considering this strategy could evaluate private banking as an opportunity. Credit cards can be serviced through the mails and mortgage lending can be handled through a distribution network of U.S. banks allied with EC institutions. American banks should try to segment themselves to areas where it would prove costly for EC banks to enter. This strategy does offer some drawbacks. By focusing on specific segments of the financial market you lose focus of commercial and corporate markets available in the EC. European banks should also join in providing services to specialized segments and thereby have a local advantage.

The best way to meet the new challenges of the EC is to push for the elimination of barriers that have prevented U.S. banks from expanding geographically. The U.S. financial framework must be modernized to allow banks the flexibility they need to serve their customers in both domestic and global markets. Banks planning to reduce their spending in Europe should consider the concept and consequences that a single European Market can bring. If the European Community unites this alone will increase consumer and government spending thereby increasing capital flow. Financial services will be greatly needed in order to help facilitate business activities. Banks should consider that it is not wise to cut back services at a time when an economy is growing such as this one. Banks may want to use the time to introduce new and improved services to attract new and larger investments. On the other hand banks would want to act cautiously due to the heavy investments that they have made in other international areas, such as Latin American and developing countries. These investments have seriously affected many large banks in such that they cannot invest as much as they would like to.

Overall banks would have to improve and organize their strategic approach for Europe 1992. It is clear that this new market presents a vast number of opportunities for both small and large financial institutions. Smaller banks

can now consider going global due to the increase in freedom for financial suppliers. However this new market can also bring threats from new competitors, especially European banks. These banks possess an advantage because they are local and understand their local needs. As well as they have more protection and authorization than foreign banks. Nonetheless, the EC is providing both European and foreign banks equal access to the new market. However foreign banks, especially the U.S. banks will have to increase their market capabilities in order to attract and maintain customers.

[7] Lobby and modify regulations/laws: In order for U.S. banks to compete against the European banks American banks would have to petition for modification of U.S. laws to Congress regarding changes to the Glass-Steagall Act and the Regulation K. For instance, U.S. banks may consider lobbying to Congress about reducing their restrictions on overseas financial securities. In September 1990 the Federal Reserve Board granted Morgan Guaranty the right to engage in security underwriting in the United States, subject to certain restrictions. For the most part American banks should not count on any quick legislative fix to boost their competitive position in the EC due to Congress's traumatic experience with the S&L disaster. Congress is at the moment approaching changes in the financial industry with extreme caution.

[8] Weigh community expansion against other opportunities: The relaxation of bank expansion limits in the U.S. has created lucrative opportunities for U.S. banks to expand to other parts of the United States. Expansion opportunities also exist in other promising areas, such as the Pacific Rim nations. U.S. banks should not become overly preoccupied with EC issues to the extent that they overlook other good expansion opportunities. It would be wise to make reasonable efforts to seize community opportunities as long as these do not interfere with other more secure expansion possibilities.

CONCLUDING REMARKS

For American banks, the biggest challenge comes from within. Government banking regulations has left the U.S. at a competitive disadvantage. Many American bankers view the declining competitiveness of U.S. banks as a golden opportunity to lobby Washington for permission to sell insurance and securities at home as well as abroad. Overall, the American economy will be the biggest losers as banks pull out of foreign markets. They will generate fewer jobs and profits and their expertise in some areas of international lending will decline.

The fact that the EC is providing more leadway for financial suppliers is without a doubt going to improve the European economy. Simply by having a less restricted cash flow in the economy businesses will benefit in the sense that they will have less transactions to deal with in order to run their business. For instance, business will find it easier to invest and monitor their finances. In return banks will have more capital

to lend out to other businesses. This in essence produces a cycle of cash flow for Europe. Since the EC has made it easier for both European and foreign banks to compete this should not only increase the cash flow of the European market but of other international markets. The United States by all means can not be a part of this since they are heavily invested in Europe. U.S. banks will not want to lose control of this gigantic financial market which could prove disastrous to the U.S. economy. If the European banks enter the U.S. with a competitive advantage over U.S. banks, the U.S. will not only lose control of the financial industry in Europe but in the U.S. as well.

Somehow during September and October, 1992 there appeared deep economic divisions hurting the European Community. The European monetary system fractured during the September 1992 crisis. Both England and Italy pulled out of the EC monetary system. According to Prime Minister John Major the European exchange rate mechanism is flawed and must be reformed before Britain could consider rejoining.

In order for both the U.S. and European banks to compete equally in this new market banks might want to consider forming joint ventures. In many cases the U.S. banks have an advantage in that they are more skillful and have better knowledge in the financial industry than their European counterparts. However the European banks have an advantage in that they are local and understand local needs. As well European banks do not possess limitations and restrictions as foreign banks do. American banks considering the European market for the first time should study the market very carefully. U.S. banks may concentrate on looking for other banks they can merge with in order to compete in Europe. Large American banks that have already advertised in Europe and are well known there may want to compete through their subsidiaries, since they will be entitled to a European banking license. In many cases American banks already operate through subsidiaries or branches therefore this would not present a major change or an increase in funding. For the most part there will probably be an increase in all of these activities and others as well in the years to come. Nonetheless U.S. banks will see an increase in their international operations because of this new market. Other new regions will provide markets in the near future, thereby increasing free trade in the financial world. Hopefully banks and other businesses will benefit and learn to extend their services globally.

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DEVELOPING EFFECTIVE MARKETING STRATEGIES
FOR EUROPE NOW AND IN THE FUTURE

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Abstract

Since United Europe is a very large market, it provides new challenges as well as opportunities to American firms. It is necessary to predict certain behaviors after 1992 and evaluate the opportunities they may create. Based on market conditions, a series of four key strategies are discussed which are likely to help American firms succeed in Europe now as well as in the future.

Introduction

As European markets attempt to unite in 1992 and beyond there will be spectacular opportunities as well as significant threats for American multinational firms. In order to penetrate the fortress Europe as well as to take advantage of the newly forming markets, American firms must understand some of the expected key changes, must assess the opportunities associated with these changes and must develop marketing strategies accordingly. Based on these ideas, this paper has three key objectives: (1) Examine the expected changes in Europe, (2) Assess market opportunities to emerge in Europe by 1992 and beyond, and (3) Identify some key strategic options which would enable American firms to be successful in the forthcoming European markets.

Europe in 1992

Although the planned economic unity recently has been put on hold, it is quite reasonable to assume that in the near future a United Europe will still emerge. With the extended economic and political unity there will be at least six key developments (Higgins and Santalainen 1989):

- (1) Elimination of customs barriers and immigration restrictions at the twelve national borders within the EC.
- (2) Reduction of fiscal frontiers in terms of standardizing tax rates or creating a European Currency.
- (3) Harmonization of product and service standards among the member countries.
- (4) Shifting power from individual countries to the center, i.e., Brussels.
- (5) Growth in markets and in some major European companies.
- (6) Increased "war like" competition among Europe, Japan and the U.S.

These developments and the formation of a single market are likely to trigger certain behaviors on the part of European companies. Many European industries such as steel, pharmaceuticals, transportation and banks are marked by excessive overcapacity and high fixed costs. Two types of behaviors may ensue. First, with the emergence of United Europe, many companies that have excess

capacity, may produce numerous cheaper and more economical products that would appeal to the marginal and submarginal European markets. Second, some firms will develop more focus to cope with overcapacity. Electrolux is an example. The company has closed or focused every factory it has acquired over the past ten years. It manufactures all front loading machines in Pordenone, Italy, all top loaders in Revin, France and all microwaves in Luton, England (Friberg 1989).

European managers, because of the emergence of a United Europe, will attempt to develop more scale economies. Currently such economies are not widespread in Europe. Eleven companies now compete for the \$8 billion European market for central telephone exchanges while in the U.S. there are only four. European companies are beginning to form strategic alliances such as joint ventures. Such strategic alliances will be encouraged with the emerging United Europe and inclination to develop economies of scale. AT&T and the Italian telecommunication giant, Italtel, recently formed a joint venture. Unilever, Lufthansa and Electrolux are taking the necessary steps to achieve scales. Deutsche Bank has a one-stop strategy for financial services that will allow them to compete on a level with Citicorp and Japan's Sanwa Bank. Deutsche Bank is also growing beyond its home market. It has recently acquired Bank of America's branch banking network in Italy (Friberg 1989).

European companies are likely to acknowledge their international competitors if they plan on competing effectively. They are likely to expand their reach by strategic alliances, acquisitions, equity participation, licensing as well as partnership. In the airline industry, SAS has obtained substantial equity participation in both Texas Air and in British Midland Airways. Companies in Europe also have the option of recognizing their rivals by preempting them through penetrating the desired markets first. The increased competitiveness of many industries should stimulate new product development. Increased innovation is likely to become one of the European key goals of European companies. In the financial service industry, for instance, Compagnie Bancaire is imitating America's Merrill Lynch in developing Cash Management Accounts (Friberg 1989). In the process Compagnie Bancaire is attempting to preclude all potential competitors in the financial service industry (Friberg 1989).

It is also expected that European companies will recognize their market opportunities much faster than they have in the past. As a result, European firms will enter the market much quicker in attempts to gain a larger market share. As

the product life cycle becomes shorter, it will be imperative for each firm to do their homework carefully before entering a market. By recognizing market opportunities faster, a greater emphasis will be placed on product development. Firms that want to succeed will need high levels of innovation and quality to differentiate their products.

Finally it is expected that European companies will have long term goals. European firms are likely to realize that they have to make major and long lasting commitments in terms of money, time, service and product development for greater future profits.

Opportunities for American Firms

Expected European behaviors discussed in the previous section are likely to create significant opportunities for the U.S. firms that are already situated in Europe or those who would like to do business with Europe in the near future. There will also be more intensified competition for American firms. Awareness of such competition will be beneficial for American firms who would like to improve their competitive edge in world markets.

Reduced overcapacity may create a void in some markets. This may mean for American firms using their excess capacities to enter some marginal and submarginal European markets. Entering these markets is likely to call for more extensive product development for these markets. These firms will have to assess their production capabilities along with the dictates of the specific target markets. In order for a firm to enter unique marketing opportunity areas that require unique products, the firm must have the technological capabilities or must obtain the necessary technology to generate the necessary products (Nelson 1989).

Achieving scales on the part of Europeans will have the opposite effect on American businesses because of the aforementioned capacity reduction. As European companies strive to achieve economies scales in certain markets, American firms will be forced to become more competitive in those markets. They will have to enter these target markets more effectively and will have to adjust their products and their marketing mixes carefully. They will be forced to realistically assess and sharpen their competitive edge.

In recognizing competition, European firms may develop better marketing strategies and try to preempt competition. This will force American firms to raise their competitive skills one notch above. There will have to be more commitment to competition and to doing well in European markets in the long-run. These American firms are likely to become more innovative in planning their marketing strategies and they will also develop more joint ventures to even out European competition.

Faster recognition of market opportunities, again, will force competition to get keener. While Europeans may try to exercise

protectionism, Americans will have to meet European standards, and learn to enter and penetrate European markets quickly. Thus, they will be forced to enhance their versatility which invariably improve their overall performance quality.

Finally both Europeans and Americans will maintain long term goals. In this context Americans will have to learn to sacrifice short-run bottom-line for long term entry and success in European markets. This will be a major adjustment for American firms since in recent years they have become too short-run and bottom line oriented (Onkvisit and Shaw 1991).

Strategic Implications

Although American firms are going to face increased competition, there will be significant new opportunities which need to be emphasized. Some markets are likely to expand faster and display great potentials. However, it is quite likely that Europe is not going to become one big homogeneous culture. Europe is composed of many cultures which influence people to behave and consume different ways. These significant variations in values, communications, purchase and consumption (Quelch, Buzzell and Salama 1991) are likely to remain intact for a long time yet to come. Cultures change very slowly, if ever. Cultural variations will force American businesses to consider specific cultural target markets more specifically so that they could cater to these special needs effectively. Thus in assessing market opportunities in United Europe, American firms will have to evaluate, primarily, two key variables: market potential and cultural variations. These two variables are used to construct a 2 x 2 matrix. Exhibit 1 illustrates this matrix. It must be emphasized that these four cells are for illustrative purposes. In reality the two dimensions of this matrix indicate two separate spectra which would mean many deviations from the 2 x 2 matrix. The four cells are described in the Exhibit. Naturally, high potential markets are particularly attractive. However, cell four can still be considered as a secondary opportunity choice. Since cultural variables are low, even though it may not have high potential this market can be attractive. If a firm has excess capacity and if its products are suitable, it can penetrate this market without much difficulty. This entry can be quite profitable for the firm.

EXHIBIT 1
ASSESSING MARKET OPPORTUNITIES
Cultural Variations

	High Potential	Low
High Potential	<p>I High Risk High Profit Market (most attractive)</p>	<p>II Lower Risk High Profit Market (2nd most attractive)</p>
Low	<p>III High Risk Low Profit Market (stay out)</p>	<p>IV Low Risk Low Profit Market (secondary market choice)</p>

The most attractive proposition, which is also the most challenging, is the upper left quadrant. Here American firms will have to detect cultural variations and therefore specific demands of the market (Nelson 1989). Upon this assessment the firm will have to move fast to develop the unique products and to enter the market effectively by using unique marketing strategies. Not having cultural differences implies that not specifically designed products needed and perhaps already existing products are adequate. In such cases using unique marketing for the existing products may be most appropriate. The unique market plan here may provide the needed competitive edge. This situation is depicted in the upper right quadrant of Exhibit 1. Both existing products and marketing plans may be adapted slightly for additional local touch which is likely to provide additional competitive edge.

The lower left quadrant in Exhibit 1 calls for new products and localized marketing practices for a market which does not have substantial market potential. Thus, it is likely to be ignored. The cost of developing unique products and unique marketing mixes would not be justified by the limited revenues of a limited market.

Strategic Options for American Firms

Exhibit 1 indicated that there may be at least four key strategies. These all revolve around developing or adjusting products and the remainder of the marketing mixes (Wills et al. 1991). For instance, while the product may be adjusted to local needs, the marketing practices may remain the same. Similarly, the products may remain the same and the marketing practices may be more localized, etc. Exhibit 2 illustrates the four key strategic options. The Roman numerals on the left hand side are associated with the same numbers in Exhibit 1.

EXHIBIT 2 KEY STRATEGIC OPTIONS FOR AMERICAN FIRMS*

- I Unique Products -----> Unique Marketing
- II Standard Products -----> Unique Marketing
- III Unique Products -----> Standard Marketing
- IV Standard Products -----> Standard Marketing

1. Unique Products and Unique Marketing: When the cultural differences are distinctly critical and the markets are very promising in terms of size and growth, this strategic approach is likely to enhance the firm's chances of successfully entering European markets and developing a preemptive competitive edge.

2. Standard Products and Unique Marketing: When cultural differences do not necessitate development of unique products, the firm can make a significant impact on the market by adapting its marketing plans to the prevailing market conditions. Here the ability to adapt products (optional) and marketing plans (somewhat necessary) will provide the competitive edge for American firms. The sensitivity of American

firms to local markets along with rapid decisiveness, is particularly critical for success.

3. Unique Products and Standard Marketing: If the cultural variations in the market are acute but the market is not very promising, this strategy is logical. However, as stated earlier because of deficiency in cost-benefit relationships it is likely to be ignored.

4. Standard Products and Standard Marketing: When cultural variations are negligible and market potentials are low, this strategy is appropriate. As was discussed earlier, this is a secondary opportunity choice. Since there are no unique product or marketing plan requirements the cost benefit conditions may justify this approach despite smallness of the markets.

An example of cell I in Exhibit 1 is Canada Dry. It significantly revised its product by adding different flavors such as pineapple and bitter orange to suit the tastes of the U.K. market (Dudley 1990).

In Exhibit 1, in time companies may move from cell I to cell II as the European cultural variations may slowly disappear due to mass media and the existing conditions of United Europe. Although originally McDonald's had to alter the contents of its red meat to suit different European tastes, during the past ten years its European red meat has become quite similar to its American counterpart (Kotabe 1988).

It must be emphasized that American firms that are expecting successful entry into the United European markets will have to put special emphasis on feedback. Because of the rapid and significant changes in these markets, American firms must develop certain early detection systems in order to maintain a competitive edge and take corrective action as needs arise.

Conclusions

It is expected that there will be at least five key behaviors are expected to take place in the United Europe of the future. These behaviors will create new competition as well as new opportunities for American firms. Four specific market conditions and four key strategic options are discussed in this paper. These strategic options represent key points in specific spectra. Thus, there are many variations for each strategy. American firms will have to be sensitized toward uniqueness of various European markets and will have to act fast in order to enter these markets and to establish a preemptive competitive edge. Thus, they have to be very proactive.

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Abstract

Pricing is a critical issue for firms operating in Europe. A structural analysis of the pricing conditions in three industries in six EC countries is performed and the implications for pan-European pricing are discussed. The analysis reveals that existing structural differences between countries are too large to be ignored. However, the internationalization of the retail industry across Europe is putting increasing pressure on consumer goods firms to align their prices. Finally, two strategic approaches to deal with this dilemma are presented.

1. EC '93: A Challenge for the Pricing of Consumer Goods

With the emergence of the Single European Market, many of the barriers between national markets are crumbling and, as a result, most industries are undergoing structural changes with wideranging implications on competition and strategy (Euler/Berqvist 1991). One of the challenges that consumer goods companies are confronted with in this context is the issue of pricing. Enormous price differentials exist for virtually identical products and it is of utmost strategic importance for survival and profitability of companies operating in the EC to know whether, to what degree and how these differences in prices can be sustained (Simon/Kucher 1992). One consumer goods company, for instance, was so exposed through its uncoordinated nationally-based pricing policies that it stood to lose up to 13% of its profits in one country and 10,5% in another, if only one of its major customers resorted to pan-European sourcing (Euler/Berqvist 1991). While the need and the urgency of a review of companies' European pricing policy are evident, a systematic appraisal of the structural differences responsible for existing international price differentials has not been performed. This, however, is absolutely necessary as it constitutes the first step towards the formulation of a European price policy (Simon/Wiese 1992). The aim of this analysis is then threefold. First, we propose a framework to systematically analyze European pricing conditions. Second, we discuss empirical results of research undertaken in three industries in six countries based on this framework. And third, the implications for pan-European pricing are shown.

2. Theoretical Framework of the Analysis

Price theory suggests that a profit maximizing international price policy is one in which the price in each market is set according to the re-

spective price elasticities and marginal costs prevailing in each country (Phlips 1989; Simon/Wiese 1992). When market conditions across countries vary substantially, this implies that international price differentiation is the appropriate strategy. Various studies (Diller et al. 1991; Althans 1980; Sorensen/Weichman 1975) accordingly show that price is the marketing instrument which is the least standardized. The viability of international price differentiation, however, is faced with several restrictions (Diller 1991). For one, the markets must be separated and no substantial arbitrage between markets allowed to occur. Secondly, the competitive situation in each market has to allow the implementation of the differentiated price. Thirdly, dynamic aspects such as product life cycle considerations may impose a deviation from the (static) optimal price for a specific country, e.g. in the case of entry or penetration pricing for foreign markets.

In order to determine the future pricing policy for the European market and especially the question, if prices need to be aligned across Europe, the factors responsible for price differentials have to be analyzed (Simon/Kucher 1992; Jain 1989). These factors can be found on three levels: the **macro environment** consisting of economic, social, cultural and legal factors, the **micro environment** which deals with the market situation encountered by pricing and **company-internal factors**. The approach taken here is that of market-determined pricing, so that the focus in the following discussion will be on factors of the micro environment. These factors can be grouped further into four categories which combine to be the market determinants of international pricing:

(1) Differences in the prevailing **price structures** between countries are not only to be explained, but by themselves also influence international price policy, especially the problem of price positioning (Diller 1991). Variations in the average price can cause an identically priced product to be situated in the upper price segment in one country and in the lower price segment in another. Therefore, the choice in international pricing must sometimes be made between standardized retail prices or standardized brand positioning (Meffert 1990). A further aspect of the price structure is found in special offers. These may vary across countries and necessitate an adaptation to local conditions.

(2) Differences in the **competitive structure** between countries have to be accounted for when formulating an international price policy. Economic theory, for example, suggests that oligopolistic markets frequently show rigid prices, because of the desire of large firms to avoid price wars and the costs associated with price

changes. In such a setting, a foreign firm may have more price freedom than in a polypolistic market (Piercy 1982). In addition, markets in different countries may be at different stages in the product life cycle. This implies that a different pricing strategy should be applied and that while price may be an ineffective instrument in some areas, it may be the key to success in others (Diller 1991; Piercy 1982).

(3) The country-specific **distribution structure** is another relevant factor. On the one hand, price freedom and above-the-line discounts may differ considerably within similar retail formats, as the result of differences in retailer power (Euler/Lindqvist 1991). On the other hand, the degree of internationalization of retailers strongly affects the ability to differentiate prices since international retail chains may either perform arbitrage or purchase centrally in the country with the lowest price level (Maucher/Brabeck-Lethmathe 1991).

(4) Differences in **consumer behavior** between countries also affect the possibility to standardize pricing. Frequency and intensity of use of certain products often vary internationally with implications, for instance, on package sizes and consequently on unit prices. Other aspects such as differences in brand loyalty and price awareness also require consideration and may influence international pricing both on a strategic level (e.g. price positioning) as well as on a tactical level (e.g. special offers).

3. Pricing Conditions in Selected Industries

The pricing conditions of the detergent, the take-home ice cream and the watch market are analyzed in Germany, France, Italy, Spain, the Netherlands and Belgium. The information was compiled from household and trade panels, industry publications, and from a large number of interviews held in each country with industry experts from consumer goods firms, trade associations, retail organizations and market research companies. Furthermore, an ad-hoc consumer survey was carried out with a total of 181 female heads of households questioned in all countries except Italy. The analysis in Germany is confined to the area of the FRG before reunification.

3.1 Price Structure

The average consumer prices of these industries vary considerably within the EC, with Italy generally displaying the highest price levels. This can be partially explained by a more expensive product range on offer, as in the case of watches, where the average price in Italy is 60% higher than in Germany. The consequence is that a producer who is positioned in the medium-high price segment in Germany has two options for Italy: Either he will have to contend with a

lower image in Italy, since raising prices on identical watches does not appear to be suitable, as especially watches are endangered by parallel imports due to their high value to shipping-cost ratio, or he will have to operate with a different program if he seeks to have the same brand image there.

	FRA	ITA	ESP	NL	BEL
Powder D.	-7.9%	+33.1%	+2.3%	+5%	-2.6%
Concentrated D.	+5.5%	+35.4%	+12.7%	+17.5%	+18.6%
Liquid D.	-19.8%	+27.5%	+10.6%	+5.6%	-11.8%
Watches	-1%	+60%	-51%	-6%	n.a.

Sources: Nielsen, GfK, Joyas y Joyerías

The market for detergents exemplifies a further dilemma of international product line pricing. The variations of the average price of washing powders and concentrates between countries are such that the average price distance of concentrated to powder detergent is app. 64% in Germany but almost 100% in Belgium. Since detergent producers usually offer all three types of detergents, both a standardized absolute price level as well as equivalent product line pricing are not consistent with the prevailing price structure. The take-home ice cream market is another case of extreme price differences. The absolute price per kilo of high-priced Dutch ice cream, for instance, is less than Italian ice cream in the low-price segment. The price of virtually identical products also differs significantly, with the prices of selected brands in each country basically reflecting the underlying price-structural differences.

	FRA	ITA	ESP	NL	BEL
Industry Average	+37%	+86%	+99%	-12%	-3%
Mars	+7%	+24%	+41%	+4%	+32%
Carte d'Or	-7%	+48%	+54%	-16%	+24%
Vienetta	+37%	+98%	+56%	+1%	+31%

Sources: Nielsen and own survey

The analysis of special offer pricing also reveals considerable differences in the EC. Especially the importance and forms of special offers vary significantly. In the Italian detergent market, for example, 80% of sales occur as part of a special offer, however seldomly via a direct price cut, but rather with other special offer methods such as on-packs, special package sizes or coupons. In Germany, however, the direct price reduction is predominant, primarily

due to tighter legal restrictions on special offers (Metzger 1991; Schaltenberg 1988).

	Ratio of special offer sales to total sales volume		% of special offers employing direct price cuts	
	detergents	take-home ice cream	detergents	take-home ice cream
GER	0.5	n.a.	80%	97.5%
FRA	0.7	0.17	53%	60%
ITA	0.8	n.a.	10%	n.a.
ESP	0.63	0.37	70%	85%
NL	0.28	0.2	57%	27.5%
BEL	0.6	0.18	32%	70%

Sources: Estimates based on expert interviews

The analysis of the price structure in these industries leads to the following implications for a European price policy: The existing price structure indicates that generally an adaption of pricing to the country-specific situation is to be favored. In various cases, identical brand positioning actually requires either different consumer prices or, if price discrimination is not viable due to the danger of parallel imports, international product range differentiation. The prevailing differences between countries also suggest that local adaption is the more feasible policy for special offers.

3.2 Competitive Structure

	xxx	yyy	zzz	other
GER	28.4%	38.4%	14.8%	18.4%
FRA	36.5%	15.6%	27.5%	21.4%
ITA	40%	24%	15%	21%
ESP	27.8%	17.2%	15.6%	39.4%
NL	26.5%	23.9%	21.3%	28.3%
BEL	46.9%	21.7%	13%	18.4%

Sources: Nielsen, GfK

The detergent and ice cream industry offer a contrasting example of how differences in the market structure affect international pricing. On the one hand, the same three producers dominate the detergent market in the EC, so that this market is basically triopolistic. As a result, none of these firms can deviate strongly from the price of other firms, as brand loyalty and product differentiation are not sufficient to tolerate large price differentials among them. On the other hand, only one company has achieved a significant presence in all EC-countries in the take-home ice cream market. In Germany, Italy, Belgium and the Netherlands, local

firms play an important role. This means that firm "A" has to deal with prime competitors with different backgrounds and competitive advantages. In Germany the main competitor has a strong position in the premium segment, whereas in Belgium the local contender is positioned in the low to medium price segment. The international price policy of firm "A" must therefore take into account these country-specific competitive constellations.

Firm	GER	FRA	NL	BEL	ESP ('90)	ITA ('90)
A	35.8%	19.6%	32.3%	18.7%	29.2%	41%
B	-	23%	-	-	15.7%	-
C	-	21.2%	-	-	11.9%	-
D	-	-	16.6%	-	-	-
E	25%	-	-	-	-	-
F	-	-	-	26%	-	-
G	-	-	-	-	-	31%
own-brands	13.2%	18.1%	17.8%	19.5%	4%	5%
others	26.1%	18.1%	33.3%	33.8%	39.2%	23%

Sources: Nielsen, Secodip, Business Spain, obiettivomarca

The take-home ice cream market also demonstrates the different strategic importance of price as a result of product life cycle differences between countries. The Dutch and Belgium markets are fairly saturated with relatively high per capita consumption (2.7 liters in NL and 3.0 in BEL compared to 2.4 in GER and FRA; 2.1 in ITA and 0.6 in ESP). Growth in the former markets can only be value-driven with an increasing share of premium ice cream. In Spain, however, per capita consumption is extremely low since take-home ice cream until recently was considered more of a luxury product. Only during the last 4 years has it gained more acceptance as a regular dessert and is now undergoing a dynamic growth phase (A.E.F.H. 1991). The high price level, nonetheless, still represents a barrier for consumers to purchase this product. Therefore, an aggressive price policy is needed to further develop this market.

A further important aspect in the take-home ice cream market is the varying strength of retailers' own-brands that generally are positioned in the lower price ranges. The greater the importance of own-brands is, the lower the pricing freedom for producers' brands. One of the main reasons for the high levels of both the average price as well as specific product prices in Spain and Italy lies in the negligible market share of own-brands. The relatively more heterogeneous structure of the take-home ice cream market thus leads to considerably higher price differentials and more potential for price discrimination than the detergent market.

3.3 Distribution Structure

The retail industry in Europe has experienced considerable structural changes during the last decade, but it is still far from displaying an EC-wide homogeneous structure. Concentration levels vary to a great extent between European countries. In the Netherlands, for instance, the top two retailers command more share than the top seven in Italy. The importance of retail organisation types also differs in the EC. The case of watch distribution exemplifies this. In Spain and Italy the share of traditional retailers, i.e. jewellery and watch stores, is significantly larger than in the other countries. Especially in Germany, both modern watch distribution forms, such as hypermarkets and mail order firms, as well as jewellery and watch store chains have gained share at the expense of the traditional sector. These structural differences lead to different degrees of retailer power and price freedom across Europe for the consumer goods industry on the one hand, and varying channel flow and costs on the other.

	GER	FRA	ITA	ESP	NL	BEL
TOP 1	13.6	14.6	9	20.6	25.8	14.2
TOP 2	24.5	28.9	12.9	31	42.4	28
TOP 7	51%	68.3	28.3	55.1	79.3	70.1

Sources: Nielsen, GfK, AGB

A further consequence of the variations in retail structure results from the fact that different types of retail organisations demand and require different types of conditions and terms of sale. In addition, country-specific differences exist. In France, for instance, the time allowed for payment is generally the longest among the countries examined here (90 days for ice cream and 60 days for detergents compared to 30 days for both in the Netherlands). Thus, price discrimination via discounts is feasible and in some cases even necessary both between retail formats and between countries.

While the above mentioned factors generally indicate that international price differentiation is the appropriate policy, the single most important factor putting increasing pressure on the consumer goods industry to standardize prices lies in the internationalization of the retail trade. On the one hand, strategic alliances between large retailers, such as the AMS, are exchanging information and coordinating purchasing and marketing activities on a Europe-wide basis. On the other hand, leading retailers are actively expanding their retail chain networks in other countries (George/Diller 1992). These developments are leading to more market transparency and the practice and potential of retailers purchasing centrally for

Europe is growing. In addition, the reduction of barriers in the transportation industry within the EC will lead to decreasing shipping costs (Meffert 1990), so that for many products arbitrage will become increasingly feasible. As a result, the consumer goods industry is confronted with enormous pressure to align their price and discount structure across Europe.

3.4 Consumer Behavior

The largest differences within Europe can be found among consumers and their behavior. The universal "Euro-Consumer" does not exist, since consumer preferences are often strongly affected by cultural factors (Maucher/Brabeck-Lethmathe 1991). These differences in consumer behavior frequently affect international pricing decisions indirectly or directly. A comparison of the per capita expenditures, for instance, indicates that both take-home ice cream and detergents are regarded with varying importance in the countries analyzed here. In southern Europe greater value is placed on washing laundry and the washing frequency is higher than in central/northern Europe. The result is that consumers' willingness to pay also varies.

	FRA	NL	BEL	ESP	ITA
Ice Cream	+25.4%	+9.3%	+17.1%	-38.3%	+59.4%
Detergents	+8.3%	-2.4%	0%	+50%	+61.3%

Sources: Calculations based on data from Nielsen, GfK, Secodip, A.E.F.H., Largo Consumo and Institut der deutschen Wirtschaft

Further factors which vary across countries deal with motivational and cognitive aspects of consumer behavior and are reflected in interest in prices and price awareness of consumers (Diller 1991). In the examined product categories, German, Spanish and to a lesser degree also Belgian consumers display comparatively higher price interest and awareness than their French and Dutch counterparts. The direct implication is that special offers should place more emphasis on direct price cuts in the first three countries. Also, where consumers are more price oriented, the price image of brands becomes more important and differentiation from competitors can rely more on the instrument of price.

4. Price-Political Options in the Common Market

The above analysis has shown that a European price policy of consumer goods companies is faced with two, in many ways conflicting situ-

ations. On the one hand, the existing differences in price, competitive and distribution structures as well as in consumer behavior are too large to be ignored and imply that it is both necessary and desirable to differentiate pricing internationally. On the other hand, the internationalization of the retail industry and the increasing danger of cross-border arbitrage often prohibit the implementation of differentiated prices in Europe. Furthermore, the lowering of entry barriers in many industries caused by harmonization of EC laws and regulations will lead to increasing competition, and in many cases price competition, so that further downward pressure on prices will occur. As a result, consumer goods companies may find themselves trapped between the Scylla of insufficient attention to country-specific differences and the Charybdis of centrally purchasing retailers and parallel imports. What then are the pricing options for the consumer goods industry in this scenario? The present situation requires a pro-active stance, since non-action may lead to an alignment of prices at the lowest level with a subsequent erosion of profits. The actual focus of an international price strategy will depend on many product-specific factors, e.g. if shipping costs make arbitrage feasible. Nonetheless, two general strategic approaches for Euro-pricing can be applied.

One option is a defensive or stalling approach, in which existing price differentials are rigorously defended, giving up ground only when it cannot be held at reasonable cost. Such an approach may be feasible for products or brands which must be adapted to country-specific needs, where markets are fragmented and intransparent and where competition remains basically local. A variant of this approach lies in the implementation of a European "price corridor" which tries not to prevent arbitrage from occurring, but attempts to minimize its damage potential, and also allows sufficient room for local adaptation of prices (Simon/Kucher 1992; Simon/Wiese 1992). The other option is to employ an offensive or preemptive approach which actively seeks to exploit the advantages of pan-European standardized pricing, for instance by ensuing economies-of-scale (Diller 1987) and preempts a market-driven alignment of prices. This approach may be feasible for Euro-brands with identical target groups in Europe, industries with high innovation rates or markets with an oligopolistic European structure. Furthermore, the offensive approach offers the possibility to gain a competitive advantage by actively cooperating with the increasingly important European retail organizations by implementing a Euro-key-account-management (Diller 1992).

Whatever option is taken, pricing in Europe can no longer remain un-coordinated and left to the discretion of country managers. The pricing challenge of the Common Market therefore also implies an organizational challenge, since instituting a coordinated pan-European pricing strategy will severely constrain the prerogatives of country managers, particularly when they are responsible for profit centers

(Euler/Bergqvist 1991). The future success of the European firm, however, depends on the acceptance of these challenges and the development of strategies to counter them.

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THE VIABILITY OF PAN-EUROPEAN MARKETING

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Abstract

Changes in the European Community present opportunities for marketers. A unification effort (EC92) will ease the exchange process. There are economies of scale and cost efficiencies to be gained. However, the target market must be reanalyzed. European consumers must be segmented by other means than geographic. Mass marketing and niche marketing may both be used to reach the new Euromarket.

Introduction

In 1946, Winston Churchill called for the creation of a "United States of Europe," following the continent-wide devastation of World War II. Peaceful unity had been a European dream for centuries, but national governments, particularly in Great Britain and Scandinavia, were reluctant to cede any authority to a supranational body. French Foreign Minister Robert Schuman and John Monnet (considered the father of united Europe) proposed the European Coal and Steel Community (ECSC) in 1950 favoring "a common High Authority" to oversee European industrial activity (U.S. Dept. of State 1990, p. 3). In 1952 the ECSC became the first international organization with an integrated federal governing body. Efforts continued to integrate the European economy and to provide for a common structure for the development of nuclear energy, resulting in the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) by 1958.

The modern European Community (EC) was born in the 1967 merger of the ECSC, the EEC, and EURATOM. The original members (Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands) were joined by Denmark, Ireland, and the United Kingdom in 1971; Greece in 1981; and Portugal and Spain in 1986. The countries of the EC committed themselves in 1985 to the creation of a single market free of barriers to the flow of goods, services, people, and capital by the end of 1992. Commonly referred to as "EC92," the program picked up speed in 1987 when the Single European Act, adopted a year earlier, went into effect. This Act eased the passage of EC legislation and required national governments to adhere to the Community's timetable in adapting their own laws to match EC directives (Stitt and McGonagle 1991; U.S. Govt. Interagency Task Force on EC 1992, 1990).

EC92 and its Effect on Marketing Strategy

The EC92 program has changed the rules of marketing across borders in the Community. The harmonization of technical standards and changes in

the distribution and promotion environments make Community-wide marketing efforts much more practical. At the same time, these changes, along with other EC92 directives and further changes resulting from them, will also make Community-wide marketing efforts much more cost-efficient.

First, marketing a single product across EC borders should be easier as a result of efforts to harmonize technical and safety requirements. National technical standards have been eliminated in favor of Community-wide standards. As of January 1, 1993, a product manufactured or marketed in any EC country must be accepted by all countries. In the past, it was necessary to customize products to national standards, requiring as many as twelve different versions of the same product (Stitt and McGonagle 1991; Williams 1989). This simplification of technical standards should make production and distribution simpler and less costly.

Second, changes in the distribution environment will also benefit pan-European marketers. EC92 initiatives to remove customs barriers, eliminate permit quotas for trips between countries, and abolish prohibitions on cabotage (trade or transportation between two points within a country) should increase distribution efficiency, as well as reduce costs. For example, only one administrative document will be required for all EC border crossings, and border checks of goods will be abolished (Quelch and Buzzell 1989). Additionally, these developments should result in increased competition among haulers and greater truck utilization, further reducing costs.

Third, promotion should be simplified through the use of pan-European media made possible by the streamlining of regulations. Developing pan-European marketing plans should be easier (Quelch and Buzzell 1989). Also, the creation of a Community trademark and the development of new technologies, such as direct satellite broadcasting, will allow companies to spread their marketing costs over a larger audience and realize economies of scale (Stitt and McGonagle 1991).

In addition to the cost reductions due to changes in standards, distribution, and media regulations, costs should decrease for other reasons. Public procurement contracts will be open to broader competition, foreign investment will increase production capacity, and competition policy will be more rigorously enforced. The general increased competition generated by EC92 will put downward pressure on prices. Finally, the harmonization of tax levels and the possibility of cross-border shopping by consumers should eliminate large price differentials between countries (Quelch and Buzzell 1989).

The changes brought about by the EC92 program

will not be simply technical. EC92 is expected to affect the lifestyles of Europeans. This has both immediate and long-term implications. For example, increased access to markets will mean wider product choices for Europeans. In the long-run, segments of Europeans with similar needs and wants may emerge. Many have suggested this is already the case with the formation of Euroconsumer clusters, or areas of consumers sharing similar characteristics without respect to national borders (Vandermerwe and L'Huiller 1990).

Global Theory and Pan-European Marketing

The fact that there are recognized global brands such as Kodak film, Levi's jeans, and Sony electronics and global media agents and telecommunications such as international advertising agencies and satellite communication systems lends credence to the possibility of pan-European strategies. Global marketing, or the marketing of products and services in a similar way around the world, is not a new idea. Buzzell (1968) argued that the common strategy of employing different marketing plans for different markets simply reflects customary ways of doing business which evolved when national borders were much greater barriers to marketing than they are today. Companies which dwell on idiosyncratic consumer preferences between countries miss opportunities to reap the savings and efficiency benefits of global standardization (Levitt 1986). Sheth and Eshghi (1989) claim an effective global marketing strategy is to segment the world on a set of common demographic and/or psychographic criteria. For example, the marketing strategy for a teenager segment for beverages, rock concerts, and fashion is likely to be the same regardless of country.

Does the Euroconsumer Exist?

There is resistance to pan-European marketing. The removal of trade barriers simply will not unite 340 million people from 12 nations to behave similarly. Whether Europeans can think of themselves as Euroconsumers first and their nationality second has been debated. In fact, some feel that removing the borders will have the opposite effect, and people will become more nationalistic. Additional obstacles to a "melting pot" include language and cultural differences. Danish, Dutch, English, French, German, Greek, Italian, Portuguese, and Spanish are all official EC languages and many other regional dialects and languages are spoken, such as Catalan, Flemish, Low German, and Luxemburgish. Language differences can be solved with translation; cultural diversity between countries would seem to be a bigger problem. However, the diversity between countries on variables important to marketers such as consumer needs and resources, may be less than those within countries (Sheth and Eshghi 1989). It can be argued, for example, that southern Germans have more in common culturally with the people of Austria (Catholicism and Bavarian traditions) or even of northern Italy (heavy industry and fashion) than they do with northern Germans.

Many proponents of the Euroconsumer concept point to the United States, with its enormous cultural diversity, as a model for Europe. They contend that the differences that exist among EC consumers today are no greater than those that once existed among the colonists in early America, and that there will come a time when Greeks and Danes are at least as similar as Virginians and New Yorkers are now (Cutler 1990). A melting pot is not likely, but Europeans will become more similar as cultural influences such as the media are deregulated and become pan-European in scope. Culture can be a positive force in unifying markets and marketing can be a positive force in unifying cultures.

Marketing to Euroconsumers requires a strategy to identify segments based on something other than geography. Garreau (1981) attempted this for the U.S. and Canada in his ethnographic study, *The Nine Nations of North America*. Values segmentation, it was later determined, along with the Bureau of Census' demographic data proved to be a superior method of analysis (Kahle 1986). The European Community is probably best viewed as a heterogeneous market composed of distinct groups of Euroconsumers that vary according to demographics and psychographics (but often not by nationality), rather than as 340 million "Euroclones."

The clusters formed by Vandermerwe and L'Huiller (1990) are based on very simple data. This is but one traditional way of analyzing consumers. There are other ways to segment consumers and the new EC marketplace offers a unique opportunity to redefine target markets. Values research is needed in order to better understand the clusters of Euroconsumers and the way they function at home and at work. Values research will help determine whether a global or local strategy need be employed (Kahle 1986). Another segmentation variable, convenience orientation, has been suggested as a useful tool in international markets (Luqmani, Qurashi, and Yavas 1992). The demand for convenience is culturally based in part and on the values of time and comfort, as well as on economic factors. Finally, global stratification, looking for similarities of needs rather than differences across cultures, is another alternative to traditional segmentation methods. Duncan (1992) suggests analyzing global consumers for strata of needs to communicate on a common level:

"cultural and national differences do not mean that a single message can't be effective against more than one nationality, especially when ...globally stratified consumers have the same basic needs" (p. 357).

Going Pan-European

Two strategies are offered for pan-European marketing: Community-wide mass-marketing and regional micro-marketing. The appropriateness of each strategy depends on how the product appeals to the target market. Certain products lend themselves to pan-European campaigns more easily than do others (*The Economist* 1989). For example, industrial products are less culture-bound

than consumer products, and of the latter, commodity-type products like children's toys and laundry detergents are less culture-bound than specialized goods and services like banking services and health and beauty aids (Hilton 1992; Lever 1992). Even products in the same general category may vary in the ease with which they can be marketed in the same way across national borders. The Coca-Cola Company, for instance, varies its marketing strategies significantly from product to product. The company markets the flagship Coca-Cola brand in the same manner globally but customizes product attributes and campaigns regionally for other brands such as Fanta (*The Economist* 1989).

The first pan-European strategy, EC mass-marketing, means selling the same product in the same manner throughout the Community, for example, Coca-Cola's "one sight, one sound, one sell" message for its flagship (*The Economist* 1989). Eurobrands employing a common product, positioning strategy, and package design are expected to become more prevalent as Europeans become more similar. In fact, as marketers begin to treat European consumers more alike, the consumers will, in turn, become more alike. However, national preferences still remain, so companies should proceed carefully when transforming existing national brands into pan-European brands. Nestlé, for instance, has redesigned the packages of its camembert cheese which it sells across Europe under several different names. The new packages feature the corporate brand name next to the local brand name. The corporate brand name will be progressively enlarged over five years, eventually replacing the local brand name. Eurobranding of new products, especially when they create new categories, should be easier than re-branding existing products, though obstacles still remain (Quelch and Buzzell 1989). One of the biggest problems may be creating brand names that are appropriate in every language and available in every market (Martin 1992).

While not as extensive as true Eurobranding, regional or Community-wide niche marketing offers many of the same cost and efficiency benefits. As artificial barriers between EC countries are removed, companies will be able to extend a product's market regionally beyond national borders. As cluster research shows, regional similarities among people play a significant role in the cultural make-up of Europe. Community-wide niche marketing will grow naturally from regional marketing as similarities among consumers outweigh differences across borders, permitting the targeting of segments too small to be profitable on a national scale (Quelch and Buzzell 1989). Products targeted at the very rich, such as Rolex watches, currently employ this strategy (*The Economist* 1989).

Companies wishing to implement pan-European marketing strategies need to conduct extensive research in order to determine which strategy type is appropriate to their situation. Unfortunately, doing supranational research in the EC is difficult because data quality and definitions vary from country to country, making comparisons difficult. The current state of marketing research data in Europe is much less developed than in the U.S. (Cutler 1990). In order to identify

pan-European market segments and allow cross-border comparisons, standardized market research tools need to be developed to measure changes in consumer attitudes and brand preferences across Europe (Quelch and Buzzell 1990). Several companies are currently working to improve the quality and availability of market research data in Europe and to bring it more in line with U.S. standards (Cutler 1990).

Conclusion

With the technical aspects of marketing in the Community greatly simplified by EC92, pan-European marketing, selling the same product in the same manner across the continent, becomes much more appealing than it was when country-specific laws and requirements made it impractical, if not impossible. Because of the enormous economies of scale possible in production, distribution, marketing, and management, companies which recognize and capitalize on pan-European or global marketing opportunities will have a significant competitive advantage over companies which do not (Levitt 1986).

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STRATEGIES OF FIRMS IN THE ERA OF INTEGRATION

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Abstract

The objective of the study is to examine the changes of international strategies of firms, especially the changes of so-called "Eurostrategies". This research is a follow up study to the two earlier investigations. In all three studies Porter's strategy frameworks were utilized.

On the basis of the interviews the effects of integration at strategic level would remain less significant than it is often expected. General changes in environment make firms to reconsider their strategies frequently. Seldom are important changes initiated only by integration. Occasionally integration is one of the effective factors or it may accelerate change process. However, there may be some contradiction between the perceptions of many effects of integration and the limited consideration of these effects at strategic level. This contradiction should be evaluated by firms.

Concerning the utilization of Porter's largely utilized framework, some interesting observations became possible. Its functioning seemed to be limited.

Objective and background

Our objective is to examine the changes of international strategies of firms, especially the changes of so-called "Eurostrategies". Here, the word "Eurostrategy" will be used as a label of a strategy taking into account the potential effects of the European integration. Change of a strategy may also mean formulating a strategy, if a firm has not earlier had a clear Eurostrategy. Sometimes it may also be mean making the strategy more specific or explicit without concrete changes in business activities.

The present research is a follow up study of the investigation called "The Effects of West-European Economic Integration on Finnish Metal Industry Firms" by the Helsinki Research Institute for Business Administration, and Uolevi Lehtinen's article "Outlining a Eurostrategy for a Firm" based on the same study. Both studies were published in 1990. The theoretical part of the study is made as a desk research considering the starting points of the earlier studies. Because the Porterian framework were used in these studies they were also utilized in this study. In the empirical part of this study we interviewed the managing directors of the same nine medium-sized metal industry firms as in the earlier study. The results of the earlier studies were basic with which the present situation of the case firms was compared.

The empirical approach of this study is in the first place qualitative multiple case study. This study reaches over time because the phenomenon is studied by measuring to a large extent the same variables as in the earlier study of the Helsinki Research Institute. Accordingly, we can make comparisons to describe the changes.

Theoretical Frame

Generic Strategies

Every company should form a competitive strategy. The strategy may have been developed explicitly through a planning process or it may have been originated implicitly through the activities of business units. Strategies rarely develop in accordance with idealistic, phased planning models or in accordance with objective logic. Instead, strategies may lean on the subjective logic, visions, experiences, and forecasts of management which exists just at the moment (See also Mintzberg 1987).

Competitive strategies mean search for favourable competitive positions in an industry. Generic strategies are approaches to outperforming competitors inside the industry. Implementing any of these generic strategies effectively requires total commitment and supportive organizational arrangements that are often diluted if there is more than one primary target. Generic strategies are divided by Porter on the ground of strategic target and competitive advantage into three groups: cost leadership, differentiation and focus. Porter has presented this with his famous four-celled framework in which focus has been divided into cost-based and differentiation focus (Porter 1980).

Cost leadership means low costs in relation to competitors though quality, service and other competitive means cannot be ignored. Cost leadership usually requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions by tight cost and overhead control, avoidance of marginal customer accounts, and cost reduction in R & D, service sales force, advertising and so on. A great deal of managerial attention to cost control is necessary to achieve these aims. Reaching a low overall cost position often requires a high relative market share or other advantages, such as favourable access to raw materials (Porter 1980).

The second generic strategy is to differentiate products or services i.e. to create something that is perceived industrywide as being unique. Differentiation can take place in many areas: product quality, additional dimensions, technology, design, brand image, service, maintenance, advertising, sales efforts etc. To reach the most favourable position may require differentiation approaches in many different ways (Porter 1980)

The third generic strategy is to focus on a particular buyer group, product line, or geographic market. The strategy rests on the premise that the firm is able to serve its narrow strategic target more effectively than competitors who are competing broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target or lowering costs in serving the target, or both (Porter 1980).

Structures of industries

Changes in the generic strategies are often connected to changes in structural features of industries. Porter's framework of five basic competitive forces determine intensity and attractiveness of an industry (the ultimate profit potential). These five competitive forces are threat of entry, pressure from substitute products, bargaining power of buyers and suppliers, and the intensity of rivalry amongst existing competitors (Porter 1980).

Porter has developed his framework to describe the competitive forces of an industry i.e. to identify the crucial structural features determining the nature of competition in a particular industry. In this context the competitive forces are used as variables which describe the reasons of strategic changes of firms. We assume that these variables have effects not only at an industry level but also at a company level. Changes in the structure of an industry usually concern all the competing firms inside a certain industry.

A basic idea of the European integration is to offer firms better possibilities to take advantage of economies of scale and reduce costs. The European integration has effects which are supposed to modify the structures of industries. It has been foreseen that the effects are the following: (The Helsinki Research Institute for Business Administration, 1990)

- Centralization of competitors in an industry
- Increase of strategic alliances
- Decrease of the barriers to entry into an industry (new entrants, ← substitutes)
- Centralization of suppliers of raw materials and component
- Centralization of retailers and endcustomers.

We shall mainly concentrate on the above-mentioned issues, but also Porter's competitive forces will be discussed in the analysis.

Empirical analysis

Empirical approach

In the Helsinki Research Institute study the case firms were chosen with the help of the experts of the Federation of the Finnish Metal, Engineering and Electrotechnical Industries so that the products and industries of the firms are of different nature. In addition, case firms were at different stages in their international business activities. The sample gave a rich view, although it had limitations considering generalizability. Case firms operate in the following industries: household appliances, hoists, fastening and electric devices, forest machinery, analytical devices for clinical chemistry, air conditioning systems, stainless tubes and beams, mining machines, and coil and formed springs. Already in the conclusion of the first study it was mentioned that the chosen firms could have had more activities in the EC area. Then the effects of integration would probably have been greater or more visible.

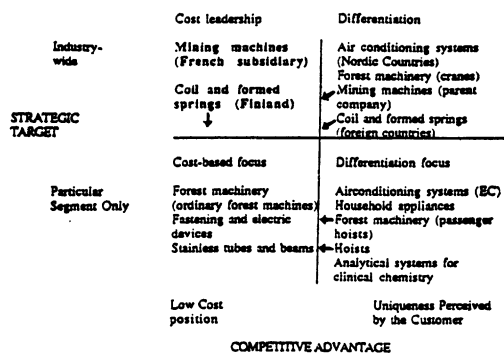
Because of the complexity of the research problem we came to the conclusion that the best method of data collection is detailed interviewing. Before the interviews we sent the case firms a summary of the earlier study by the Helsinki Research Institute and the framework of the forthcoming interview. In addition to Porter's frameworks the results of the earlier studies guided the interviews. For example, we showed the chart that described the former generic strategies and asked if the strategy of the firm interviewed had changed in any respect. In some cases there evidently were no changes and the additional discussions on the issue were short. Often the original replies had, however, to be scrutinized in the longer discussions with the interviewee(s). Finally, the discussions were interpreted by the interviewers. Although there were some differences, the analogous approach was applied to the other issues of the interview.

During the two studies respondents representing each case firm were interviewed and observed for about three working days. Written documents (e.g. annual reports and articles) were also utilized in the study.

Generic strategies of case firms

What kind of changes have happened in the Porter-type generic strategies of case firms and what the reasons for changes are? The present generic strategies with the changes will be shown in Figure 1.

FIGURE 1.
THE PRESENT GENERIC STRATEGIES OF
THE CASE COMPANIES AND THEIR
CHANGES DURING 1989 - 92.



The names of the firms or SBUs that have changed their strategy are written in bolded text in the Figure 1. The arrows present direction of change during three years i.e. a case firm or its SBU has moved (or is moving) to the direction of the arrow. The figure should not be understood as a tightly four-celled one. The changes only seldom mean moving from one generic strategy to another. A change is usually a gradual and incremental movement toward another generic strategy.

Porter has developed the model to classify competitors in an industry. In this context Porter's model has been used, like in the first study, to classify the case firms (or strategic business units, SBUs) in relation to competitors inside their own industry. Thus the case firms have not been compared with each other. Mostly the strategic business units of the case firm follow the same generic strategy, in which case there is only the main industry of the firm in the figure. If the SBUs of the firm have a different generic strategy, they are shown separately in the figure. For example, the forest machinery manufacturer produces passenger hoists, ordinary forest machines, and cranes, and all these SBUs have different strategy. Different strategies are, in some cases, applied in different markets or segments. The air conditioning systems manufacturer's strategy is differentiation in the Nordic countries, but differentiation focus in the EC area. The strategy of the mining machines parent company is differentiation, but its French subsidiary tries to achieve cost leader position.

When putting Porter's model in this kind of practice one has to take into account the characters of the industry and competitive situation of some firms and (SBUs) which made the positioning of these firms difficult. Coherent cost leadership strategy is not possible in some industries, e.g. in the hoists and mining machine industries. Their products demand so much advanced technology and customer-based adaptation that one is always far from clear cost leadership. Costs could be reduced because authorities in some countries would not require high safety norms and/or customers might be satisfied with simpler models. In that case reduction of costs is customer-based and it is not a question of consistently aiming at cost leadership. In addition, the market of hoists is even globally so small that no manufacturer can reach such economies of scale that are often required by cost leadership. In these industries those manufacturers who compete strongly with prices have to concentrate on basic technology, in which case it is possible to reduce R & D costs to some extent. However, that kind of cost reductions seldom lead to any kind of real cost leadership. It may be a good reason to emphasize, what the global character of industries raises difficulties in focusing, too.

The former analysis (and actually all analyses) seems to be fairly straightforward and some comments should be made. First, strategic approach is always a relative issue i.e. a firm in question should be compared with its competitors. In this respect one of the competitors is normally a relative cost leader. In the former cases ahead tailoring strongly limits comparability of products and, at the same time a cost reduction possibilities. Therefore, cost leadership is at least very vague in these industries. Second, we try to describe firm's actual strategic behavior, not the aimed or striven one. The placement of the firms e.g. Figure 1 is made mainly according to evaluation of the interviewees but observations, additional questions, information received in different connections etc. also influence the placement.

In industries of fastening and electric devices and coil springs it is not profitable to technically differentiate products as the customers are not willing to pay for any additional qualities. Differentiation of fastening and electric devices is in some degree carried out with marketing efforts. Coil springs manufacturer has other products which can be to some extent differentiated. If a customer is not willing to pay for any additional features cost competition will be naturally emphasized.

Thus we can draw the conclusion that it is not possible for firms (or SBUs) in some industries to put Porter's cost leadership or differentiation in practice, at least not in the pure form. To some extent the same kind of results have been also earlier found (Wright 1987, Smith et al. 1990, Eriksson 1991 and Räsänen 1992). However, in many industries Porter's model suits well for classifying the firms and SBUs.

The general direction in changes of generic strategies seems to be emphasizing cost efficiency. In order to keep business activities profitable during expanding international competition (e.g. due to integration) and declining sales volumes (e.g. due to recession) possibilities to reduce costs have to be exploited effectively. The customers are not willing or capable to pay for any additional qualities. The price level of some products has fallen in the Nordic countries due to the liberalization of trade. Two of the case firms have also reduced assortment that is usually supposed to be connected to cost reduction. However, in these case firms it is more probably an effort to make the assortment more profitable. It is a good reason to note that the industry life cycle effects could have had some influence on these results (Gilbert and Strebel 1988).

The generic strategies of the case firms have often changed unexpectedly (cp. Appendix, which describes change expectations in the former studies). Mining machines manufacturer has taken over its French competitor. The generic strategy of the competitor has not been changed because, due to its sortiment, it competes more with prices than its Finnish parent company. Both manufacturers wanted to leave their image unchanged. The parent company itself has slightly proceeded towards cost-based focus due to pruning of the assortment. This change was not expected in the former study.

In the first study the spring manufacturer was entirely classified as a differentiator. Even during that time e.g. its large market share in Finland, however, hinted that its generic strategy might have been classified as cost leader. Differentiation has remained as a generic strategy for exported formed springs. But because customers favor more lower prices the generic strategy of formed springs manufacturing has proceeded towards cost leadership, especially in Finland. This change was not anticipated. Instead the change towards focus was in accordance with the former results.

The forest machinery manufacturer might have been classified already in the first study as a cost-based focuser as far as ordinary forestmachines were concerned. Now the placement is evident. The company's strategy concerning cranes has remained the same: differentiation. The competitive advantage of a new product line, personal hoists, is based on differentiation focus but in the future they believe that the costs will be more important when their market becomes saturated.

The hoist manufacturer has widened its assortment with smaller sized hoists. Together with the new products of the "average" generic strategy has slightly proceeded towards cost-based focus. The direction of the change has been anticipated.

The air conditioning systems as well as fastening and electric devices manufacturers' generic strategies have not changed although it was anticipated. The fastening and electric devices manufacturer was anticipated to proceed towards differentiation but they noticed it was not profitable to differentiate products technically. The air conditioning systems manufacturer was anticipated to proceed towards cost-based focus in EC market. However, the manufacturer noticed that it was not profitable to compete with prices because that was the strength of its competitors. So the air conditioning systems manufacturer remained differentiation-based focus strategy.

Only the household appliances and forest machinery manufacturers believed that a cost leader benefits most from the integration. The hoists and air conditioning systems manufacturers believed that the integration favors firms producing high quality products (differentiation). This belief is based on presumptions that general quality requirements will rise. The change will be more useful to those manufacturers who are already producing high quality products. Still, a majority of the interviewed persons thought that the integration did not favour specifically any generic strategy. Generally, we could not notice that the integration favors certain generic strategies but industry-based differences are developed because of the differences in competition.

The competitive advantages of firms are defined in generic strategies. The changes of generic strategies are linked primarily with the changes in the industry structures (see also next chapter). A slight majority of the case firms considered that changes caused by European integration do not or will not have effect on generic strategies of their SBUs. Hoists and fastening and electric devices manufacturers thought that integration strengthens the selected strategies. The springs and forest machinery manufacturers anticipate that integration could increase their export.

The increase of exports emphasizes that a firm may need different generic strategies in different markets even for the same products. Competitive advantage should be developed separately for each SBU; consequently a firm may have more than one generic strategy.

Structures of the case firms' industries and integration

The respondents noticed many kinds of direct effects of integration E.g. more open markets, harmonized standards and certified quality systems we considered to have direct effects. But in this chapter we mainly examine indirect effects through the Porterian framework of competitive forces. In other words, have the structures of the industries of the case firms changed for the integration as was generally assumed?

Although during the study period only the competitors of analytic systems for clinical chemistry and household appliances manufacturers have been centralized, however, most case firms assume that their industries will be centralized in future. Naturally, European integration has its own effects on centralization.

Only two firms had minor cooperation with the other firms. Otherwise, the case firms had not joined any alliances at any level. This is surprising, because three years ago the majority of the case firms considered alliances important. In present interviews the respondents admitted that they do not believe in benefits of alliances. However, the international organizations of industries, whose activities are found profitable to participate, are an exception.

The interviewed persons also agreed that the European integration reduces obstacles of entering the market. Again with two exceptions, the case firms did not suppose that new foreign competitors would enter the Finnish market. Nor are substitutes assumed to strengthen their position. These opinions were not based on counter measures or threats of counter measures by Finnish firms but rather on minor attractiveness of the market. The market was considered too small in relation to the investments required. In some other industries the situation may be different.

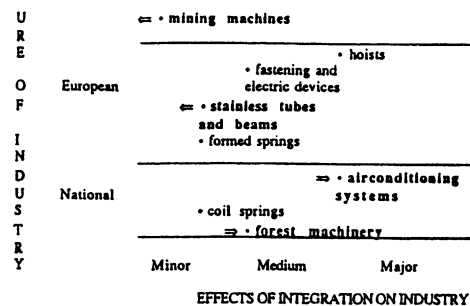
During the study period raw material and component suppliers were not centralized. Although there has not been increased centralization the respondents admitted that they should be prepared for it. This could be done, for example, by examining the possibilities of cooperative buying and obtaining more alternative suppliers.

Retailers and other customers have increased centralization in many industries involved into the study. According to Porter centralization usually increases bargaining power of buyers. The mining machines and springs manufacturers, however, assumed that this change has more positive than negative effects. They thought that customer relations and marketing activities are easier to control when there are fewer customers. Centralization of customers was generally slower than expected.

Bearing in mind the above-mentioned and some other effects found in the study it can be stated that the integration generally had many but often minor effects on the basic factors of competitive forces. Case firms, however, considered that there will be changes in the future. Forthcoming changes were assumed to have reasonable effects.

Figure 2 shows how case firms found the total effects of European integration on their typologized industries. The arrows show the changes in the opinions.

FIGURE 2.
EFFECTS OF INTEGRATION ON INDUSTRIES
OF CASE FIRMS.



In Figure 2 the bolded parts describe changes. The arrows show the direction of a change before the present position. The opinions concerning the effects of integration have changed in the majority of the five case firms. The household appliances, the mining machines, and the stainless tubes and beams manufacturers anticipate the effects of integration to be less significant than earlier. On the contrary, the air conditioning systems and the forest machinery manufacturers perceived the effects of integration more significant than three years ago. Global (and european) manufacturers have thus become less "worried" whereas national manufacturers have become increasingly "worried" about the effects of integration. Although the nature of industries would be national or european, the anticipated effects of integration varied according to a firm (SBU). Most clearly grouped were the firms representing global industries. In these firms it was assumed that integration would have only minor effects on global industries.

The most important results and conclusions have been presented with bold letters in the former chapter. Based on the results of the study it seems that the effects of integration were considered to be fairly insignificant when formulating generic strategies. Consequently, so-called "Eurostrategies" were not sought very effectively. General changes in environment made firms to reconsider their strategies frequently. Seldom were important changes initiated only by integration. Sometimes integration is one of the effecting factors or it may accelerate change process, but it is rarely the key factor when considering strategic changes.

The general direction in the changes of generic strategies seemed to be emphasizing cost efficiency. As to market strategy EC-trade including new subsidiaries had become more important.

The respondents had, however, observed many kinds of direct and indirect effects of integration. Open markets, the harmonization of standards and the certification or quality systems were considered to influence directly. On the other hand, increasing competition as well as the centralization of competitors, distributors and customers were worried for their indirect effects.

Consequently, we have a good reason to interpret that these may be some contradiction between the perception of many effects of integration and the limited consideration of these effects at strategic level. It remains to evaluate if this depends on the unconsciousness of the actual consideration or real inability (unwillingness) to consider these effects at strategic level. This crucial evaluation should be done by firms because the need to consider the effects depends on the relations of the opportunities and threats introduced by integration to the strategies and weaknesses of a firm.

We concluded that the firms neglected especially two types of strategic considerations. These were taking into account potential entries to their home market and possibilities of international cooperation.

Concerning the utilization of Porter's frameworks when some interesting observations became possible. In many industries and competitive situation all generic strategic alternatives did not come into question and, therefore, the functioning of Porter's generic strategy frameworks is limited. This is significant because the basic framework is largely discussed in theory and applied in practice.

We wish that these results and conclusion give some impetus to other firms to reconsider the effects of integration and also the taking into account these effects at the strategic level. All measures be weighted against the relative position of a firm its competitive situation.

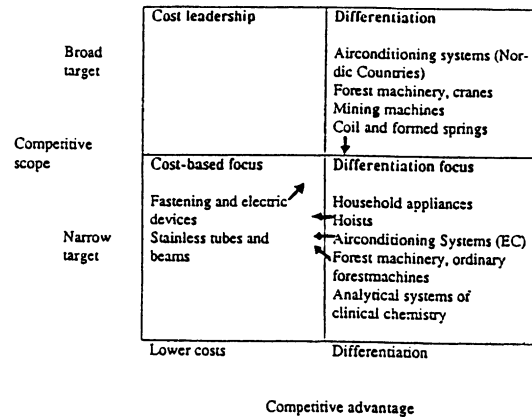
The empirical study was based on nine case studies. It is a well-known fact that case studies have their weaknesses and limitations but because of the complexity of our research problem case approach was regarded as the most suitable one for this study. Interviews provide opportunity to additional questions, and to gaining background information and reasons. So we have been able to explain many "causal" connections that would be too complicated for a survey or an experimental study (Yin 1989).

Construct validity was the most problematic issue because the European integration is very wide and kaleidoscopic. It is often difficult to separate an effect of integration from general effects of environmental changes (interactive effect). As also other external variables are difficult to control it is problematic to notice separate effects of integration. In addition, in interviews it is always a question of more or less subjective opinions. Especially indirect effects of integration are extremely difficult to analyze as we cannot be sure how well the interviewed persons are aware of the effects of the changes in the competitive environment. The interviewees represented for the top management of the case firms and therefore we can assume that they know the change forces in their own industry reasonably well. During the interviews this comprehension was supported by the observations of interviewers.

Case studies are often criticized - partly unjustified - because of their low degree of generalizability. The present one is a multiple-case study which to some extent increases possibilities to analytical. Case studies aim at analytical generalizations (not statistical) generalizations, and therefore the results should be generalized with reference to theoretical cases, not to populations. However, if a case study is compared with a survey a case study has almost always more random error as sample is smaller.

This study suggests the need of at least two kind of further studies. First, a new follow up study would be useful to perceive the same firms after a few years when the European integration works more tightly and effectively and when its consequences are better observable. Second, an additional examination of Porterian frameworks would be recommended as they have rarely studied empirically, especially at a company level. Although Porter has developed his framework for industry level analyses we have not found any good reason why his ideas could not be used at a company level analyses, too. Additional studies of his frameworks would be useful for new insights in the theory construction and the improvement of practical managerial work.

APPENDIX



The generic strategies chosen by companies and their change directions.

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THE IMPLICATIONS OF EUROPE 1992 ON U.S. COMPANIES: AN EMPIRICAL STUDY OF NEW YORK MANUFACTURERS

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Abstract

This study was conducted to find out the perceptions of New York exporters on developments related to EC 1992 and how those changes might affect their marketing strategies. Although a large number of respondents felt that the EC market was very important for the future of their firms, they were concerned about potential tariff and non-tariff barriers. Close to half of the firms studied were in the process of preparing for the post-1992 period. Expanding agent/distributor network was found to be the most preferred method of penetrating the EC market and/or increasing market shares there. The executives in the sample were a great deal more optimistic about the issues related to NAFTA. Many felt that NAFTA will make their firms more competitive both at home and in overseas markets including the European Community.

Introduction

The largest and the richest market of the world was created by the end of 1992 as the twelve European nations remove the nontariff trade barriers that still exist among themselves. The elimination of border controls and harmonization of technical and fiscal barriers are expected to promote industry consolidation and rationalization leading to economies of scale in production and marketing. These changes will affect the nature of competition in this market and will require that both EC and non-EC firms design new strategies to survive and/or to prosper in Europe.

Indeed, "Europe 1992" has already triggered noticeable repositioning of financial and human resources by many of the larger European, American and Japanese corporations, both across territorial as well as product lines, as seen by waves of mergers and acquisitions. The statistics on the market size and potential of the new Europe is astonishing. The EC alone commands a market of over 340 million people and a combined GNP of 6.2 trillion dollars; add the EFTA members and the combined market is roughly 125 million larger in population than the U.S. and is the biggest, as well as the richest market in the world with a total GNP of close to 9 trillion dollars. Though a massive market in itself, the EC-EFTA area also can serve as an efficient springboard for exporting European-made goods to other countries, including of course the United States.

A widespread perception exists outside Europe that the Internal Market inevitably entails a degree of protectionism against non-EC firms. Although the EC officials would flatly deny that they are about to create a

"Fortress Europe", there are some countries in Europe that would like to see one. Divisions within the Community over protectionism arise from variations in perceptions over the objectives of the Internal Market and the effect of free competition on industry. There is a disagreement over whether or not the prime objective of the Internal Market is to help European companies regain a degree of competitiveness over their Japanese and American counterparts. The belief that this is a prime objective tempts some countries, such as France and Italy, to seek to ensure that the system is fixed in such a way as to secure that objective. The belief of the United Kingdom and Germany in the merits of free trade, which as much as anything else reflects their own self-confidence in the results of such a system, and in the case of the United Kingdom in the supremacy of the consumers' interests over that of the producer points in the opposite direction.

As Europe rolled through 1992, many were worried by the increasingly obvious uncompetitiveness of much of their industry. EC's GNP grew just 1.2 percent in 1990, and the unemployment rate was more than 9 percent. The huge number of unemployed workers and potential immigrants just over the border in Eastern Europe was also a troubling development for Western European policy makers. Moreover, from a trade surplus in 1986, EC ran up a record trade deficit of about \$110 billion during the same year (Rapoport 1990).

Given these current and potential economic problems, many in Europe are not as optimistic about their future as several years ago. Thus, protectionist sentiments championed by the French and the Italians are also spreading to other EC member countries. Until recently, the thinking in EC circles was that lifting state subsidies and quotas would create a more competitive environment for the European firms, and this would lead to the creation of globally competitive industries in electronics, computers, and automobiles. But this is not happening yet due to mainly still existing nationalistic concerns and old rivalries.

During the early 1990s, U.S. firms were obviously concerned about the above developments in Europe. Meanwhile, talks were proceeding in North America to establish another major trading bloc. It is expected that a North American Free Trade Agreement (NAFTA) that will initially include the United States, Canada, and Mexico will have a major impact on American businesses during the coming decades. Thus, business executives need to consider the EC and NAFTA simultaneously in their strategic planning and design export and/or foreign production plans accordingly.

This study was initiated to assess the perceptions of American exporters as to how EC 1992 might impact their businesses and how they would react to these developments. The more specific objectives included:

- an assessment of perceived benefits and potential problems regarding EC 1992 on their firms and the United States.
- determination of the most appropriate market penetration methods to the European market after 1992.
- an analysis of these perceptions and market penetration methods by firm size (sales volume and employment) and share of exports in sales volume.

Review of Literature

A review of literature regarding EC 1992 show that past studies have focussed on a variety of topics ranging from the economic impact to European economies/businesses to potential effects on American exporters. It is generally agreed that the post-1992 environment will be significantly more competitive (Quelch and Buzzell 1989), and that the increased competition will result in greater operating efficiencies, scale derived benefits, and increased innovation. In addition, EC 1992 will reduce prices, provide European households with access to an increased range of products, and lead to increased employment (Fieleke 1989).

A second category of research points out the potential benefits which U.S. firms may enjoy as a result of EC 1992. These include: increased demand for U.S. goods as a result of rising European incomes (Linville 1990); elimination of conflicting standards and procedures (Verity 1988); and reduced transportation and distribution costs (Weimer 1990).

A third group of researchers investigate potential problems if a "Fortress Europe" is erected. They point out that local content rules, reciprocity arrangements, and technical barriers may exclude the U.S. firms from fully enjoying the benefits of the Unified Market (Calingaert 1989; O'Connor 1990; and Moini 1991).

A fourth group of researchers provide planning guidelines for U.S. businesses (Kaikati 1989; and Quickel 1989), suggest market entry strategies (Samiee 1990), and analyze the perceived effects which EC 1992 may have on American businesses' exports (Moini 1991).

Research Methodology and Sample Characteristics

This study will be conducted in several stages to include different geographic areas. During the first stage, the sample was drawn from New York exporters. A deliberate attempt was made to exclude strictly service oriented firms and agricultural producers. Thus the sample emphasized manufacturing companies.

A total of 356 firms were sent survey questionnaires during the spring of 1992. Of these, 19 were returned due to business closing and/or address changes. After one follow up mailing, 159 useable surveys were received, yielding a response rate of approximately 47 percent. This paper reports the findings based on these 159 responses. During the second stage of this project, the geographic coverage of the study will be expanded to include other states.

In addition to the main research questions, the respondents were also asked to provide selected background information pertaining to their average size (measured by average sale during the last three years and number of employees), age, number of years in exporting, the ratio of export to total sales, the nature of the their product(s)/service(s), and their current and target export markets.

Results indicated that about half of the respondents (48.0%) had sales under \$5 million, with another 31.8% whose sales were between 5 to 25 millions. Only 11.7 percent of the firms in the sample had average sales of \$50 million or more. About 50% of the firms employed less than 50 people, while only 11% of the firms had more than 500 employees. Thus, the small and medium sized firms dominated the responding sample, hence their views are indeed reflective of such types of businesses across New York State.

Finally, a wide variety of products were manufactured by the firms in the sample. However, about 50 percent of the respondents produced three categories of products, namely, industrial machinery/computer equipment (17.0 percent), electronic and electrical equipment (20.8 percent), and fabricated metal products (11.9 percent).

Research Findings

Export Patterns

About 95 percent of the firms in the sample were exporters. Of all the firms in the sample, 62.3 percent have been in export business for more than 10 years, while only 11 percent of the firms have started exporting during the last five years. Thus, one might conclude that the sample included a very large number of experienced exporters suggesting that they might be very familiar with the topics covered in this study.

In terms of sales generated from foreign markets, majority of firms were domestically oriented with a small fraction of their products going to foreign markets. Only 25 percent of the responding firms had more than 35 percent of their sales generated from the foreign markets.

Exporting directly to a foreign customer was found to be the dominant mode of distribution channel, with 69.9 percent of the exporters in the sample indicating that they use this method. Other widely used vehicle of distribution included selling through foreign distributors (40 percent), and selling through foreign agents (36.8

percent).

The respondents indicated a large number of countries as their export destinations. However, Canada was mentioned by a large majority (73.7 percent) as a current export market, followed by Mexico (54.5 percent), and the United Kingdom (51.9 percent). Germany, Japan and France were also important export destinations with each country selected by 44-47 percent of the respondents.

The respondents were asked to rank-order the top five markets in terms of their importance for their current exports. A weighted average indicated that Canada was by far the most important export market for the New York firms, followed by Germany, the United Kingdom, and Japan. These findings are not surprising given the geographic proximity, and relatively low language and cultural barriers between the United States and Canada. In addition, the U.S.-Canada FTA might have contributed to expand the Canadian market for the American exporters. Germany and Japan are obviously important expanding markets. A low level of cultural and language barriers between the United States and the United Kingdom explain why UK might be selected as an important market as opposed to, for instance, France or Italy.

The respondents were also asked to rank-order potential export markets in the future for their firms. The results indicated that the current markets will keep their significance in the future while further export expansion will take place mainly in the Pacific Rim countries, and Mexico. It was interesting to note that both the EFTA countries and the Eastern European countries did not play a big role as current or potential markets for the New York firms.

EC 1992

With regards to EC 1992, the results of this study generally support the findings of previous research, and many respondents foresee EC 1992 as being very important to the future of their firms and they acknowledge that there are benefits to be realized. For example, 42.5 percent "strongly agree" or "agree" with the statement that "EC 1992 is going to be very important for the future of my firm" while only 17.8 percent "strongly disagree" or "disagree" with the above statement. However, the managers of larger firms (sales volume over \$5 million) were in more agreement with the above statement than the managers of smaller firms (sales under \$5 million). Using a Chi-Square test, the difference was found to be statistically significant at 1 percent significance level (TABLE 1).

However, the feasibility of realizing these benefits is partially clouded by belief shared by some executive in potential increases in tariff and non-tariff barriers. Around 40 percent of respondents believe that EC 92 is going to result in increased tariff barriers, and 42 percent believe EC 1992 will result in increased non-tariff barriers. Again it was found out that the smaller firms expected more

protectionism than the larger firms. With regard to tariff barriers, the difference was significant at 1 percent significance level (TABLE 1).

More than half (53 percent) of the executives surveyed believe that EC 1992 is going to result in a large homogeneous market. This might be one of the major misconceptions of the American managers about the current developments in Europe. It is true that doing business in the European Community will be more standardized during the 1990s. However, it will probably take a much longer time for the European consumers to become homogenous due to well established cultural traits. Thus, different marketing practices may be needed in each member country at least during the coming decade or so. Of course, the expansion Europe-wide communications media may help to speed up the creation of a homogenous European market.

Many in the sample believe that the removal of border controls, standardization of product specifications, and the general reduction in shipping documents required will increase the speed and efficiency of product distribution. However, the larger firms are more optimistic about this potential outcome than the smaller firms. The difference was found to be statistically significant at 5 percent significance level using a Chi-Square test (TABLE 1).

Despite uncertainties surrounding it, 45.4 percent of the respondents indicated that they have undertaken measures in preparation for post 1992 Europe. Specifically, expanding agent/distributor network seems to be the most appropriate market entry/expansion strategy, a strategy selected by 62.7 percent of the respondents as "most appropriate". Setting up wholly owned subsidiaries was found to be the "most appropriate" strategy by 26.1 percent, and joint-ventures with EC firms by 21.2 percent of the respondents (TABLE 2). These strategies are consistent with recent studies of Samiee (1990) and Moini (1991).

NAFTA

As was mentioned above, the respondents were concerned about potential tariff and non-tariff trade barriers that might be imposed by the European Community. Compared to the EC market, many saw a larger potential in the North American market. Overall, NAFTA was considered to be potentially beneficial for the U.S. To an extent, the literature in favor of the agreement (such as Dooley, Leon, and Wood, 1991) is supported. A large proportion of the respondents believe that the agreement will result in increased U.S. economic growth (46.2 percent) and reduced prices (35.9 percent). However, a very large chunk of the respondents (64.4 percent) believed that the agreement will lead to job losses for Americans. As to the contention of whether such treaty would enhance the competitive positions of U.S. firms, 44.6 percent of the respondents agreed that NAFTA would be beneficial in that regard while only 19.6 percent disagreeing. A more stronger token of support was

respondents' views on whether overall NAFTA would be potentially beneficial for the U.S. in that 65.7 percent believed that it would while only 16.1 percent refuting such contention. These findings are also consistent with recent surveys of corporate executives based on national samples (Anders 1992).

Summary and Conclusions

This survey examined the managerial perceptions of Central New York Exporters on the impact that EC 1992, and NAFTA would have on their firms. While it was recognized that EC 1992 could offer significant benefits, there was concern that U.S. firms may be excluded from enjoying these due to a variety of trade barriers. In general, the larger firms were more confident and optimistic about their future performance in the EC markets than the smaller ones. Close to half of the firms surveyed were already designing strategies for the post-1992 years. Expanding agent/distribution networks in the EC markets was given as the most appropriate strategy to enter and/or expand in the European markets.

Finally, while NAFTA is an agreement which has yet to come into force, respondents identified it as the one agreement which would offer the greatest opportunities and benefits for U.S. firms. This optimistic view is perhaps due to expectations of using NAFTA as the first step toward the formation of a much larger bloc that includes Central and Latin America. Many predict that Latin America will grow at an average of 4 percent during the 1990s and will further liberalize its trading policies. This could create large export markets for U.S. producers. The importance of this market can be summed up as follows:

"When Latins sell to us, they buy even more back. When Asians sell to us, they buy from Japan. And when Europeans sell to us, they buy from each other. Latin America is our best opportunity" (Davis 1992).

The big question currently being debated is whether these trading areas are going to stand in the way of increasing global trade and challenging GATT's efforts in multilateral trade negotiations aimed at reducing trade barriers across all countries (see, for example Schott 1991). The prevailing view on this is that by design this is inevitable. Just the fact that members of a trading bloc liberalize trade internally diverts trade from elsewhere and put countries outside these agreements at a competitive disadvantage. For example, Japanese manufacturers deciding whether to build a new plant in Japan to produce for the U.S. market or built it someplace else, are going to be much more closely looking at Mexico as a potential site. Hence trade that would have otherwise been across Pacific would now be between Mexico and the United States. Similarly, some of U.S. companies' sourcing (from Far East, for example) and production is sure going to move to Mexico in light of that country's cheaper cost of certain raw materials and labor.

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**TABLE 1:
PERCEIVED BENEFITS OF EC 1992 BY SALES VOLUME**

STATEMENT: EC 92 WILL:	(%) RESPONDING AS:				
	SA	A	N	D	SD
Increase Tariff Barriers For Non-Members					
Total Sample	11.3	29.1	37.6	14.2	7.8
Sales Volume Under \$5 million	22.2	25.4	33.3	11.1	7.9
Sales Volume Over \$5 million	2.7	31.5	41.1	16.4	8.2
Increase Non-Tariff Barriers For Non-Members					
Total Sample	9.9	32.4	36.6	15.5	5.6
Sales Volume Under \$5 million	12.9	30.6	35.5	16.1	4.8
Sales Volume Over \$5 million	8.0	33.3	37.3	14.7	6.7
Result In A Large Homogeneous Market					
Total Sample	18.4	34.8	22.7	18.4	5.7
Sales Volume Under \$5 million	11.3	33.9	25.8	21.0	8.1
Sales Volume Over \$5 million	24.3	36.5	18.9	16.2	4.1
Increase Speed/Efficiency Of My Products Dist.					
Total Sample	14.0	28.7	35.3	16.9	5.1
Sales Volume Under \$5 million	8.3	30.0	30.0	21.7	10.0
Sales Volume Over \$5 million	19.4	26.4	38.9	13.9	1.4
Be Very Important For The Future Of My Firm					
Total Sample	19.1	23.4	39.7	12.8	5.0
Sales Volume Under \$5 million	12.7	23.8	44.4	9.5	9.5
Sales Volume Over \$5 million	26.0	20.5	38.4	15.1	0.0

SA = Strongly Agree; A = Agree; N = Neutral; D = Disagree; SD = Strongly Disagree

* significant at 1% level;

** significant at 5% level

**TABLE 2:
APPROPRIATENESS OF MARKET PENETRATION STRATEGIES
BY SALES VOLUME**

STRATEGY:	(%) OF RESPONDENTS RANKING AS:			
	1st	2nd	3rd	4th
Expanding Agent/Dist. Networks				
Total Sample	62.7	18.7	11.2	7.5
Sales Under \$5 million	72.1	13.1	8.2	6.6
Sales Over \$5 million	54.3	22.9	14.3	8.6
Licensing Agreement With EC Firm				
Total Sample	9.6	21.7	31.3	37.4
Sales Under \$5 million	3.9	31.4	29.4	35.3
Sales Over \$5 million	13.1	13.1	32.8	41.0
Joint-Venture With EC Firm				
Total Sample	21.2	30.5	27.1	21.2
Sales Under \$5 million	24.5	26.4	26.4	22.6
Sales Over \$5 million	19.4	33.9	25.8	21.0
Setting Up Wholly-Owned Subsidiary				
Total Sample	26.1	15.1	13.4	45.4
Sales Under \$5 million	18.9	15.1	11.3	54.7
Sales Over \$5 million	33.3	15.9	15.9	34.9

(1st = Most appropriate ... 4th = Least appropriate)

* significant at 1% level

** significant at 5% level

EUROPEAN INTEGRATION: A CONSUMER PERSPECTIVE

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Abstract

This paper deals with those effects of European integration that are reflected in the lives of European consumers. The aim is to categorize these effects and to see how they affect consumer welfare in a typical European country. The data base is formed by a qualitative analysis of personal expert interviews and literature. It was found that the economic effects of integration have been greatly overestimated and simplified in consumer studies of integration in the past. Moreover, from a consumer's point of view, European integration is increasingly a question of consumer policy and welfare, including environmental and cultural issues, rather than a question of competition and prices only.

Introduction

In many European nations presently applying for EC membership, joining the EC has been motivated principally by economic reasons. Based on economic theory, it is commonly stated that the EC membership will entail lower consumer prices and a greater variety of supply, which will consequently benefit consumers. It is, however, very difficult to actually predict the magnitude of these effects. This is due to the fact that the various countries that have applied for EC membership are so different in their micro- and macroeconomic structures that one should rather talk about a number of interesting case studies.

This paper deals with the effects of the deepening European integration that are reflected in the lives of European consumers. The purpose of this study is, first, to categorize these effects and, second, to evaluate both positive and negative effects from the consumer welfare point of view. The intention is not to give an answer to whether integration in general is beneficial or not but to identify the ways in which it is reflected in the everyday life of European consumers. This analysis is mostly based on a comparison between the situation in which a country is outside the Community and the situation in which a country is a full member. Some of the effects of integration, however, can be classified as externalities of integration, which will be influential irrespective of the country's formal relationship with the Community (e.g., environmental effects).

Consumer effects are classified into economic, welfare, and consumer policy effects. By *economic effects*, we understand issues related to the purchasing power of consumers, prices, quality, and assortments of goods, as well as taxation. These

effects will partly be predicted on the basis of economic theory but this analysis will be accompanied by institutional and structural points of view. As *welfare effects* of integration, we will look at issues related to social security, the environment, and culture. Consumer welfare will be understood in a very broad fashion. Therefore, no exact predictions of the possible integration-related increases and decreases in total welfare can be made but rather a description of possible changes in its structure. *Consumer policy effects* of integration are here understood principally as effects on product safety and consumers' possible ways of influencing consumption-related matters. This is why the discussion will center upon issues of "low politics" at the expense of "high politics" problems such as economic and foreign policy. Macroeconomic issues are only dealt with to the extent that they have an influence on individual consumers.

The Conclusions are based on an analysis of both written material and personal interviews with 16 experts. The interviews took place between April and August 1992. The interviewees were selected from high officials and academic researchers occupied with integration and consumer issues and representatives of consumer organizations both in Finland and in Brussels. The purpose was to obtain a very multifaceted view of the research area. The interviews were based on open-ended questions and free discussions, approximately one hour each. The interviews were recorded and written word by word and analyzed with the aid of iterative content analysis. A main interest was to discover whether there was agreement or disagreement among the interviewees about the effects of integration.

The research approach of this study is limited in the sense that our interest is in discovering the effects specifically related to integration while, in practice, there obviously are several other trends and cycles in force as well (Kosonen 1992). This analysis also emphasizes those effects that can be observed in the short and intermediate term. More far-reaching issues - such as changes in production structures - are dealt with to a lesser extent. The research approach is principally interpretive but, as far as it is possible, we also attempt to predict various effects of integration. All integration-related scenarios, however, are based on fairly strong underlying assumptions. The dependence on the accuracy of these assumptions is particularly strong as we discuss the economic impacts of integration (European Economy 1990).

Ways of Depicting the Effects of Economic Integration

Identifying and estimating the effects of economic integration is by no means easy. There are various alternatives in research for doing this and depending on the purposes of the research, each alternative has its strengths and weaknesses. The aim of this chapter is to briefly motivate the methodological choices of this research.

The earliest analyses of the effects of integration were foremostly theoretical. *Theoretical analysis* of the effects of integration is usually based on neoclassical economics and, in particular, the law of one price. As the theoretical prediction is that price levels tend to converge within an economically integrated area, one can estimate the price effects of integration in various countries joining the integrated community. This analysis tends to predict that the price effects of integration are quite significant in a country that has oligopolistic market structures when joining the community. In a country that already offers a framework closer to perfect competition, in turn, the effects will be minor. The most well-known study employing this logic is the Cecchini report (The Economics of 1992).

The strength of this methodology is its simplicity. Theoretical analysis tends to produce straightforward quantitative results that can be easily communicated to various audiences (of the type of how many percent prices will fall when a country is joining the Community). It has, however, some major flaws, as well. To begin with, this analysis is static, which means that it describes the increase in welfare induced by the freeing of international trade exclusively. In practice, such a shift will take time and it also clearly hinges on various macroeconomic circumstances. One can actually maintain that the various dynamic gains of integration - such as innovations, investment, and technological progress - will in the long run be far more significant than price changes.

Integration actually consists of several processes that have separately generated empirical research elsewhere. One of them is the process of de-regulation. In the short run, integration is reflected in many member states as the elimination of protectionism, and the outcomes of this process can be deduced from past empirical studies. *The effects of de-regulation* can be estimated simply by comparing the market structures and prices in a country before and after de-regulation. De-regulation has usually decreased prices and increased the number of actors in the short run, but in countries where import-replacing industries make up a large part of the economy, the effects have been counterproductive. The strength of this analysis is its econometric rigor, but one should bear in mind that integration means a lot more than de-regulation.

A problem with straightforward theoretical analyses is that they almost entirely ignore the various qualitative effects of integration. Many directives and principles adopted by the economic community will certainly affect the quality of products and services supplied in the various member states. The effects of integration on the quality and selection of goods in various member states are, however, very difficult to quantify. It is also difficult to predict how the own production and distribution structures in various member states will be affected by the deepening integration. If the pre-integration state involved many regulations, one could assume that integration would increase the number of competitors in the market. In the long run, however, the effect can be quite the contrary. The concentration tendencies of production into big

units associated with integration might, in fact, lead to a homogenization of product supply and quality. Other qualitative effects of integration that economic analyses tend to neglect are related to how product safety and consumer protection are organized in a country.

Intuitively, in the case of the European integration, the methodological option one tends to think of first is *case studies*. Why is it not enough to look at how the various member states that have joined the EC in the past have succeeded? There are obvious reasons for not doing so. Case studies comparable in terms of today's integration-related effects are very difficult to conduct as all major member states have been in the Community since 1957 and the more recent entrants of the Southern European countries are quite different from current applicants, Austria, Sweden, Finland and Norway. What one produces from a case study of integration effects in Greece would probably be of little use in Sweden, for example.

The fourth approach to study integration effects could be entitled *structural analysis*. It refers to the process of identifying those structural changes in member states that can largely be attributed to integration. This analysis is partly based on institutional economics but, when necessary, econometrics, sociology and psychology can also be used. What one looks for is a meaningful description of those effects of integration that truly are distinctive outcomes of the process and not just econometric theoretical predictions or contingent peculiarities. This type of analysis also effectively captures the political and social nature of integration; economic integration is not a matter of economics only. The weakness of this analysis is its complexity: a structural analysis of an international process is in most cases very multidimensional and communicating this complexity is difficult. It should, however, be done if we wish to inform consumers and marketers of the effects of current developments in Europe in their full complexity.

Consumer Effects of European Integration

Economic Effects

Joining the EC has in many cases been motivated by economic considerations. It is commonly believed that membership in the EC will lower prices and increase the variety of product supply, which will benefit consumers. It is rather surprising that these reasons in particular have been used as a major motive in favor of the EC membership from a consumer's perspective, because the likelihood and magnitude of these effects are dependent on many structural and behavioral factors and are very difficult to predict.

The price effects are, in fact, the most unpredictable effects of integration. Economic theory would predict that, in an oligopolistic environment like Finland, price decreases after integration should be quite significant. However, it is also possible that the prevailing oligopolistic market structures will

in effect be strengthened by integration. Cooperation and the utilization of pan-European supply and distribution networks, for instance, is far easier for large central organizations of retail trade than for individual retailers. Integration increases concentration and firm size on the European level, which works against the price-decreasing tendencies. The structures of retail distribution channels for consumer goods are far more complex and rigid than the distribution of industrial goods. Therefore, it is probable that integration will have greater effects on the prices of industrial goods than on consumer prices. Moreover, to focus on the average price changes is somewhat misleading without quality considerations. Along with integration, product variety will increase both in the high and low quality ranges, and therefore a decrease in prices may also reflect the fact that consumers have moved to lower quality categories.

The prediction of the economic effects of integration is further complicated by the fact that these effects depend, not only on the market and production structures of the member state in question, but also on geographical issues. For example, Finland, with a rather narrow selection of export industries and considerable regional differences, is likely to experience different types of effects than Denmark or Spain. Theoretical analysis suffices to predict that the types and magnitudes of integration-related effects will greatly vary from industry to industry: typically, protected and home-market oriented industries suffer and internationally oriented, large-scale industries benefit from integration. From the consumers' point of view this also means that the share of domestic products in many consumer good categories will diminish unless the domestic industries are able to increase their value added and differentiate their products to different market segments.

The decrease in the consumption of domestic products in favor of lower-priced imported products is especially critical in the consumption of food products. It can be feared that consumers are not able to make the necessary price-quality comparisons, and the supply will concentrate in low-quality ranges (including European food products based on heavier doses of fertilizers and pesticides than domestic products). Of course, if consumers strive for lower prices only, it will have a very strong effect on the domestic agricultural production sector and, more generally, to countryside ways of life, which will be in danger of gradually disappearing. Regionally speaking, industrial and urban areas benefit and distant, rural areas suffer from integration.

In European nations which are trying to decide over a meaningful integration policy, this dual nature of integration-related effects has not been observed to a sufficient degree. The discussion has centered on whether or not integration is beneficial to a particular country as a whole when, actually, the real problem is how various population groups are able to adapt themselves to the structural requirements of integration and benefit from it. These structural requirements often include completely new production structures, which unavoidably leads to difficult temporary unemployment and needs of re-education. Likewise, new market structures require

considerable flexibility and attention from consumers. For example, the increasing capital and labor mobility will increase the choices of well-to-do and young, well-educated citizens, whereas the choices of less-educated and elderly will be few. They are more or less doomed to stay and adapt themselves to the new structures. Thus, integration can contribute to a permanently high unemployment rate for many years to come.

Effects on Consumer Welfare

As the integration of the EC has proceeded, it has increasingly been realized how deep the indirect effects of economic integration are on consumer welfare in the countries involved. The harmonization of economic policy and, above all, of taxation will inevitably lead to welfare effects in member states, whose national standards are almost invariably different in different elements of welfare. Integration will, in the long run, have a harmonizing effect on national social security systems. Also, welfare changes due to labor market changes are to be expected. At the moment, there are considerable differences between the ways in which these issues are dealt with in various European countries. At least in wealthier nations, such as the Nordic countries, which presently suffer from depression, there is a tendency to use integration as an "excuse" for cuts in social security. It should be borne in mind, however, that the Community has very little formal power over national social security systems and many social decisions continue to be quite "national". The effects of integration on social security will, to a large extent, be indirect, i.e. related to the harmonization of taxation and the increasing difficulties of financing the existing level of national social security systems. Also, the labor mobility will in the long run push the social benefit systems towards harmonization. No one of the member states is eager to receive a high number of "economic" or "social benefit" immigrants.

In a broad sense, social welfare encompasses also environmental and cultural issues. Environmental policy has only recently gained recognition in the Community. The running of the EC environmental policy has been hampered by the fact that the traditions of environmental protection and environmental consciousness vary a great deal in the various countries involved. For example, Germany and the Netherlands have adopted a rather tight environmental policy, whereas policies in the Mediterranean countries have been very permissive. This has led the EC to adopt rather compromising standards in environmental protection. In addition, the power of industry lobbies over various decision-making bodies of the EC is very strong compared with that of spontaneous civil movements, e.g. green movements or consumer organizations. The EC environmental policy has therefore been characterized by a trade-off between environmental protection and various interests of the industry.

EC environmental norms have been carefully screened for their effects on the competitiveness of European firms.

Although environmental issues have been included in the agenda of the Maastricht agreement, their role is still unclear in relation to the Community's competition policy. In principle, standards higher than the Community ones are allowed in member countries ("environmental guarantee"). However, in practice, high environmental standards are often interpreted (by industries) as barriers to competition and banned. The EFTA-countries that have recently applied for EC membership represent a relatively high level of environmental protection and strong pressures from citizens to improve the standards and not to harmonize them downwards, which is why the Community will have to pay more attention to these questions in the future. Moreover, many environmental externalities which are by-products of integration, such as pollution from the traffic of the increasing trade and mobility, will gain in importance.

In cultural issues, the European Community has been rather passive as culture is not in the competence of the Community, no matter how widely this competence is interpreted. Cultural transmission and changes in Europe can, however, quite naturally be related to the increase in the mobility of labor and changes in the production and market structures of the culture sector. The European Community is a very attractive market for large units of cultural industry, which might further contribute to the homogenization of the supply of culture in Europe (e.g. in broadcasting the homogeneity of program contexts has increased irrespective of the increased number of suppliers). It is to be hoped, however, that cultural production catering for smaller segments will have its place in the integrated Europe, as well. Compared with national cultural markets, special segments of cultural consumption are, of course, larger and specialized cultural production is more profitable in Europe as a whole. This is why the critical issue is really whether small-scale cultural production units will be able to adapt their production structures to the demands of the wider market in terms of distribution, promotion and scale.

It has been claimed that local and ethnic-bounded cultural traditions (often protected by language barriers) will continue their lives and even increase in vitality when released from national borders. However, in the growth of total supply, marginal forms of culture often tend to become even more marginalized, and they mix with more dominant cultures. On the individual level, integration diminishes identification with nation states and favors a more multi-cultural but also more "rootless" personal identity.

Consumer Policy Effects

The effects of the European integration on the means and ends of consumer policy in various European countries are likely to be quite significant. In Scandinavia, for example, consumer policy has been carried out within a framework which is in many ways different from the conditions prevailing in other

parts of Europe. This framework could be entitled "the Nordic Model" and it is characterized by strong government organizations dealing with consumer issues and consumer organizations centered around issues broader than consumption only, such as cultural, social and local issues. It is, for example, unclear what role Nordic government consumer organizations (e.g. Government agency for consumer affairs, Consumer ombudsman) will have in the Community decision-making.

The clearest consumer policy effect of integration will be the increased complexity of consumers' channels of influence. For example, when purchasing foreign goods from a foreign supplier, the consumer practically agrees to adhere to the consumer law and product safety standards of the country of origin. In principle, this is already the case, but economic integration will make international purchases far more convenient and common. This is why consumers should become aware of the fact that, within the EC framework, consumer rights are not protected by government organizations but largely by consumers themselves.

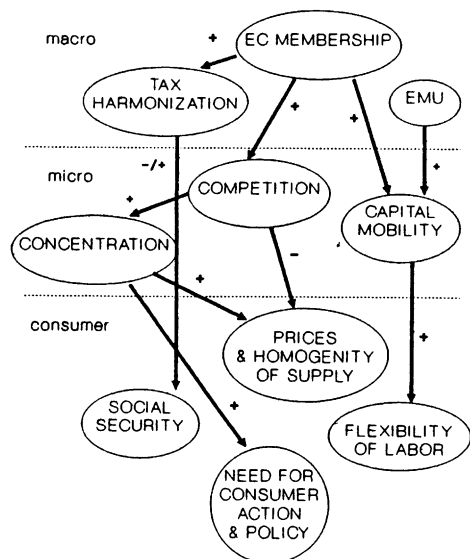
As various border controls will be removed, the importance of so-called market control will increase in countries which have a tradition of high consumer protection and product safety and in which product control has previously been applied already on national borders (toll examination). Spontaneous consumer awareness and carefulness in all purchases is the best and least expensive way of avoiding dangers and disappointments. According to the EC principles, specific national requirements cannot be used to prevent the marketing of a good that has been accepted in any of the other member states. This is why European consumers will have to be able to "protect themselves" from harmful consumption, which relates to international financial services and retail sales of alcohol, as well. European consumers will have to become more "professional" in their consumption if the present level of consumer safety is to be maintained.

Similarly, consumers have to learn to actively influence decision making via lobbying in the rather complicated administrative system of the Community. Influence has to be exerted already at the preparation stage (work program stage) because influencing the Commission or the Council of Ministers in detailed matters is difficult. It is also in the interest of consumers and citizen movements to strengthen the role of the European Parliament and open discussions between the conflicting interest groups.

Conclusions

This paper has dealt with the multifaceted effects of the European integration that are reflected in the life of European consumers. The discussion has comprised three, rather independent sections: economic effects, welfare effects, and consumer policy effects. Some of the results of this study are summarized in the figure.

FIGURE 1
CONSUMER EFFECTS OF ECONOMIC INTEGRATION



On the macroeconomic level, EC membership will inevitably entail tax harmonization but European Monetary Union (EMU) is still merely a plan, which has to be looked at independently. EC membership will directly increase competition and capital mobility, and tax harmonization will directly affect consumer welfare (+/-). Increased competition is likely to exert an effect (-) on consumer prices, although the extent of this effect is difficult to predict. On the other hand, increased competition may in the long run result in the concentration of market power, which can be assumed to increase (+) prices and homogeneity of supply as well as the need for consumer action. Finally, increased capital mobility may result in the need for increased flexibility in the labor markets. We propose this model as a hypothetical description of the causal effects associated with the European integration. In future research this framework should be tested for its correctness and predictive power.

The most frequently cited reasons for joining the EC, from a consumer perspective, are lower prices and greater heterogeneity of supply. However, these effects are very difficult to predict. Increased competition on previously oligopolistic markets such as Finland might have significant economic effects, but it is also possible that deepening European integration will, by favoring large units, strengthen the existing concentrated market structures, e.g. of the distribution channels. This might, in turn, result in homogenization of supply and higher prices. The effects of integration are also strongly contingent on the industry and geographical area of interest. Industries that already are international as well as urban areas are likely to benefit from integration. Domestically orientated industries and rural areas will face a more difficult future in the EC.

Consumers' social welfare will also be affected as a new

country enters the EC. These effects will be manifold, ranging from social security systems all the way to environmental and cultural issues. The most obvious effects are related to the level of social security and labor markets. In many countries applying for membership, the EC requirement of the harmonization of taxation will decrease the possibilities of financing the previous comprehensive social security systems, and the harmonization of economic policies will drastically change the operating environment of labor unions. Also, national environmental policies will be harmonized with the EC standards, which in many respects result from compromises and are rather permissive. Environmental issues have recently gained in importance in the EC policy and higher standards can, in principle, be accepted in the member states. However, with the competitive orientation of the EC, the higher standards of some countries can, in practice, be interpreted as competitive barriers. Therefore, raising the environmental awareness and cooperation for the whole Community will be important. In terms of consumption and production in the culture sector, the EC is an attractive operating environment for large units of the cultural industry, which in some cases can increase the homogenization of the supply of cultural products.

The effects of the EC membership on the means and ends of consumer policy will be quite significant in a Nordic country like Finland, where government bodies have traditionally protected consumer interests. As an organization the EC is far more complicated than a nation state, which is why flexible and spontaneous consumer action will become more important. Consumers themselves have to be very active in the EC in order to maintain the acquired level of safety in consumption. In general, bottom-up market control will become more important as goods flow freely within the EC. Knowledge of the complicated decision-making system in the EC is important, too, as are also abilities to exert influence by means of lobbying at an early stage in the decision-making process.

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EUROPEAN INTEGRATION AND DEVELOPING COUNTRIES: A SURVEY OF INTERNATIONAL STUDENTS

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Abstract

In this exploratory study, we report the attitudes of international MBA students from the developing nations about their concerns over EC 1992 program and the measures they would advocate to their governments for appropriately responding to the EC 1992 developments. The results of the study indicate student concerns involve detrimental effects on their countries' exports and the unfavorable marketing environment in the EC markets. To mitigate those effects, the students expect their governments undertaking long range export promotion programs and developing political linkages with the trading partners in EC. The paper discusses theoretical underpinnings of the findings, providing directions for the future research.

Introduction

The integration of European Community in 1992 (EC 92) promises to reshape the global marketing, economic, and political environment with far reaching implications for trade relationships between EC member states and third countries. The event has consequently, generated a substantial amount of interest, speculation, and dialogue among various constituencies in business, government, and academic communities. Much of the debate is centered around the internal and external effects of EC 92 on marketing conditions in global markets. The internal consequences have been extensively documented (Commission of the European Communities, 1988). However, relatively less attention has been paid to the impact of EC 92 on the rest of the world in general, and on the developing countries in particular. Attempts to assess the impact of EC 92 on non-EC countries have been hampered by the difficulty in predicting how various constituencies (business and industry leaders, government officials, academic community, general public, etc.) will respond and react to integration of the European Community. For instance, it is not clear the extent to which non-EC governments can resist internal pressures to do something about "unfair" competition from Europe if Fortress Europe were to materialize.

In this exploratory study, we expand the dialogue in two directions. First, we survey the attitudes of international students from developing countries

about their concerns over the EC 92 program. Secondly, we explore their views on what measures they would advocate their governments to undertake to appropriately respond to EC 92 developments. Furthermore, we explore the relationships, if any, between expressed concerns and advocated governmental measures.

Potential Effects of EC 92 on Developing Countries

The idea of a single European market is founded on the belief that the fragmentation of the Euromarket caused by trade barriers and by markets being too small is harmful to the Community's effectiveness in competing with the United States, Japan and the Newly Industrialized Countries (Davenport, 1990). The EC 92 program of eliminating trade barriers and unification and harmonization of standards is intended to enable the community to exploit comparative advantages and economies of scale and lead to increased competition between firms within the EC. Consequently, lower costs and prices, higher productivity and greater innovating capacity within the EC member states are expected (Koekkoek, et.al., 1990). Ultimately, the Community hopes to improve its competitive position in global markets vis-a-vis other industrialized countries.

The external consequences of the EC 92 program of change are not well understood. The EC officials portray a rosy picture for European Community as well as for the rest of the world. But, non-EC countries have expressed a great deal of uncertainty about potential negative consequences of EC 92 for global trading relationships. One of the most feared outcomes surrounds the post-92 common external policy known as "Fortress Europe". Once implemented, EC 92 changes could have a mix of positive as well as negative results for third countries. To review the external impact of EC 92, we will provide a brief overview of the main issues. While the focus of this discussion is on developing countries, some of the consequences could apply to developed countries as well.

Generally speaking, the positive and negative consequences of EC 92 are rooted in four major areas of anticipated change: 1) elimination of trade barriers; 2) removal of barriers affecting production; 3) advantages of economies of scale; 4) removal of restrictions on public procurement projects (Nicolaidis, 1990). Each of these areas are discussed below.

First, the elimination of trade barriers and national restrictions on intra-Community trade could have a "trade creation" effect by raising demand for products of developing countries. In post EC 92, once a developing country product is legally exported into one member state, it can gain free access to the entire Community market. All other things constant, gaining free access to the Community's markets is likely to have a "trade creation" effect for developing countries (Matthews and McAleese, 1990). Removal of trade barriers in some cases such as preference for certain group of developing countries or favoring the use of one particular ingredient over another, may have a trade redistribution effect. As the cost of importing from other member states will fall, a "trade diversion" effect away from developing country suppliers could also occur. It is worth noting that the removal of trade barriers does not necessarily eliminate "natural barriers" such as the need to develop and acquire distribution networks and to gain knowledge of local consumers' preferences (Nicolaidis, 1990).

Second, the elimination of barriers to the free flow of production factors, capital and labor, is likely to increase intra-EC direct investment leading to an increase in the price of capital (Molle, 1990). Furthermore, prospects of a single European market may attract foreign investors to locate their manufacturing facilities within the EC, and thus raising the cost of capital to others. Finally, removal of barriers to free movement of capital within the EC is likely to divert outgoing foreign direct investment away from the developing countries toward the EC. How far these implications are relevant to developing country producers depends on the sector; may be relatively less important for high-tech industries than the traditional smoke-stack industries (Koekkoek, 1990).

Third, exploiting economies of scale and increased competition within the EC is likely to have both "trade creation" and "trade diversion" effects for developing countries. On the one hand, enhanced competitiveness of the Community, through income growth, is likely to increase import demand for products of developing countries. Moreover, removal of trade barriers is likely to open up industry sectors (e.g., labor-intensive) that until now were protected from foreign competition. Developing countries with strong competitive position in labor-intensive and low to medium-tech industries stand to gain as the Community adjusts to changes in comparative advantage (Koekkoek, 1990). On the other hand, producers from developing countries will have to compete with larger and more efficient EC producers. More efficient production within the EC combined with a continuation of protectionist mentality at the EC level is likely to divert trade away from developing countries.

Finally, the opening up of public procurement market to non-national companies, a landmark of EC 92 reforms, is likely to have both trade creation

and diversion effects. On the one hand, increasing access to a huge previously protected market will significantly increase internal as well as external EC trade. On the other hand, however, existing third country suppliers of EC governments may suffer as competition in this market intensifies. However, since this market is characterized by high-technology products requiring substantial scale economies, the consequences may have limited relevance for most developing country producers (Koekkoek, 1990).

In short, the impact of EC 92 integration will be manifested in trade creation, trade redistribution and trade diversion for developing countries. The net impact will be determined by the relative weights of these effects. Moreover, due to differing stages of development among developing countries, some will be able to respond to the new market conditions more quickly than others. It is suggested that the least developed countries could lose out, while the more developed countries would gain (Matthews and McAleese, 1990).

Methodology

The target population of interest for the study was the international students from developing countries pursuing their MBA degrees in the U.S. Lists of foreign students were obtained from the presidents of international students associations at four business schools located in the greater Boston (Massachusetts) area. Considering the exploratory nature of the research, a convenient sample of 76 was drawn from the lists. To be included in the final sample the students had to meet several qualifying criteria. First, the student must be from one of the newly industrialized or developing nations (Appendix 1) and pursuing MBA degree in the U.S. Secondly, the student must have completed or then currently enrolled in at least one of the two courses, viz, international business management or international marketing, to ensure that the student possessed basic knowledge of international business issues. Thirdly, the students had to be familiar with the EC 1992 in terms of its basic mission and issues. Finally, the student had to perceive himself/herself knowledgeable enough about his/her country's trade relationships with the EC countries. Using the above criteria, 54 students were qualified over the telephone to be included in the study. However, only 46 students agreed to participate and completed a research questionnaire. The questionnaire was administered using personal interviews.

The questionnaire contained over forty items tapping students' concerns about post-EC 92 marketing conditions in the Community and their opinions on the measures they thought their governments should undertake in response to the integration of the European community. The questionnaire used Likert type scales which ranged from 1 (strongly agree) to 10 (strongly disagree).

Analysis

Identification of Variables for Analysis

In order to reduce the large number of items to a manageable set and to explore the underlying dimensionality of variables, a principal component with varimax rotation was performed. Two separate analyses were conducted on items tapping the students concerns about the EC 92 and the measures they thought their governments should undertake in response to EC 92 reforms. The principal components analyses produced 6 and 4 usable factors respectively, which were retained for further analysis. The result of the principal components analysis along with the reliability levels of the scales associated with each of the above factors, are reported in **Tables 1** and **2**. The factors and their descriptions are presented in Appendix 2.

TABLE 1
RESULTS OF VARIMAX ROTATED
PRINCIPAL COMPONENTS ANALYSIS
OF ITEMS MEASURING
THE CONCERNS

Item Description	CF1	CF2	CF3	CF4	CF5	CF6
Higher tariffs					.64	
Import quotas					.86	
Stronger competition	.55					
Labeling requirements	.51					
Immigration laws			.55			
Exchange controls			.57			
Remittance of profit			.50			
Foreign investment	.68					
Firm relocation	.74					
Developmental aid	.79					
Lending by EC banks	.68					
Channel cooperation					.68	
EC buyers preference		.63				
Difficult to bargain					.79	
Channel availability					.50	
Profitability declines	.81					
Global strategies	.61					
Exports decline	.69					
Competitive pricing	.58					
Negative demand	.82					
Standardized packaging	.62					
Costs of exports	.67					
Export revenues	.82					

Eigen Value	6.9	4.5	4.1	2.9	2.6	2.3
% Variance						
Explained	17.8	11.6	10.5	7.9	6.7	6.0
Reliability						
Alpha	.89	.76	.67	.62	.70	.67

Note 1: A total of three principal component analyses were performed sequentially, to select items tapping the distinct dimensions of the concerns. All items with factor loadings of $\geq .5$ loading distinctly only on one factor were retained. This table reports the result of the third analysis.
Note 2: Factor loadings of $\geq .5$ are reported here.

TABLE 2
RESULTS OF VARIMAX ROTATED
PRINCIPAL COMPONENTS ANALYSIS
ON ITEMS MEASURING THE
GOVERNMENTAL MEASURES (Actions)

Item Description	Export promo- tion MF1	Trade relation -ships MF2	Political meas. MF3	Direct mfg within Europe MF4
Trade incentive	.5526			
Trade organizations	.7634			
Export planning programs	.8902			
Coordinating export agencies	.8637			
Export quality control	.7318			
Assist exporters	.8662			
Trade with EEC		.8319		
Trade with non EC markets		.7560		
Joint ventures		.6908		
Ease trade restrictions			.8367	
Lobbying EC commission			.8276	
Shift mfg.				.8993
Mfg. in other EC countries				.6090
Eigen Value	7.7	2.4	2.3	1.1
% Variance				
Explained	28.3	9.5	9.1	4.6
Reliability				
Alpha	.91	.79	.83	.66

Note 1: Two principal compenets analysis were performed to select the items for the analysis. All items with factor loadings of $\geq .5$ and loading only on one factor were retained in the analysis.
Note 2: Factor loadings of $\geq .5$ are reported here.

Ranking the Concerns and Governmental Measures

As a first step in the analysis, we examined respondents' mean scores on concern factors and

governmental measures factors, to determine the relative perceived importance of each factor. To ascertain the significant differences between any two means, we used t-tests. As it can be seen in Table 3, four of the six concern factors have means of 4.7 or below, indicating that the respondents were concerned about the adverse affects of EC 92 in several areas: marketing constraints (CF3), trade barriers (CF5), import restrictions (CF4), and impact on country exports (CF1), in that order. Since the mean values on foreign aid and investments (CF2) and access to distribution channels (CF6) are below five, the midpoint of scale used to measure the responses, it is concluded that the respondents were not concerned about these issues in post-EC 92.

TABLE 3
RANKING OF CONCERN FACTORS,
USING MEAN SCORES

<u>Concern Factor</u>	<u>Mean Descending Score*</u>	<u>Factor Rank in Descending Order</u>
CF1: Detrimental Impact on the Country's Exports	4.7	4
CF2: Reduction in Foreign Aid/Investments	5.7	5
CF3: Increasing Marketing Competition/Constraints	3.3	1
CF4: Import Trade Restrictions	4.1	3
CF5: Trade Barriers	3.8	2
CF6: Difficulties in Access to Distribution Channels	5.3	5

* on a scale of 1 to 10, where 1 represented strong agreement with the factor and 10 represented strong disagreement; the midpoint of 5 represented neither agreement nor disagreement.

On the governmental measures, all of the four factors (M1 to M4) have mean scores of 4.9 or below (Table 4). This suggests that the respondents expected their governments to undertake all the four types of measures, with the strongest support for export promotion measures, followed by development of trade relationships with current/future EC member countries, initiation of political measures such as bilateral arrangements with specific countries to relax trade restrictions, and consideration of direct manufacturing opportunities within EC member countries.

TABLE 4
RANKING OF GOVERNMENTAL MEASURES
FACTORS, USING MEAN SCORES

<u>Governmental Measure Factor</u>	<u>Mean Score*</u>	<u>Factor Rank in Descending Order</u>
MF1: Export Promotion	2.4	1
MF2: Trade Relationships Development	2.9	2
MF3: Political Measures	3.0	2
MF4: Direct Manufacturing Within Europe	4.9	3

* On a scale of 1 to 10, where 1 represented strong agreement with the factor and 10 represented strong disagreement with the factor; the mid point of 5 represented neither agreement nor disagreement.

Correlation Analysis

To determine if the expected governmental responses were related to any of the concerns factors, we performed pearson's correlation analysis. The results are reported in Table 5.

The results indicate that three of the four governmental measures: export promotion (M1), trade relationship development (M2), and political measures (M3) were significantly related to several of the concerns factors, while direct manufacturing within Europe (M4) was not related to any of the concern factors. The significant correlation coefficients were all positive and ranged from .32 to .48.

TABLE 5
PEARSONS' CORRELATIONS BETWEEN
THE CONCERN FACTORS AND THE
GOVERNMENTAL MEASURES FACTORS

<u>Governmental Measures Factors</u>	<u>Concern Factors</u>					
	<u>CF1</u>	<u>CF2</u>	<u>CF3</u>	<u>CF4</u>	<u>CF5</u>	<u>CF6</u>
MF1	ns	.23 ¹	.48 ³	ns	ns	ns
MF2	ns	ns	.39 ³	.38 ³	.40 ³	ns
MF3	ns	ns	.32 ²	.16 ¹	.23 ¹	ns
MF4	ns	ns	ns	ns	ns	ns

¹ Significant at the .10 level

² Significant at the .05 level

³ Significant at the .01 level

Discussion

Export Promotion and Marketing Constraints

A strong and significant relationship was found between export promotion as a governmental measure and perceived adverse impact on marketing conditions within the EC markets. Export promotion factor (MF1) comprised such specific items as launching long range export planning programs for the EC markets, coordination of various export agencies, and provisions of market information and other resources to assist exporters. The marketing constraints factor (CF3) included such concerns as stronger competition, stiff labelling and packaging requirements and the customer preference for the local brands. The positive relationship between these two factors suggest that the respondents perceive export promotion measures at the governmental level as an important policy option to assist the exporters in developing countries to meet the competitive and marketing challenges in the EC Markets.

Trade Development and Post-EC Barriers and Constraints

Development of trade relationships (MF2) with the EC member countries and non-member countries was seen as the second most preferred governmental measure by the students. Its positive relationships with marketing constraints (CF3), import restrictions (CF4), and trade barriers (CF5) factors suggest that the respondents expected the developing country government to play an active role in cultivating and strengthening trade relationships with the member and non EC member countries. The respondents seem to suggest that developing trade relationships will help the exporters in their countries to abate the post-EC barriers and constraints.

Political Measures and Marketing Constraints

Finally, the significant relationship between political measures (MF3) and marketing constraints (CF3) suggests that the student recommend their governments taking political measures to pressure the EC commission or individual EC member states to ease trade restrictions or engage in bilateral arrangements to further help the exporter to deal with the marketing constraints in the EC markets.

Conclusions and Future Research Directions

This study was undertaken to survey the attitudes of international students from developing countries who

are pursuing MBA degrees in the U.S., about the EC 92 reforms. We gauged their perceptions of post-EC 92 business and marketing conditions that they feared for the exporters from their countries as well as the role they expected their governments to play in responding to European integration. Overall, our study indicates that the students perceived the exporters from the developing countries facing several constraining business and marketing conditions in EC markets. Furthermore, they seem to assign an aggressive role to their governments in helping the exporters maintain their trade and competitive positions in the EC market.

Specifically, the students expected their governments to serve as (1) catalyst for the exporters by launching long range export promotion programs including the provision of economic and non-economic resources, and (2) political agent to develop and solidify trade linkages with and obtaining favorable arrangements from the European trading partners. Considering the exploratory nature of the study and the limitations of a small and convenient sample, one is precluded from generalizing the results of the study. However, the preliminary findings do tend to suggest some theoretical underpinnings linking the leadership role of the country's government in the arena of export promotion, and certain external environmental marketing factors. Tentatively, we posit the following two propositions for more conclusive research efforts in the future.

Proposition 1:

The higher the competitive and marketing constraints a country's exporters face in international markets, the more likely the government to undertake (1) export promotional measures to enable the exporters to meet the competitive conditions more effectively; and (2) political measures to bargain for favorable arrangements with government agents of specific countries.

Proposition 2:

The more country's exporters face import restrictions and trade barriers in the international markets, the more likely the government to undertake the responsibility for cultivating and developing trade relationships with other nations.

Future research should examine attitudes of foreign governments to establish linkages between their perception of marketing and economic conditions in the EC markets and the marketing strategies and economic policies/plans they are likely to undertake. It is possible that the nature of marketing strategies and economic plans of a country are contingent upon the country's dependency in terms of export earnings, foreign assistance or investments on the EC countries. For example, higher the dependency level, the more strongly are some measures considered than others. The mediating impact of this dependency construct, therefore needs to be explicitly examined. Future research along the lines

suggested in this paper should contribute toward building relevant theories for governmental international marketing policy.

APPENDIX 2

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APPENDIX 1

Respondents' Country Affiliation

<u>Latin America:</u>	<u>Far East:</u>	<u>Asia:</u>
Venezuela	Philippines	India
Argentina	Taiwan	Bangladesh
Peru	Thailand	
El Salvador	Hong Kong	
Colombia	South Korea	
Dominican Republic		
<u>South East Asia:</u>	<u>Middle East:</u>	<u>Africa:</u>
Singapore	Turkey	Ethiopia
Indonesia	Lebanon	Tanzania
	Kuwait	Uganda
	Iran	Egypt
	Saudi Arabia	

Concern Factors (CF)

CF1: Impact on Country Exports

Definition: The extent to which the country's exporters are adversely affected in terms of declining export revenues and profits.

CF2: Foreign Aid and Investments

Definition: The extent to which the government of a country is adversely affected by reduction in foreign aid and investments from EC countries.

CF3: Marketing Constraints

Definition: The extent to which the countries exporters are likely to face stronger competition in the EC markets

CF4: Import Restrictions

Definition: The extent to which the EC countries are likely to impose tougher labor immigration laws and exchange controls governing exporters from non EC nations.

CF5: Trade Barriers

Definition: The extent to which the EC countries are likely to increase trade barriers on imports from non-EC countries.

CF6: Access to Distribution Channels

Definition: The extent to which the countries exporters are likely to experience difficulty in accessing distribution channels in the EC markets.

Governmental Measures Factors (MF)

MF1: Export Promotion

Definition: The extent to which the country's government should provide favorable arrangements for its exporters.

MF2: Trade Relationships Development

Definition: The extent to which the country's government and exporters need to develop (strengthen) trade relationships with the current potential EC member countries.

MF3: Political Measures

Definition: The extent to which the country's government should pursue political tactics to ease trade restrictions for its exporters.

MF4: Direct Manufacturing within European

Definition: The extent to which the country's export firms should establish manufacturing basis in the EC countries.

BUYER BEHAVIOR

COUNTRY OF ORIGIN EFFECT FOR TAIWANESE-MADE PERSONAL COMPUTER PRODUCTS IN AUSTRALIA

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Abstract

The focus of this study was on Australian consumer perceptions towards Taiwanese personal computer hardware products. This comparative analysis is conducted, with reference to personal computer products originating from seven countries.

The country of origin effect appeared to be strong in the analysed segment. The comparison among preferences toward the products from industrialised countries to those from newly industrialised countries showed a clear inclination to the first group. The different attitudes seem to come from the different conditions between whether or not the respondents have had opportunities or experience to use or deal with the products in question. Consumers who own and use Taiwanese-made personal computer products perceive the products positively, but those consumers without such opportunities and experience responded negatively.

Introduction

Foreign products seem to build their reputation on a combination of attributes consumers perceive, in conjunction with the originating country's general reputation. These perceptions and reputations normally vary from country to country, and they usually differ within each country as well. However, product value, technical features, quality, design and other characteristics concerning one country's offering, appeared to be generalised in the attitudes and opinions of consumers. In other words, consumers tend to evaluate the products and services in accordance with their origin, having in mind already established perceptions and prejudices for the country as such, and for that country's products in particular.

Country of origin is usually communicated by the term "Made in (name of country)". There are opinions that "Made in" label is quintessential for marketing, deserving to be fifth element of the marketing mix (Kaynak and Cavusgil 1983).

Whereas a number of studies confirmed the stereotype effect of country of origin on an overall product evaluation, there are findings about concerning effects of the country of origin relating to specific product attributes as well (Johansson, Douglas, and Nonaka 1985; Patterson and Tai 1991a; Thorelli, Lim, and Ye 1989).

The stereotyping in regards to country of origin may be due to attitudes towards the people of the particular country, and familiarity with the country (Nagashima 1970; Wang and Lamb 1980). The demographic background and characteristics of consumers (Schooler 1971; Wall and Heslop 1986), and the cultural traits of consumers (Tan and Farley 1987) are also cited as an element of generalisation.

Mass media, personal experience and the views of national opinion leaders may also shape the reputation of a country as a producer (Nagashima 1970). Several studies have confirmed the image, or stereotype, stemming from country of origin effect, suggesting that countries too have images, perhaps not so far removed from the marketers' concept of "brand image" (Bannister, Saunders, and Barker 1984; Hong and Wyer 1989; Kaynak and Cavusgil 1983; Patterson and Tai 1991a). However, the recent studies show that brand name might be a less enduring cue as compared to country of origin. This finding suggests that the country of origin effect is not only salient in the era of global brands, but may also be more enduring than global brand names (Tse and Gorn 1993).

Field researches have shown that in developed countries, like USA

and European countries, there exists a particularly strong bias against manufactured goods from developing countries (Kaynak and Cavusgil 1983; Patterson and Tai 1991a). In particular, it is stated that consumers prefer consumer shopping goods from industrialised countries to those from less developed countries (Cordell 1992). From the other side, that bias towards a range of products from the same country may be vastly different depending on the product under consideration (Hooley, Shipley, and Krieger 1988; Schooler 1971; Wall and Heslop 1986).

Practical implications of country of origin effect continue to grow, with an increase in international trade and exchange. Therefore, an understanding of the scope and limitation of the effect could be of crucial importance for marketers. The finding that attitudes towards a specific product or brand could be substantially changed, both favourably and unfavourably, when country of origin of the product or brand is revealed, implies such a conclusion (Gaedeke 1973).

Objectives

The focus of this article was the Taiwanese personal computer hardware industry, and its positioning in the perception of Australian consumers. Taiwan was chosen as newly industrialised country with rapid development in recent years, it supposedly still enjoys the biased perception, reserved for the products from developing countries (Cordell 1991). That may imply a gap exists among the real position of a particular country on the scale of development, and the perception in consumers' minds about that country, based on the past experience. It might therefore be hypothesised that some newly industrialised countries are inclined to have such a perception, due to their explosive development, and time needed for customers to adapt their perceptions and expectations. The personal computer hardware industry was chosen due to strong competition in the Australian market, and the presence of the major international manufacturers. We believe this makes the industry suitable for country of origin effect analysis. In that regard special emphasis should be given to the fact that the personal computer manufacturing industry today is not technologically differentiated, due to standardised technical quality and high degree of international integration. Personal computers today are hardly recognised by country of origin, more likely they are multi-country product, with strong brand implications. Therefore, the product is more prone to country-of-origin effect.

Consequently, the major objectives of this study were:

1. To explore Australian customers perception towards Taiwanese personal computer manufacturing industry in general.
2. To examine customers attitudes and perceptions of Taiwanese-made versus other countries personal computer products.

Based on previous discussion and literature review, it was hypothesised that:

- H1: Consumers will evaluate personal computers from industrialised countries more favourably to these from newly industrialised countries, i.e., Taiwan.
- H2: Familiarity with Taiwanese-made personal computer will moderate the effect of country of origin.
- H3: Consumers with significant experience with personal computers will evaluate Taiwanese brands more favourably than less experienced consumers.

Method

This was a two stage study. Stage one was an exploratory phase, designed to gain further insights into country-of-origin issues surrounding personal computers, and to aide in questionnaire design. Thus, managers, as well as computer specialist and consultants, from ten computer companies in Sydney were interviewed.

In stage two, after the questionnaire form was pre-tested, a descriptive study was conducted. Eighty questionnaires were distributed to the undergraduate students in each Department of Computer Engineering, Computer Science, and Business Systems (total 240), at the University of Wollongong, Australia. Another thirty questionnaire were distributed to postgraduate students in the Business Systems Department. There were 118 valid completed questionnaires returned from undergraduate students representing a 49.2% return rate, and 15 from postgraduate students accounting for a 50% return rate.

Results

1. Perceptions Towards Taiwanese Personal Computer Manufacturing Industry in General

Respondents were asked to indicate their agreement level on a 5 point Likert Scale (1=strongly disagree to 5=strongly agree) with a series of questions, regarding their perceptions about quality, after-sales-services, and improvement in quality of Taiwanese personal computers.

TABLE 1
CONSUMERS' PERCEPTIONS TOWARDS TAIWANESE
PERSONAL COMPUTER MANUFACTURING INDUSTRY

Statement	Strongly Disagree, Disagree	Neither Agree nor Disagree %	Agree and Strongly Agree Cases	n
1.	28.2	42	29.8	131
2.	32.8	47.2	20	125
3.	6.2	29.5	64.4	129

Note: The scores come from a five point scale 1 - strongly disagree to 5 - strongly agree.

Sta. 1: Taiwanese manufacturers are concerned with quality.

Sta. 2: Taiwanese manufacturers are concerned with after-sales-service.

Sta. 3: Taiwanese product quality has improved over the past five years.

Consumer's perceptions towards Taiwanese personal computer hardware industry shown in [Table 1](#), are somewhat indifferent to Statement 1 (Taiwanese personal computer manufacturers are concerned with product quality) and Statement 2 (Taiwanese personal computer manufacturers are concerned with after-sales-service), with 42% of respondents neither agreeing nor disagreeing, and an equal distribution for the positive and negative statements. By contrast, 64.4% responded affirmative to Statement 3 (Taiwanese personal computer product quality has improved over the last five years). This suggests perceptions are changing over time.

A mean score comparison of perceptions of seven countries' personal computer manufacturers is shown in [Table 2](#).

TABLE 2
A COMPARISON OF CONSUMERS' PERCEPTIONS TOWARDS
THE SEVEN COUNTRIES' PERSONAL COMPUTER INDUSTRY

Statement	COUNTRIES (mean scores)						
	AU	HK	JA	SI	KO	TA	US
1.	3.46	3.15	4.41	3.28	3.09	2.99	4.06
2.	3.48	2.80	3.88	2.89	2.76	2.76	3.84
3.	3.37	3.64	4.25	3.55	3.61	3.77	4.02

Note: Five points scale, 1 - strongly disagree to 5 - strongly agree.

Sta. 1. Manufacturers are concerned with quality.

Sta. 2. Manufacturers are concerned with after-sales-service.

Sta. 3. Product quality has improved over the past five years.

Abbreviation: AU - Australia, HK - Hong Kong, JA - Japan, SI - Singapore, KO - The Republic of Korea, TA - Taiwan, US - The U.S.A.

Taiwanese computer manufacturers were ranked last in terms of Statement 1 (Personal computer manufacturers are concerned with product quality) and Statement 2 (Personal computer manufacturers are concerned with after sales service). However, Taiwan is ranked in third place for Statement 3 (Personal computer product quality has improved over the past five years). Consumers might have had some bad experiences with Taiwanese product quality and after sales service, but more likely they still perceive it as a developing country, and this stereotyping has been transferred to their perception of personal computers. Indicatively, two other newly industrialised countries, Hong Kong and S. Korea, are very close in ranking to Taiwan. This again indicates a country of origin bias towards recently developing countries. Nevertheless, in their perceptions the present Taiwanese product quality is much better than it has been in the past five years.

2. Consumers' Attitudes Towards Taiwanese-made Versus Other Countries' Personal Computer Products

Attitudes towards any particular product consist of three components: beliefs, brand evaluation and the tendency to act. Five personal computer product attributes are employed to understand respondents' beliefs in terms of different countries-made personal computer products.

TABLE 3
PERCEPTIONS ON SELECTED SEVEN COUNTRIES'
PERSONAL COMPUTER PRODUCTS ATTRIBUTES

Statement	COUNTRIES (mean scores)						
	AU	HK	JA	SI	KO	TA	US
1. General prod. quality	4.17	4.21	6.38	4.16	3.98	4.05	6.10
2. Prices high or low	5.65	3.42	4.84	3.52	3.54	3.13	4.99
3. Product value for money	4.02	4.28	5.36	4.29	4.04	4.33	5.02
4. Break down easily/not	4.37	4.05	5.67	4.14	3.66	3.72	5.29
5. Overall design is good/poor	4.46	4.34	5.94	4.07	3.94	4.09	5.64

The mean scores from a seven point scale 1 - lowest (very negative) to 7 - highest (very positive).

Referring to [Table 3](#), respondents perceive Taiwanese computer product quality neither high, nor low, with a mean score 4.05. In accordance with that is second statement's (product price) finding. The prices of Taiwanese computer products are perceived as the lowest

among the seven selected countries. By joining Statement 1 and 2, in Statement 3 (product value for money spent) Taiwan is generated with a better mean score 4.33, and ranked third. Respondents think that even though Taiwanese computer product quality is just satisfactory (behind all but S. Korea), the prices themselves are very cheap. So Taiwanese computer products are perceived as quite good value for money. In Statement 4 (personal computers break down easily or not easily), respondents perceive Taiwanese computer products break down easily, with a mean score 3.72. Finally, overall product design is perceived fairly good, with a mean score 4.09.

The product evaluation, the second step on evaluating attitude process, is shown in Table 4.

TABLE 4
THE ORDER OF PREFERENCE BASED ON PERCEPTIONS TOWARDS SEVEN COUNTRIES' PERSONAL COMPUTER PRODUCTS

Order	Country	Mean Score	Standard Deviation	Cases
1.	Japan	1.62	0.73	132
2.	U.S.A.	2.04	1.30	132
3.	Australia	4.13	1.71	132
4.	Hong Kong	4.79	1.45	132
5.	Taiwan	4.83	1.81	132
6.	Singapore	5.15	1.34	131
7.	Rep. of Korea	5.30	1.32	132

Note: The mean scores come from preference order as 1 - the most preferred to 7 - the least preferred.

In terms of rank order preference, respondents ranked Taiwanese computers fifth of the seven countries surveyed. Preferences for Hong Kong and Taiwanese computer products are very close, Hong Kong with a mean score of 4.79, and Taiwan 4.83. The standard deviations for these two countries are significantly different.

That implies more consistent perceptions for Hong Kong personal computer products than Taiwanese-made, with standard deviation 1.45 versus 1.81 respectively. Accordingly, perceptions towards personal computer products from Hong Kong and Taiwan may be quite different even though the mean scores between them are not very different.

Overall, the products from newly industrialised countries are less preferred than products from industrialised countries. This confirms our first hypothesis, ie. the bias towards newly industrialised countries still exists, particularly since Australia is not well-known in manufacturing personal computers, and these "made in U.S.A." are by and large unavailable in Australia, and yet they are preferred to Taiwan.

Tendency to act, the third step on attitude process, is shown in Table 5.

TABLE 5
TENDENCY ON PURCHASING DECISIONS FOR PERSONAL COMPUTERS MANUFACTURED IN SEVEN COUNTRIES

Order	Country	Mean Score	Standard Deviation	Cases
1.	Japan	4.08	0.77	130
2.	U.S.A.	3.91	0.93	130
3.	Australia	3.30	1.07	129
4.	Taiwan	2.98	1.16	129
5.	Hong Kong	2.96	0.91	128
6.	Singapore	2.86	0.95	130
7.	Rep. of Korea	2.68	0.97	129

Note: The mean scores come from a five point scale as 1 - definitely will not buy to 5 - definitely will buy.

Respondents' tendency to make purchasing decisions on Taiwanese-made personal computers is located as indifferent, with a mean score

2.98 (mean score: 1-5, definitely will not buy - definitely will buy). This might mean that they do not really consider Taiwanese-made personal computers when they want to buy a personal computer. However, when looked closely to the standard deviation, Taiwan had the highest with a figure of 1.16. This could mean that respondents have different perceptions in the light of tendency to purchase Taiwanese-made personal computers.

TABLE 6
TENDENCY ON PURCHASING DECISIONS FOR TAIWANESE PERSONAL COMPUTERS

Value	Value label	n	Percentage
1.	Definitely will not buy	19	14.7
2.	Probably will not buy	21	16.3
3.	Not decided	42	32.6
4.	Probably will buy	38	29.5
5.	Definitely will buy	9	7.0
Total:		129	100.0

Respondents tendency to purchase Taiwanese personal computers is broadly dispersed. There are 14.7% respondents indicating very negative attitudes, who definitely will not buy Taiwanese personal computers, and 16.3% indicating slightly negative, probably will not buy. On the other hand, 36.5% indicate positive attitudes, definitely or probably will buy.

One can go further to find out any reasons that cause attitudes to be so dispersed. From Table 7, one can find some associations between two additional variables, tendencies to buy Taiwanese personal computer products, and possession of Taiwanese-made personal computer products. Very different attitudes towards the tendency to buy Taiwanese personal computers seems to depend on whether the respondent own personal computers manufactured in Taiwan or not.

TABLE 7
CHI-SQUARE TEST WITH TENDENCY TO BUY TAIWANESE PERSONAL COMPUTER BY OWNING OR NOT PERSONAL COMPUTER MANUFACTURED IN TAIWAN

Tendency to buy	Experience		Total
	No	Yes	
Definitely (or probably) will not buy	41.1	7.7	40
Not decided	40.0	15.4	42
Definitely (or probably) will buy	18.8	76.9	47
	100%	100%	
	90	39	129

Note: $p \leq 0.001$ $\chi^2 = 40$

Only 7.7% of respondents, who have owned Taiwanese-made personal computer hardware products before, indicate the attitudes of definitely (or probably) will not buy Taiwanese-made personal computers, but 41.1% of them, not owning Taiwanese-made personal computer hardware products, have the same attitudes. On the other hand, 76.9% of those who have owned Taiwanese-made personal computer hardware products, indicate the attitudes of definitely (or probably) will buy Taiwanese-made personal computers, while only 18.9% students, without owning the products, indicate the same attitudes. The results

suggest that customers are quite happy with Taiwanese made personal computer hardware products, and that experience counteracts any country-of-origin effect prejudices. From comparing these two groups, possession or first-hand experience with Taiwanese-made personal computers, appears to impact significantly on perceived quality. It also supports our second hypothesis, which states that country of origin bias is often compensation for lack of objective information about a country's product.

TABLE 8
CHI-SQUARE TEST FOR TENDENCY TO BUY TAIWANESE
PERSONAL COMPUTER BY NATIONALITY

Tendency to buy	Nationality		Total n
	Overseas %	Australian %	
1. Definitely (or probably) will not buy	22.6	33.7	40
2. Not decided	16.1	37.8	42
3. Definitely (or probably) will buy	61.3	28.5	47
	100%	100%	
	31	98	129

Note: $p \leq 0.001$ $\chi^2 = 10$

Tests shown in Table 8, indicates very strong association between tendencies to buy Taiwanese personal computer products and national affiliation of respondents. Very different attitudes are perceived by Australian and overseas respondents. There are 33.7% Australians indicating that they definitely (or probably) will not buy Taiwanese-made personal computers, but only 22.6% of respondents from overseas presenting the same opinions. By contrast, only 28.6% of Australians state the attitudes of definitely (or probably) will buy, but 61.3% of overseas respondents presenting the same attitudes.

The results may imply that Australians perceive Taiwanese-made personal computer more negatively than positively, while overseas respondents perceive the opposite view. Different attitudes may be in accordance with hypothesised bias against developing countries.

Discussion

Some important phenomena were found out from this analysis. Respondents who own and use Taiwanese made personal computer products perceive that country's products more positively, than those without such experience. The different attitudes appear to come from the different conditions between whether or not the respondents have had an opportunity or experience to use or deal with the products. The results here imply that user perception of Taiwanese-made personal computer product quality is better than might have been expected.

The marketing implication of the finding is that country of origin effect needs to be altered. To change the perceptions towards Taiwanese-made personal computers, some other marketing efforts could be attempted. For example, marketers might increase marketing expenditures on advertising and market promotion campaigns focusing on product quality. More benefits, such as product warranty and after sales service offered to customers, also have to be emphasised.

The next finding of this analysis is that consumers perceive the investigated products quality and other major characteristics depend on country of origin. There is clear distinction in analysed group of countries with Japan, USA and Australia, on one side, and Singapore, Hong Kong, Taiwan, and S. Korea, on the other side. Knowing that technical and design attributes are similar due to the use of same technology, co-operation, and a few producers of essential parts world-wide, it would be explained by country of origin negative bias. That bias is transferred further, toward tendency to buy, and purchase planning. However, on the question about product

improvement in last five years, Australian product scored the worst. That endorses the relevance of experience and possession, as significant element within country of origin effect. Patterson and Tai (1991b) also found less prejudice against developing countries clothing apparel, if consumers lived and/or travelled overseas, especially in South-East Asian countries.

Demographic characteristic, in our case national origin, appeared to play important role in country of origin effect. The results show that Australian consumers, in our sample students, are much more inclined to be influenced by Taiwanese-made label. This is reflected in a negative bias against the product. Overseas students on the other hand seem to be less traditionally oriented toward products from industrialised countries. Consequently they may be the best target group for developing countries manufacturers.

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AN EXAMINATION OF PREFERENCE STRUCTURES
OF JAPANESE AND NON-JAPANESE CUSTOMERS FOR BANK BRANCHES
IN AN ERA OF TRANSITION

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Abstract

The banking industry in Japan is going through an unprecedented transition toward liberalization along with deregulation by the Ministry of Finance. Preference structures of the Japanese customers for bank branches were examined in the present research using conjoint methodology and then compared to those of the non-Japanese customers. It was found that non-Japanese customers generally have larger utilities (i.e., part-worths) than the Japanese customers and that two samples have different importance weights for the attributes of a bank branch. Implications of the study and directions for future research are discussed.

Introduction

The banking industry in Japan is currently in an unprecedented transition. Up until several years ago, the industry had been called as the escort vessel headed by the Ministry of Finance (MOF) of Japan. MOF had protected the banking industry from other financial industries (i.e., securities, insurance, etc.) and their foreign counterparts, and had regulated the range of types of services and products in order to avoid severe competition within the banking industry. This tradition has left Japanese bankers primarily under the care of by MOF, and thus in neglect of a consideration of customers' expectations. Therefore, customers possibly did not see must any difference among banks.

However, since CD (Negotiable Certificate of Deposit) was introduced in 1979, the liberalization of the banking industry is now under way. By 1994, the interest rate will be totally liberalized, which makes the spread (which is the difference of interest rate between deposit and loan) narrower and produces differences in interest rate between strong and weak banks (Nikkei Newspaper July 9, 1991).

Furthermore, the range of types of services will also be liberalized by 1993, which enables banks to introduce more innovative products (Nikkei Newspaper April 5, 1992) and allows other financial industries and foreign companies invade into this industry (Nikkei Newspaper April 1 and May 15, 1991).

Therefore, the competition in the industry will be getting more and more intense (Ara 1991).

Under these circumstances, it becomes imperative for every bank to adopt a marketing orientation by understanding customers' expectations toward a bank in order to maintain the current customer base and to further expand its business into new types of services. Furthermore, many banks are trying to globalize their business in order to secure the market size for sufficient profit in foreign countries.

While a marketing orientation is now becoming increasingly important in Japan, particularly, in the financial industry, we are not aware of any study that examines the preference structures of Japanese customers for the banking service products.

The general objectives of this study are to investigate Japanese consumers' expectations toward a bank by examining their preference structures for a bank branch, and to examine how these expectations are different from those of non-Japanese counterparts. Understanding customers' preference structures for a bank branch is very important because it is the place where actual services are available to current and potential customers.

In particular, we are interested in the following research questions.

- (1) What are the preference structures of Japanese and non-Japanese customers about a bank branch?
- (2) What are the most important considerations in selecting a bank branch for Japanese and non-Japanese customers?
- (3) How similar is the preference structure of Japanese consumers to non-Japanese counterpart in terms of their part-worth vectors and attribute importance weights?

We first describe the methodology of our study and then present the results of the study. Finally, we discuss some implications from our study and directions for future research.

Methodology

To implement our study objectives, we use the conjoint methodology (Green and Rao 1971; Green and Srinivasan 1978, 1990) which has become a major technique for measuring consumers' tradeoff values among multi-attribute products and services (Johnson 1974; Srinivasan and Shocker 1973). Wittink and Cattin (1989) and Cattin and Wittink (1982) provide surveys of commercial applications of conjoint analysis. The tradeoff values from conjoint analysis provide major input for further buyer segmentation and design of new products and services (Kim 1991; Green and Krieger 1989).

Cheerful and Personal

Some of the attribute levels used in this study are not currently available. For example, no banks in Japan offer services in stocks and insurance, and 24-hour operation of automatic teller machine (ATM). Furthermore, an interest rate of 8% is considered very high for the current situation in Japan. However, we have included these levels because they are expected to be available in near future due to the liberalization of the banking industry we described above.

Profile Generation

After careful examinations of the attributes of bank branches currently available in Japan, we have identified 7 major attributes which consumers consider important in choosing a branch to open an account. The number of levels within each attribute ranges from 2 to 4. **Table 1** shows the attributes and their levels used in this study.

TABLE 1
ATTRIBUTES AND LEVELS

<u>Distance</u>	More than 10 minutes by car Up to 10 minutes by car
<u>Number of ATM</u>	1 machine 2-5 machines More than 5 machines
<u>Type of Service</u>	Routine service (Deposit, Withdrawal, Transfer, Loan) Routine service, and Foreign exchange Routine service, Foreign exchange, Stocks, and Insurance
<u>Speed of Routine Service</u>	More than 10 minutes Up to 10 minutes
<u>ATM Operating Time</u>	9:00-19:00 Mon.-Fri., 9:00-17:00 Sat. 9:00-19:00 Mon.-Fri., 9:00-17:00 Sat.-Sun. 24 hours every day
<u>Interest Rate (Deposit)</u>	Up to 4.50% Up to 6.00% Up to 8.00% Higher than 8.00%
<u>Attitude of Bank Clerks</u>	Task-Oriented

We then generated 16 hypothetical bank branches with these seven attributes using the orthogonal design (Green 1974) to cover the complete attribute space.

Data Collection

A sample of 47 MBA students at a business school in northwestern Japan participated in the conjoint experiment involving the evaluation of 16 profiles of hypothetical bank branches. Sixty four percent of the sample (N=30) are Japanese and thirty six percent (N=17) are non-Japanese. The definitions of the attributes were fully explained before the experiment.

Two types of data were collected through self-administered questionnaires. We first collected data on self-explicated attribute importance weights by asking the respondents to allocate the sum of 100 points across the seven attributes. We then asked them to evaluate each of 16 hypothetical bank branches on a 0-100 point rating scale according to their likelihood of opening an account with each of these hypothetical bank branches. In addition, some background information (i.e., demographic characteristics) was collected.

Analysis and Results of the Study

Once we collected the data from the conjoint experiment, we computed the part-worths and the derived attribute importance weights. The part-worths were calculated by using a CONJOINT program (Smith 1990) that employs a simple OLS regression method. The derived attribute importance weight of an attribute is computed as a ratio of the range of part-worths within that attribute to the sum of ranges across attributes.

Part-Worth Vectors

Table 2 shows the part-worth vectors of the Japanese and non-Japanese samples at the group level. As expected, both the Japanese

and non-Japanese samples show monotonic (i.e., non-decreasing) part-worths within each attribute. The correlation coefficient of part-worth vectors of the Japanese and non-Japanese sample is very high (0.913) suggesting the preference structures are very similar at the group level.

TABLE 2
A COMPARISON OF PART-WORTH VECTORS ACROSS
JAPANESE AND NON-JAPANESE SAMPLES

	<u>Japanese</u>	<u>Non-Japanese</u>
<u>Distance</u>		
More than 10 minutes by car	0.25	0.74
Up to 10 minutes by car	14.96	15.15
<u>Number of ATM</u>		
1 machine	2.63	3.90
2-5 machines	11.33	12.28
More than 5 machines	11.46	15.96
<u>Type of Service</u>		
Routine service	1.83	1.40
Routine, Foreign exchange	3.71	6.10
Routine, Foreign Ex, Stocks, Insurance	6.00	10.81
<u>Speed of Routine Service</u>		
More than 10 minutes	2.33	5.66
Up to 10 minutes	11.21	11.54
<u>ATM Operating Time</u>		
9:00-19:00 Mon-Fri, 9:00-17:00 Sat	2.13	1.91
9:00-19:00 Mon-Fri, 9:00-17:00 Sat-Sun	7.29	11.47
24 hours	17.04	28.09
<u>Interest rate</u>		
Up to 4.50%	0.25	2.35
Up to 6.00%	8.08	9.41
Up to 8.00%	16.33	17.94
Higher than 8.00%	21.92	18.53
<u>Attitude of Bank Clerks</u>		
Task-Oriented	2.00	4.04
Cheerful and Personal	9.71	10.51

However, there are some differences between the Japanese and non-Japanese samples in terms of the magnitude of part-worths. Generally, non-Japanese sample shows larger part-worths for attributes such as "number of ATM", "types of service", and "ATM operating time". The Japanese sample exhibits a larger part-worth only for the highest level of

"interest rate" (higher than 8%). A multivariate test (using Wilk's Lambda) shows the difference of mean vectors of part-worth is statistically significant between the Japanese and non-Japanese customers ($F=2.12$, $p=0.036$).

Interestingly, we have found that the part-worths of "number of ATM" do not increase much beyond the level of 2-5 machines for the Japanese sample while non-Japanese sample shows strong preference for more than 5 ATM machines. Related to this finding is the preference structure for the attribute of "ATM operating time". The non-Japanese sample exhibits a much stronger preference for longer ATM operating hours compared to its Japanese counterpart, particularly for the level of "24-hour service" (28.09 vs. 17.04). This may be due to the fact that 24-hour operation of ATM is generally common outside of Japan, but not in Japan, at least currently.

Attribute Importance Weights

Next, we compare the derived attribute importance weights across the Japanese and non-Japanese samples. Table 3 shows the results. For the Japanese sample, "interest rate" is the most important attribute, followed by "ATM operating time", and "distance". On the other hand, the most important attribute for non-Japanese sample is "ATM operating time", followed by "interest rate", "distance". The correlation of the derived importances between the Japanese and non-Japanese sample is 0.625.

TABLE 3
A COMPARISON OF ATTRIBUTE IMPORTANCE WEIGHTS
ACROSS JAPANESE AND NON-JAPANESE SAMPLE

	<u>Japanese</u>	<u>Non-Japanese</u>
Distance	18.19%	15.91%
Number of ATM	10.92%	13.31%
Type of Service	5.15%	10.39%
Speed of Routine Service	10.97%	6.49%
ATM Operating Time	18.44%	28.90%
Interest rate	26.79%	17.86%
Attitude of Bank Clerks	9.53%	7.14%

In terms of the magnitude of the difference between the Japanese and non-Japanese sample,

"ATM operating time" produces largest difference (18.44% vs. 28.9%) followed by "interest rate" (26.79% vs. 17.86%) and "types of service" (5.15% vs. 10.39%).

From the results of our study, it seems that the Japanese customers put more emphasis on quicker service and higher interest rate while non-Japanese customers put more emphasis on diverse services and longer ATM operating hours.

Discussion and Directions for Future Research

From the results of this study, we have found that there are differences between the Japanese and non-Japanese samples in terms of magnitude of part-worths and the derived attribute importance weights. These findings provide some practically important implications for bankers in terms of designing a bank branch or more generally banking services both in Japan and abroad. For example, since the Japanese customers strongly prefer higher interest rate, banks should consider how to provide higher interest rate while increasing return to themselves. Perhaps they need to find an "optimal" interest rate, via simulation, that provides the maximum return based on the preference structures of the customers.

However, we need to further study the attitude of Japanese customers toward interest rate. In the present study, we found that the Japanese customers put the strongest emphasis on interest rate in choosing a branch, and this emphasis is much stronger than the non-Japanese counterpart. This is contrary to the finding of Kim and Park (1992) that the Japanese potential investors are less likely to consider return rate in purchasing a financial service package compared to non-Japanese investors.

One possible explanation for this discrepancy may be that while Kim and Park (1992) used financial service products in their study (i.e., stocks), the current study focused on the banking service in particular. For risky financial products like stocks, the Japanese investors were found to be risk averse. Most of the respondents in Kim and Park's study have been institutional investors (i.e., fund managers), and under the current compensation scheme in Japan, which is not merit-based, there is no reason to take personal risk for higher return for the company. However, for the banking service, which had been protected by MOF and consequently does not involve any risks, the Japanese customers are expected to exhibit a strong preference for high interest rates to receive higher personal return.

Another plausible explanation may be that strong preference for high interest rate reflects the Japanese customers' high expectation of higher interest rates due to the liberalization of financial industries in Japan.

Further study should address the following issues such as (1) is there a difference in attitudes toward return rate between personal investors and institutional investors in Japan? and (2) are the attitudes of the Japanese institutional investors different from their U.S. counterparts? Research on these issues is currently under way.

The data for this study was collected from MBA students. While they are mature with an average age of 27, have significant amount of work experience, and have their own financial planning horizon, future research should use a general population as a sample frame.

Future studies should include simulation of some of the branch profiles with the currently available bank branches and project their market shares or profitability once the banking industry in Japan is completely liberalized. At that time, future research should also focus on the design of optimal banking service products by employing some of the recently developed optimal product positioning models (e.g., Green and Krieger 1990) which provide the maximal market share or profit/return to the banker.

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PREDICTING VIDEO CAMERA ADOPTERS BASED ON PERSONALITY TRAITS,
SOCIOECONOMIC VARIABLES, AND EXPECTATIONS
ABOUT THE RATE OF TECHNOLOGICAL INNOVATION

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Abstract

The theory of diffusion of innovations (Rogers 1983) has attracted the attention of marketers because of some strong implications for successful new product introduction. Since the innovators, according to this theory, are expected to play a crucial role in the diffusion process, especially the early research in consumer behaviour focused on identifying the characteristics of the adopters of various types of innovations (for example, Boone 1970, Dickerson and Gentry 1983, Gatignon and Robertson 1985, LaBay and Kinnear 1981, Taylor 1971, Rogers 1983). Although some variables such as higher income and education, younger age, greater social mobility and venturesomeness, higher social participation, higher opinion leadership, and more experience with other products in the same or related product category seem to characterize the innovators (Gatignon and Robertson 1985), a major conclusion of this stream of research has been that the concept of "innovativeness" is not generalizable across different product categories, but the profile of the consumer innovators vary from one product category to another (Dickerson and Gentry 1983), and therefore, any attempt to identify the characteristics of the innovators needs to relate them to the nature of the innovation itself.

In this context, this study examines the characteristics of video camera adopters in Canada. Given the technical nature of this relatively "big ticket" innovation which is mainly used to preserve memories of events relevant to the consumer, some personality traits are hypothesized to predict the profile of the adopters. These traits include venturesomeness, how much the individual values preserving memories, family orientation, self confidence in evaluating technically

complex products, and novelty seeking. In addition to a set of socioeconomic variables which are typically included in studies of this nature, this research includes the consumer expectations about the rate of technological change for this product category, and the expectations about the future prices of video cameras: the higher the expected rate of technological change and the expected price decrease, the higher will be the tendency to postpone the adoption of the innovation. A sample of 493 Canadian consumers, some of whom have already adopted either a video camera or camcorder, and who currently own at least a video recorder and a television provides the data for this study. Using the ownership-nonownership of video cameras as the nominally scaled dependent variable, and the mentioned variables as the independent variables, a discriminant analysis (and logit analysis) will be conducted to identify the consumer characteristics which can be used in predicting the adopters of video cameras and camcorders. The findings will be related to other findings reported in the consumer behaviour literature on the adoption of technically complex and "big" ticket consumer durables.

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Psychological Time Perspective Differences:
A Look At Young Malaysians and Americans Using the FAST Scale

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Abstract

Research was conducted on the psychological time perspectives of Malaysian and U.S. students to better understand the differences between the two groups and to provide the bases for a discussion of consumer behavior and future research implications. The "FAST" test, suggested by Settle and Alreck (1991), was the four dimensional measurement tool used. It was found that differences in psychological perspective exist in such areas as future/past orientation, sense of boredom, activity levels, need to plan/schedule and staying with a task until done. Consumer behavior and future research implications are offered.

Introduction

This exploratory research project was carried out to preliminarily examine cultural differences in time perspectives and then to consider the implications for consumer behavior and future research of such findings. It was an opportunity to look at two cultures that were part of a much larger research effort and to focus purely on the psychological time perspectives of the participants. The groups studied were Malaysian students in a U.S. university setting and U.S. students in the same circumstance.

It has been postulated that cultures may be categorized by their peculiar perspectives on time (Pronovost 1986). This phenomenon has also been identified as existing by such authors as Hall (1959), Levine and Wolff (1985), Lindquist and Lane (1989) and Szalai (1972). One could argue that a culture's perspective is the sum of the individual views of its members and/or these individual views are a product of the socialization influences of the culture. In any case, both of these circumstances probably exist.

An individual's subjective interpretation of time within their personal sphere has been called their "psychological" approach to it (Hawes 1979; Holman and Venkatesan 1979; Settle, Alreck and Glasheen 1978). This approach will be the dimension of primary interest for the work described herein.

Settle and Alreck (1991) expanded the discussion of psychological time and offered four dimensions that they assert

shape a person's (culture's, subculture's, reference group's, etc.) subjective time experience. These four dimensions are: Focus (on positions along the past to future time spectrum), Activity (and the supply and rate of passage of time), Structure (the shape and form of time) and Tenacity (task performance and the delay of gratification). A series of 64 items, 16 per dimension, were developed and tested by Settle and Alreck to position individuals on each of these dimensions and this was then called the "F-A-S-T" test.

The more recent literature on time contains work that parallels to some extent the FAST approach. The Focus dimension is similar to the current work on orientation which places people as to where they are on their leanings toward the past or the future (Kaufman, Lane and Lindquist 1991b). The Activity dimension of the scale has been touched upon in the literature as people see themselves as "time rich" or "time poor" (Schwartz 1986). Turning to the Structure dimension, this is similar to the time use and commitment paradigm of Lane and Lindquist (1989). Last of all, Tenacity, as defined by Settle, Alreck and Glasheen (1978), closely parallels the discussions found in the time processing literature. Here the dimension appears to measure people's proneness to process time "procedurally." That is, individuals start a task when all resources are ready and they stay with it until it is done, being almost oblivious to the passage of time (Hall 1959). It is a task focus. Also within the Tenacity dimension there is a measurement of whether a person enjoys doing one thing at a time, called "monochronic" activity processing, or would rather do a number of things at the same time, called "polychronic" activity processing (Hall 1959; Kaufman, Lane and Lindquist 1991a).

The objectives of this exploratory study are to: 1) compare the results of pools of upper division university students from the U.S. and Malaysia on the FAST test dimensions, 2) to identify areas of difference and similarity, and 3) to offer a series of implications concerning consumer behavior and future research.

Methodology

The Sample

The sample consisted of 594 undergraduate junior/senior U.S. students and 38 Malaysian undergraduate junior/senior students from a large midwestern university. The groups were chosen because they are two culturally different pools. Only 38 Malaysian students were available within the total sample. The Malaysian male/female shares were 50 percent/50 percent and the American shares were 54 percent/46 percent, respectively. The Malaysians had been in the U.S. from six months to as much as three years, which points to the possibility of some acculturation. The latter circumstance is recognized as a weakness in determining the potential representativeness of the group. Yet this could serve as the basis for further study when compared to "non-acculturated" similar individuals. Also, the Malaysian group was older with 64.6 percent being 19 - 22 years of age compared to 81.4 percent for the American students. In sum, though the sample size was small and there existed the potential problem of various levels of acculturation, the authors could see this research as being able to produce preliminary findings concerning psychological time perspectives and implications for this cultural group and to help set direction for future time research among them.

Data Collection

The data were collected using a self-administered questionnaire. The instrument included the 64 FAST test items. The scale for each item consisted of a statement and a five point numerical choice with "1" being "Exactly Like Me" and "5" being "Not At All Like Me." Respondents placed themselves along the scales for each statement. The data collection, during the fall of 1991, occurred in classroom settings with the students having the option to choose whether or not to participate with no penalty or reward involved.

Data Analysis

First, individual items were analyzed to determine strengths of agreement with the "Exactly Like Me" end of each of the 64 item scales. This was done by adding the average shares of individuals choosing position "1" or "2" (Like Sum) and separately adding the average shares of those respondents who had chosen "4" and "5" (Not Like Sum). The "Like Sum" was then divided by the "Not Like Sum" to establish the "Like Me" ratio. It was realized that these ratios did not take into account the "3" (neutral) position. However, since this was the first, or

descriptive, phase of the analysis, the authors felt that the picture revealed would help with an overall understanding of the data and the interpretation of the Chi-square analysis which was to be done next.

The following is an example of a "Like Me" ratio calculation:

"I think quite often about my life as it used to be."

Malaysians

"1" - 23.7 % + "2" - 34.2 % = 57.9 %
"4" - 15.8 % + "5" - 00.0 % = 15.8 %

Ratio = 57.9 % / 15.8 % = 3.67 to 1

Americans

"1" - 9.4 % + "2" - 23.9 % = 33.3%
"4" - 26.6 % + "5" - 16.7 % = 43.3 %
Ratio = 33.3% / 43.3 % = 0.77 to 1

The neutral shares for the Malaysians and the Americans, respectively, were 26.3 percent and 23.4 percent. The Malaysian ratio is almost five times as large as the American ratio. Later, when the Chi-square analysis was carried out, this difference was found to be statistically significantly different at the .002 level. This could be interpreted preliminarily as a stronger past or "good old days" orientation being expressed by the Malaysians than the Americans. Knowing how the respondents positioned themselves on the scales and how committed they were to the positions expressed (considering the average neutral share) was very useful in data interpretation.

Chi-square analyses were run on the distributions of all of the 64 FAST scale items, comparing the Malaysians to their American peers. Settle and Alreck (1991) had determined, for each of the four (FAST) dimensions, at which end, "plus" (+) or "minus" (-), the individual item (of the 64) would place a person. The positive Focus (F+) items placed a person as future oriented whereas the negative (F-) items showed a past orientation. The positive Activity (A+) statements had to do with time being perceived as in short supply for the activities that had to be done, where the reverse is seen as true for the negative (A-) side of the scale. Positive Structure (S+) relates to being sensitive to time, being on time and enjoying planning and following schedules whereas the negative side (S-) was the opposite. The last dimension, Tenacity, on the positive (T+) end of the spectrum, would include individuals who stick to a project until it is done regardless of the time it costs, and those who like to do only one thing at a time. We see the

reverse of these traits on the negative (T-) side of the scale. "Negative" and "Positive" are not to be construed as "bad" or "good", respectively. The terms are used to put things in perspective and to place individuals and groups (cultures, subcultures, etc.) according to their subjective or psychological interpretation of time within their lives.

There is a word of caution concerning the internal consistency reliability of the FAST scale system that has been proposed by Settle and Alreck (1991). These authors found that the values of Coefficient Alpha for the F, A, S and T scales, respectively, were 0.43, 0.77, 0.76 and 0.69. According to Nunnally (1967), the "acceptable" level of this coefficient when a standard test is desired is 0.7 and levels of at least 0.6 are desirable during the development stage of a scale test. This means that the F dimension has not been acceptably validated, whereas the other three exceed the minimum validity level for the subject pool participating in the research.

The authors carried out Coefficient Alpha analyses on each of the eight directional subareas of the FAST test for both the Malaysian and U.S. participants. It was felt that this analysis approach was more appropriate than looking at the four overall dimensions because of the individual item scale scoring reversal problems extant and the low levels (less than .10) of some of the correlation coefficients among the scale items. Exhibit 1 is a summary of these data.

EXHIBIT 1
COEFFICIENTS ALPHA - FAST TEST
MALAYSIAN VS. U.S. PARTICIPANTS

Scale	Malaysians	U.S.
F+	.65	.51
F-	.56	.57
A+	.54	.67
A-	.62	.64
S+	.72	.76
S-	.53	.65
T+	.57	.62
T-	.66	.62

The two groups were compared since Lindquist (1981) found that instruments

did vary in their internal-consistency reliability when administered to different groups of people. Examination of the data in Exhibit 1 reveals that for the Malaysian and U.S. students only the S+ dimension, measuring the desire to be on time, to plan and to follow a schedule, showed a value acceptable as a standard measurement scale. For the Malaysians F+, A- and T- were within the acceptable range for scales in development. Similarly, the U.S. students had developmentally acceptable levels of Alpha for A+, A-, S-, T+ and T-. These findings suggest strongly the need for further scale development and testing in the psychological approach area.

In the current study, there are no judgments made on overall F, A, S or T scale positions of respondents for the reasons cited above.

Findings

First, to get a sense of "Exactly Like Me" commitment to each of the 64 FAST test statements, the "Like Me" ratios were calculated for all respondents, both Malaysian and American. Then a Chi-square analysis of the distributions of the two respondent groups was run on each of the 64 items. Table 1 contains a summary of all of the ratios and the levels of significance of the Chi-square tests. Note that all of the significance levels that were .05 or stronger are underlined in that table.

Each of the FAST dimension results will be discussed in turn. The statements which were presented to respondents on the "positive" side of each scale are very often directly opposite to those posed on the "negative" side of the scale. Though one could not assume that participants would score opposite statements in an exactly opposite manner the data revealed that there was some consistency in opposite scoring.

Focus

An examination of the positive Focus

items revealed that there was general statistical agreement on the part of both respondent groups when asked questions concerning the future. They agreed that they thought a lot about the future, that it was important to plan for the future because things were changing so fast, they felt that their days would be better in the future and when they had finished something they enjoyed looking ahead to the next step. The Malaysian and the American students did not think that life would be easier for people in the future. The only statistically significant

difference was on the statement, "I enjoy plays or stories about the future." Here Americans saw this as more like themselves than the Malaysians.

Next, the negative Focus questions will be touched upon. On this scale there were no statistical differences in distributions of the respondent groups on three of the eight items. They did not think that life was easier for people in the past, they both liked plays and stories about the past and reviewing one's past accomplishments was typical of something they do. The Malaysians were more prone to look back to the way things were in the past, to those "better days." They also differed from the American students in that they felt more strongly that though things changed quickly, there still was some room for planning. They also saw the past in a slightly better light than their American peers. The Americans were more likely to daydream about the past than the Malaysian respondents.

Activity

Turning to the positive Activity items, there were statistically significant Chi-square differences on two statements. The Malaysian respondents were bored more often than their American counterparts and when unexpected free time occurred the Americans had much more to do with their time than the Malaysians. Time passed quickly for both groups and they felt a shortage of it existed, they all had a sense of activity about them and the respondents had a number of things waiting to be done for which they had no time.

On the negative Activity factors, there were five of eight where statistically significant differences were found. The Malaysians did report that they did move more slowly than what was reported by the American students. The Americans and the Malaysians did not agree that there was not enough for them to do what had to be done in the time they had, with the former disagreeing more strongly than the latter. The Malaysian students perceived themselves to be more observers than doers; the opposite was true for their American peers. In line with their feelings of time shortage previously found, both groups reported that time did not "drag" for them and the Americans felt more strongly about this than the Malaysians. Similarly both felt they had things waiting to be done that they hadn't had time to do.

Structure

Concerning the positive Structure factors, in only three instances were statistically significant differences found. The Malaysian students were more

likely to score themselves as planners, schedulers and those who kept track of amounts of time spent on activities than the American students. The two groups were similar in their planning of daily activities, being "prompt" or "on time," estimating how long it will take to carry out a task and following a schedule.

Next, attention will be turned to the negative Structure items. Examination of Table 1 reveals three statements on which the two pools of respondents differed statistically. The Americans more readily agreed that they could not remember how much time they spent on things the previous day than the Malaysians. Neither group saw themselves as often "a little late," but the Malaysians showed that they felt this would happen to them more than reported by their American counterparts. Also, the former group was more prone to take one thing at a time, rather than plan their whole day. The remaining statements were clearly opposite of those presented on the positive side of this dimension and the two groups were not statistically significantly different and their answers were consistent with those given before.

Tenacity

The positive Tenacity dimension analysis revealed two statements where statistical difference existed between the two student groups. First, the Malaysians saw themselves as much more committed to stay with a project until it was finished, not considering the time lapse, than the Americans. They also were more prone to not see a project done until "every last detail is finished." Both the Americans and Malaysians had similar identification with doing one thing at a time rather than more than one, they both get back to tasks quickly after interruption, they are willing to commit large chunks of time to things with a "big payoff" and they prefer devoting time to single large projects than a number of smaller ones.

Finally, the negative Tenacity dimension will be discussed. The two items that showed statistically significant differences between the two respondent groups seemed not to have much relevance. They were asked only to maintain the integrity of the FAST scale items approach. The first was that Americans would rather be paid every week rather than twice a month and this was not a concern of the Malaysian students. The second showed that the Malaysian students usually finished projects started more often than their American peers. For the other six statements along which they could position themselves the responses reinforced that which was found on the T+ scale items.

Discussion and Implications

The limitations of this exploratory study include the small sample size of the Malaysian group, their various levels of acculturation into the U.S. scene, the diversity of their religious backgrounds (and its impact on past or future orientation) and their being asked to respond to the FAST test in English. There are also a series of questions concerning the FAST test itself. Though it has appeared in the literature and is being currently used to measure the psychological dimensions of time, the Alpha values are not strong. Further, the eight subscales, when analyzed in the current study did not produce consistently acceptable values of this important coefficient. In most cases the Coefficients Alpha were more acceptable for the Americans than the Malaysians, as one would expect, arguably because of potential language and cultural biases. There are needs to examine, modify and test the FAST scales and the eight dimensions used to form them. Further, these tests should be conducted across a variety of individuals within a broad spectrum of cultures.

What this means for the current project is that it is appropriate only to discuss consumer behavior implications as they relate to the individual items (the 64 scales presented). Since the eight FAST test dimensions, with one exception, do not show acceptable (.7 or greater) Coefficient Alpha values.

Examining the Focus Area. the Malaysians and the Americans both felt positively about the future and that things would be better. This implies that products, services, ideas and decision processes that impact on investment in the future progress, comfort or happiness of the individual and/or the family would be favorably considered and/or received. However, there was not a sense of desire for radical future change. The Malaysian participants identified more with the past than the Americans which would point toward an acceptance of products, services and behaviors with a touch of nostalgia.

Turning to the Activity Dimension. both the Malaysians and the Americans experienced a sense that time moved very swiftly for them though the feeling was stronger for the latter than the former. They also both reported that there were always things to be done that they did not have time to do. These preliminary findings suggest the marketplace behaviors and opportunities that would allow for more efficient time-saving activities on their parts would be sought out. This might have implications for increased use of stores where a variety of merchandise items or services were

available or a move toward greater acceptance of direct marketing for goods acquisition. Of course, this would not be possible in the near future for the Malaysians since within their home culture these methods of goods acquisition are not common nor are there strong trends toward them. The Malaysian participants also reported that they were less active (more observers than doers) than the Americans. This is most likely culturally true, but it could be being reinforced since these young people were not in their native setting. Being a bit slower of pace has implications for interaction and transaction from a consumer behavior standpoint. One would expect that interaction on the part of Americans would require greater patience and possibly longer lead times for task completion.

Considering the Structure Factors. the Malaysian respondents were more likely to see themselves as planners and schedulers than the Americans. One gets the sense that they often are processing time linearly and there is a stronger feeling of precision in their use of time and in the measurement of activities. This would suggest that purchasing behavior would be more likely to be planned in advance and longer lead times would have to be available for the acquisition of information and actual shopping or purchase. The Malaysians also indicated that they were more prone to do one thing at a time ("monochronic behavior") than the American respondents. This suggests that products or services or behaviors that facilitate or encourage "polychronic behavior" may not be appropriate for the Malaysians at this time. The Malaysian participants also felt that they would be "late" for things more often than was reported by the Americans. This could be a result of cultural conditioning or reality is ability to travel to be on time -- which is the case in a country such as Thailand. This circumstance reinforces the call for patience on the part of Americans in their interactions. Certainly one cannot state that the sense of timeliness or being on time that either the Americans or the Malaysians expressed is either good or bad -- it just is as it is and should be understood and accommodated for.

Finally, Looking at Tenacity. the Malaysian students showed a stronger penchant for procedural time processing. That is, they were more willing than the Americans to stick with a task until it was finished with a much lower regard for the time needed to complete the activity. This preliminary finding could point toward a greater willingness to spend the time necessary in search for goods or services until such a search was successful.

References available upon request.

A MODEL OF CONSUMER DECISION MAKING UNDER SEVERE TIME CONSTRAINTS: FIRST EMPIRICAL TEST

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Abstract

A model for predicting decision making under severe time constraints—panic decision making (PDM)—is presented and its eight structural factors are empirically tested for last minute Valentine's Day gift purchases. The U method was used to test for bias in the classification rates and the results support the overall model. Hypothesis testing for the influence of the model's structural factors, as well as testing for the stability of the coefficients, was accomplished by examining the signs of the total structure coefficients from 20 random subsamples. The majority of the hypotheses were supported.

Introduction

There is little consumer and economic research about the behavior of consumers making choices under panic-inducing conditions such as abrupt market transitions, banking failures, or "runs" on nondurable goods. In fact, except for the recent literature on impulse purchasing (e.g., Cobb and Hoyer 1986; Iyer 1989; Rook 1987) and family decision making (e.g., Davis, Hoch and Ragsdale 1986; Menasco and Curry 1989; Qualls 1987), much of the research in decision making has focused on individual consumers with ample time faced with making economic choices in relative social isolation (e.g., Granbois 1977; Park and Lutz 1982). Hence, Most of this research has been characterized by either little situational or temporal anchoring in the data gathering instruments or the research has taken place in laboratory settings that may be lacking in "mundane realism (Fromkin and Streufert 1976)."

Yet understanding consumer behavior during a situationally and temporally anchored episode is of interest in its own right. This interest is reflected in behavioral economic approaches to explaining and controlling collective consumer responses to monetary crises (e.g., Maital, Filer and Simon 1986; Schacter, Hood, Andreassen, and Gerin 1986), in consumer responses to crises of confidence in the marketplace such as the recent Chilean grape scare, and in the communication literature focusing on the consumption, effects and regulation of mass media (McQuail 1983). Earlier attempts to partially test a model used to explain consumer panic that might contribute to understanding the behavior of consumers who make decisions under duress have met with limited success (Strahle and Bonfield 1989). This study reports the results of

an initial, but more thorough test of this model for consumers engaged in last minute gift shopping.

A Panic Model

For a significant segment of consumers, the necessity of making important purchases under severe time constraints may lead to behavior consistent with other decisions that are clearly panic affected. The literature on panic as collective behavior reveals no parsimonious approach for understanding panic (e.g., Smith 1976). Indeed it is difficult to find much more than nominal agreement on its conceptualization (e.g., Grandjean and Taylor 1980) although the term itself has been in use at least since LeBon (1896).

Early conceptualizations of panic tended to focus exclusively on the psychological mechanisms of imitation, instinct and emotional contagion (Blumer 1946; Freud 1922). Suggestible individuals were seen to respond homogeneously to the overwhelming danger stimulus (Smith 1976), with the less suggestible persons eventually being "infected (Merloo 1950)" and rout occurring. Panics were seen to be analogous to, if not identical with, the fear reactions of many herd animals. In a desperate attempt for self-preservation, people regressed into irrational, instinctively motivated primal beasts (Freud 1922; Merloo 1950).

While early theorists had been largely concerned with the sudden presentation of a danger stimulus, Merloo noted the importance of the increasing fear of loss of individual freedom to act (Merloo 1950). The time span involved for increase in fear implies that panic may require an incubation period during which time the fear builds on itself until the individual becomes a panic participant. "...[T]here are acute reactions, and acute panics, but in most people the real answers to dangers are experienced in a later period (1950)." Smith (1976) empirically verified the existence of such a time span, suggesting the possibility of intervention at this point.

As a result of one early experimental study that sought to reproduce panic-like situations in the laboratory, Mintz (1951) suggested that panic was a unique adaptive response to a breakdown in "group cooperation... which can be interpreted in terms of unstable reward structures of the situations." Panic, then, should be viewed in terms of an adaptation to the onset of an overwhelmingly costly episode, and not simply in terms of an irrational

return "of the human soul to the great unknown (Merloo 1950)."

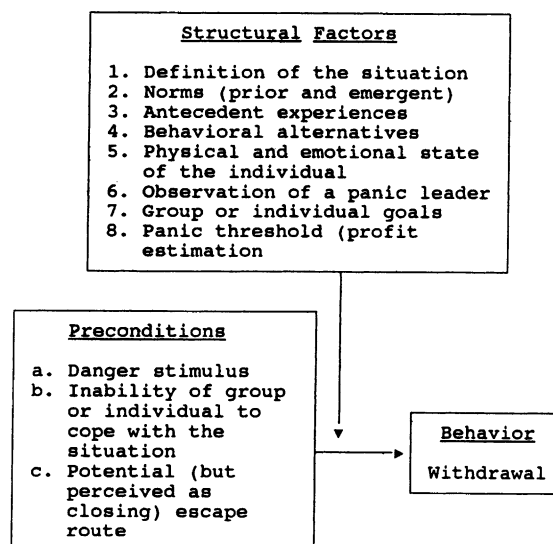
Following a reanalysis of several prior approaches to panic, Smith (1976) found empirical support for the application of emergent norm theory (Turner and Killian 1972). Following this theory, panic behaviors occur because they are perceived as appropriate or required as a result of a redefinition of behavioral expectations (Smith 1976). However, since the empirical evidence cited was retrospective reporting of a brief incident rather than the result of protocol analysis, it is not clear whether the "panic norm" emerged during the incident or only in retrospect.

Clearly, what initially had been characterized as a phenomenon quite similar to, if not identical with, panic reactions among herd animals has evolved into a highly complex and lengthy research stream in the area of collective behavior. Strahle and Bonfield (1989) have developed and partially tested a parsimonious model derived from this research stream that may be useful in exploring the marketplace behavior of consumers who suddenly find themselves forced to make decisions under severe time constraints (Figure 1).

The model has three components. The first involves the three preconditions: "...a panic cannot occur without the participants' perception of the danger stimulus, their inability to cope with the threatening situation, and the existence of potential, but closing, escape routes (Strahle and Bonfield 1989)." The second includes eight structural factors that act to facilitate or inhibit the emergence of panic behavior. These will be examined in more detail below. The third component is the behavior of the consumers, which the authors limit to a decision to withdraw. In a more general sense, however, choosing to withdraw is just one example of a variety of possible survival-oriented coping decisions in a consumer context. Rather than withdrawing, for instance, consumers who find themselves in last minute shopping situations may participate in a buying spree. Hence, in the research reported here, the behavior of interest becomes ego-centered, survival-oriented, coping choices or, more specifically, panic decision making (PDM).

Strahle and Bonfield have previously tested the relationships between the preconditions and the withdrawal alternative using a series of case analyses involving a variety of types of panics in a historical context (1989). Their research is not duplicated here. Citing methodological and ethical problems in studying panic per se, Strahle and Bonfield were unable to use their secondary data base to test what is perhaps of more interest--the relationships between the structural factors and the decision to

FIGURE 1
A MODEL OF INDIVIDUAL DECISION MAKING
UNDER SEVERE TIME CONSTRAINTS



withdraw. Since present interest is in the broader class of outcomes, PDM, many of these methodological issues no longer obtain. Hence, the untested relationships in the more general model between the structural factors and PDM can be examined in a variety of settings leading to a better understanding of the behavior of consumers who make marketplace decisions under severe time constraints. The situation chosen for this study involves last minute gift shopping (Valentine's Day).

Structural Factors: The Hypotheses

The model shown in Figure 1 contains eight structural factors.

Definition of the Situation (SitDef). Following Hoult (1969), the definition of the situation refers to the consumers "interpretation of any given set of circumstances, such interpretations generally being largely dependent upon the cultural values in terms of which the individual has been socialized (p. 100)." Does the consumer feel that a gift is expected on this occasion? Is this situation one that traditionally involves gift giving in his or her family? To the degree that the consumer defines the occasion as requiring a gift, we would expect this factor to be positively related to emergence of PDM.

H1: The greater the perceived situational expectations (situational definitions), the greater the likelihood of panic decision making.

Norms. Norms are "rules in the game of life (Thomlinson 1965)." As such, they serve as guides to behavior. One type of norm, particularly in family gift giving, is the norm of reciprocity (Banks 1978; Belk 1981). As Belk (1976) points out, this rule prescribes our obligation to

give, receive and repay. To the extent that the consumer feels that reciprocity is warranted, this factor is expected to be positively related to the emergence of PDM. On the other hand, Smith's (1976) work suggests that in panic situations conventional norms, like reciprocity, are disregarded in favor of emergent or ad hoc norms. Hence, the second hypothesis is stated in terms of conventional norms.

H2: The greater the agreement with conventional norms, the greater the likelihood of panic decision making.

Antecedent Experiences (AntExp). The collective behavior literature contains many examples of individuals using prior experience (not necessarily in similar situations) to anticipate, avoid, or guide them through a subsequent panic episode (LeFebvre 1973; Shore 1982). Consumer behavior research has shown gift giving, particularly to a spouse or close friend, to be a very important event (Belk 1981; Clarke and Belk 1978). Giving a birthday present to a loved one was treated as antecedent experience for gift giving on Valentine's Day. To the extent birthday gift giving had been forgotten in the past, a negative experience for the respondent, and to the extent this experience generalizes to other decision making situations, this factor is expected to be positively related with the emergence of PDM.

H3: The greater the frequency of past PDM, the greater the likelihood of panic decision making.

Behavioral Alternatives (BehAlts). As McArthur (1981) has argued, the time available, or perceived to be available, for considering alternatives in terms of their survival value becomes the major factor for decision makers in these situations. In their exhaustive review of decision making in general, as well as in crisis situations, Shapiro and Gilbert (1975) concluded:

- (1) "In a crisis situation, there is a breakdown in the intellectual abilities of the individual in terms of processing information, assessing the environment, and analyzing the alternatives."
- (2) "The greater the perceived time pressure, the smaller the number of alternatives considered, the greater the likelihood that decisions will be made before necessary, and the greater the likelihood of incorrect choice of alternatives."

To a large degree, these results mirror findings in the consumer behavior literature (Wright 1974; and Wright and Weitz 1977). To the extent that consumers considered postponing their purchases, it is expected that behavioral alternatives will

be inversely related to the emergence of PDM.

H4: The greater the likelihood of considered behavioral alternatives, the lesser the likelihood of panic decision making.

Physical and Emotional State (P-MState). As indicated by studies of fatigue and panic in military units and civilian communities during wartime, the physical and emotional state of the individual can have a marked impact on behavior during a panic episode (Foreman 1953; LeFebvre 1973; Schultz 1964; Shapiro and Gilbert 1975). As would be expected, people under less pressure and feeling less agitated were found to be less likely to panic. This common sense finding supports the notion that people do not like to remain in situations that are unpleasant or stressful. Hence, it is expected that consumers who are in a positive frame of mind will be less likely to engage in PDM than their less positive counterparts.

H5: The unhappier the consumer is to be in the last minute decision making situation, the greater the likelihood of engaging in panic decision making.

Observation of a Panic Leader (Leader). In the collective behavior literature, Merloo (1950) has observed:

"Although panic is generally a mass reaction, we realize that the individual with personally unstable qualities may induce or start panicky reactions and spread them among others. In a difficult situation he has but to cry or yell or to display a paroxysm of fear, and he will infect others with his own neurotic behavior (emphasis added)."

Smelser (1963) and Smith (1976) have shown that many panic participants took their cues from such individuals. Perhaps they were willing to believe and follow the panic models because their behavior was inexplicable in any other light than flight for survival. In gift giving, does the consumer know anyone else who also has delayed gift purchases? Did knowing about one or more of these people serve to remind them to gift shop at the last minute?

H6: The greater the likelihood of the observation of a panic leader, the greater the likelihood of panic decision making.

Group or Individual Goals (G-IGoals). Smith (1976) found that in primary group relations during episodes of duress, children look to their parents for appropriate responses, and generally, wives look to their husbands for guidance. In the Tower of London bombing, children

tended to panic if their parents did, and not to panic if their parents did not (p. 12). Low group morale has also been shown to contribute to PDM (Shapiro and Gilbert 1975). It seems that in light of the presence of the danger stimulus and the immediacy of the threatening situation, people must decide whether to continue to support the goals of the group (e.g. group well-being). Research has shown that in adverse situations requiring individuals to make decisions under severe time constraints, cooperation is scarce (Quarantelli 1957). In gift giving, networks of exchanges are established and maintained requiring some effort and planning to select an appropriate gift because it will reflect on the giver as well as recipient (Belk 1976, 1981; Clarke and Belk 1978). To what extent does the consumer feel that the selected gift shows the recipient that the giver cares about them; that the gift required some thought? To the extent that the consumer considers group goals to be salient, it is expected that this factor will be inversely related to PDM.

H7: The greater the salience of group goals, the lesser the likelihood of panic decision making.

Panic Threshold or Costs (Threshold). Exchange theory conceptualizes the individual as a reward-seeking, punishment-avoiding organism, operating in a social situation approximating that of an economic market (Blau 1964; Ekeh 1968; Homans 1974). From this perspective, the last structural factor, panic threshold (profit maximization), refers to that point beyond which the costs of not giving a gift are unacceptable. In gift giving, these costs may be calculated in terms of being in trouble or the likelihood of hurting someone's feelings. In this case, the higher the costs, the more likely it will be that the consumer will participate in PDM.

H8: The higher the costs associated with failing to comply with other's expectations, the greater the likelihood of panic decision making.

Methodology

Data were collected to explore the linkages between structural factors and panic decision making in the case of last minute gift shopping for Valentine's Day for two reasons. First, the relationships between the preconditions and the more restrictive dependent variable, the decision to withdraw, were initially tested with different types of panic inducing situations (Strahle and Bonfield 1991). Second, gift purchasing is more clearly consumer behavior than many included in the initial test. Thus, the results are more easily generalizable to other time constrained consumer decision making situations.

This research addresses two related questions. The first, and more general, is how well do the eight structural factors predict the emergence of PDM under severe time constraints? The second is to what extent does this portion of the model explain the occurrence of PDM? As Hunt (1983) pointed out, explanation and prediction are not interchangeable. It is possible for a model to predict the emergence of a phenomenon without an ability to be used to explain its occurrence. Hence, the utility of a model can be judged by its ability to both explain and predict.

Addressing the first question involves testing the ability of the model to discriminate between panic decision makers and non-panic decision makers. Following Strahle and Bonfield (1989), not all consumers who find themselves suddenly forced to make a marketplace decision engage in PDM. The ones who do are most likely to be those who are surprised to find themselves in this situation. Since all respondents were interviewed while fulfilling a social obligation at the last possible moment, panic decision makers were operationally defined as those consumers who previously had rarely been required to make last minute decisions in buying a Valentine's Day present. Addressing the second question involves testing the hypotheses derived above. Discriminant analysis provides the means of addressing both issues simultaneously (Dillon and Goldstein 1984).

The Study: Valentine's Day

This study was conducted using exit interviews from Malls in central New Jersey and Philadelphia suburbs on Valentine's Day 1990. The data were gathered by trained and supervised student interviewers as shoppers exited the malls. Questionnaires were developed and pre-tested. Interviewer preparation consisted of both classroom instruction and field training at each location prior to the target dates.

Analysis revealed 77 respondents who were most and least likely to panic given their previous experience in last minute Valentine's Day behavior. The sample included 56% males, had a median age of 23.7, was 90% caucasian, and had 66% who had never married. In addition 73% were employed, with approximately 80% in white-collar jobs.

The PDMS in this study tended to be younger ($F = 2.03$, $p = 0.032$), have fewer children ($\chi^2 = 8.07$, $p = 0.032$), and were less likely to have recognized the lateness of the situation ($\chi^2 = 10.51$, $p = 0.015$) than non-panic decision makers. Predictably, PDMS were more likely to be in a hurry ($\chi^2 = 7.97$, $p = 0.005$), less likely to have considered leaving

the mall to shop elsewhere ($F = 2.59$, $p = 0.004$), and less likely to have felt that the amount of time they spent shopping was longer than expected ($F = 20.56$, $p = 0.000$) than non-PDMs.

The overall discriminant model coefficients, as determined via SPSSX discriminant procedures, ($\chi^2 = 46.058$, $p = 0.000$) are presented in Table 1. The Wilk's Lambda (0.52) for this model is also fairly good as is the canonical correlation (0.69). The tau (0.714) indicates that classification of Valentine's Day shoppers on the eight structural factors results in 71% fewer errors than would be expected by chance. The confusion matrix shown in Table 2

indicates that over 85% of the Valentine's Day shoppers were correctly classified by the model. The results of applying the U method are displayed in Table 3. Consistent with the results shown in Table 2, over 85% of the cases were correctly classified using the model's eight structural factors.

The jackknifed equation was derived by holding out 20 non-overlapping sets of ten randomly selected cases. The results showed 17 of the 18 coefficients significant at the $\alpha = .05$ level or better, supporting the hypothesis that the structural factors in the panic model are "true" discriminators between PDM and non-PDM consumers. In terms of Valentine's Day gift shopping then, the eight structural factors (Figure 1) provide a reasonably good prediction of the emergence of panic decision making.

The total structure coefficients for the Valentine's Day cases are presented in Table 4, as are the total structure coefficients from the 20 structure matrices generated in the process of demonstrating the stability of the overall model.

In the case of Valentine's Day shoppers, six of the eight hypotheses cannot be disconfirmed. These results indicate that (1) the greater the perceived situational expectations, (2) the greater the agreement with conventional norms, (3) the greater the frequency of past PDM in other buying situations, (4) the lower the number of likely alternatives, (5) the unhappier the consumer about being in the last minute buying situation, and (6) the greater the salience of individual goals, the greater the likelihood of a respondent's engaging in PDM. Two of the hypotheses were disconfirmed. For hypothesis 8, the results indicated that the higher the costs of failing to comply with other's expectations, the lower the likelihood of PDM. It may be that a selection factor was at work in this situation such that consumers for whom the social costs of noncompliance are very high would not be sur-

prised by the gift-giving event. Indeed, the results of a comparison explicitly designed to explore this possibility among Father's Day shoppers found earlier shoppers were more likely to agree that noncompliance would "cause hurt feelings" ($\chi^2 = 10.32$, $p = 0.030$) than those shopping on Father's Day itself. Finally, non-PDM respondents were more likely than PDMs to know others who had waited until the last minute to purchase a Valentine's Day gift. While rationalization may also play a role here, it may be that this rather traditional gift-giving event is not as socially significant for them and their friends as it is for the PDMs.

Conclusions and Implications

This study was conducted to test the relationships of the eight structural factors (Figure 1) to whether people absorbed in making consumer decisions under severe time constraints engage in panic decision making. Analysis of the structural coefficients for the Valentine's Day study showed six of eight hypotheses supported. While these findings suggest further refinement and testing of the model, they also support its present level of development.

The discriminant function coefficients for the Valentine's Day study were shown to provide high levels of correct classification both using standard discriminant procedures (SPSSX) and the U method recommended for generating unbiased estimates of the classification error rates. In addition, application of the jackknife technique supported the hypotheses that the discriminant function coefficients in the two studies were stable.

An important, and expected, finding is that PDM is not a simple phenomenon. For example, it is clear that not all people involved in consumer decision making under severe time constraints engage in PDM.

Disconfirmatory evidence with respect to the observation of a panic leader (Leader) and panic threshold (Threshold) was found in the Valentine's Day study. Since the genesis of the model lies in situations with far more serious expected consequences than would be expected from failure to buy a Valentine's Day gift for a loved one, these findings with respect to Leader and Threshold are not surprising. Perhaps respondents were far more likely to see advertisements (Valentine's Day) than observe someone panicked because they had not yet bought a gift. For Valentine's Day shoppers, the G-IGoals hypothesis was supported bolstering the position that Valentine's Day presents support inter-active, dyadic relationships.

More important, the hypotheses concerned with definition of the situation, norms, antecedent experiences, behavioral alternatives, and physical and emotional state were supported.

The greatest value of understanding consumer decision making under severe time constraints may be the recognition of possible interventions. For example, when consumer home mortgage rates are rising, some potential home buyers will engage in PDM, buying a marginally satisfactory "starter" home at a less than satisfactory rate of interest to avoid even higher rates in the future. Since bankers want to avoid foreclosure, they may see fit to shorten the application process and to aid in the education of potential mortgage customers making these "satisficing" purchases.

PDM occurs in ordinary consumer situations. Consider the phenomenon of PDM occurring around the purchase of Cabbage Patch dolls when they were first introduced. People stood in line for hours hoping to get the few dolls delivered to each store each day, even when the prospect of delivery--let alone adequate numbers--was unknown. Peoples' social standing, and perhaps more important, the social standing of their children, was threatened by the possibility of not owning this doll. PDM may also result from being suddenly thrust into situations for which the decision maker is unprepared such as the funeral following the unexpected death of a loved one or the need for medical services while away from home on a business or pleasure trip.

Finally, PDM surrounds economic downturns. There have been many runs on U.S. savings and loan institutions hastening their failure. While the fault for these failures may not lie in consumer PDM, substantial reduction would have prevented some failures and some misery for the PDM participant.

TABLE 1
CLASSIFICATION FUNCTION COEFFICIENTS
FOR THE PDM MODEL

Variable	PDM	nonPDM
Constant	-4.426	-2.721
SitDef	-0.316	-0.423
Norms	0.202	0.073
AntExp	1.315	0.226
BehAlts	-0.193	-0.307
P-MState	-1.969	-2.632
Leader	-1.033	-0.654
G-IGoals	-0.027	0.036
Threshld	0.210	0.376

Not all last minute decision makers are PDMs. People who did not engage in PDM knew others in similar last minute decision making situations. Thus, it could be hypothesized that habitual last minute decision making is a family characteristic, or that last minute decision makers are likely to become friends with others who frequently make decisions under severe time constraints. Another possibility is that frequent last minute decision makers who do not engage in PDM are procrastinators, although chronic procrastinators may also be frequent panic decision makers. Finally, it is also possible that people who are more likely to engage in PDM also know others, including family members, who have engaged in PDM. In short, the empirically supported model of consumer decision making under severe time constraints leads to a number of important questions. The model, itself, acts as a rich conceptual framework for addressing these questions.

TABLE 2
DISCRIMINANT FUNCTION CLASSIFICATION
RESULTS

		Predicted	
		Not Panic	Panic
Actual not Panic	No. %	34 44.1	7 9.1
Actual Panic	No. %	4 5.2	32 41.6
		Correctly classified: 85.7%	

TABLE 3
DISCRIMINANT FUNCTION CLASSIFICATION
RESULTS

		U-Method Results	
		Predicted	
		Not Panic	Panic
Actual not Panic	No. %	35 45.4	7 9.1
Actual Panic	No. %	4 5.2	31 40.3
		Correctly classified: 85.7%	

TABLE 4
STRUCTURE COEFFICIENTS

Sample Number	SitDef	Norms	AntExp	BehAlts	P-MState	Leader	G-IGoals	Threshld
Total	0.032	0.092	0.947	-0.058	0.184	-0.153	-0.143	-0.132
1	0.113	0.195	0.918	-0.003	0.170	-0.178	-0.107	-0.077
2	0.096	0.181	0.935	-0.008	0.202	-0.187	-0.143	-0.023
3	0.061	0.094	0.925	-0.038	0.153	-0.184	-0.165	-0.121
4	0.024	0.081	0.917	-0.160	0.254	-0.177	-0.180	-0.103
5	0.017	0.120	0.953	-0.065	0.201	-0.149	-0.115	-0.116
6	0.011	0.126	0.916	-0.130	0.237	-0.165	-0.090	-0.182
7	-0.035	0.014	0.942	-0.062	0.207	-0.127	-0.128	-0.187
8	0.032	0.077	0.932	-0.036	0.108	-0.170	-0.086	-0.211
9	-0.021	0.080	0.935	-0.075	0.181	-0.191	-0.091	-0.201
10	-0.002	0.081	0.950	-0.067	0.197	-0.094	-0.147	-0.171
11	-0.024	0.081	0.938	0.033	0.184	-0.097	-0.195	-0.146
12	0.031	0.135	0.928	-0.042	0.237	-0.094	-0.201	-0.087
13	0.060	0.091	0.932	0.028	0.178	-0.213	-0.025	-0.098
14	0.061	0.157	0.907	-0.059	0.233	-0.049	-0.148	-0.078
15	0.015	0.058	0.944	-0.069	0.221	-0.150	-0.164	-0.164
16	-0.025	0.068	0.947	-0.094	0.158	-0.124	-0.065	-0.167
17	-0.018	0.055	0.899	-0.083	0.214	-0.110	-0.259	-0.021
18	0.047	0.097	0.952	-0.065	0.251	-0.091	-0.173	-0.043
19	0.008	0.082	0.920	-0.128	0.134	-0.101	-0.130	-0.133
20	0.086	0.151	0.948	-0.044	0.233	-0.155	-0.110	-0.110
Maximum	0.113	0.195	0.953	0.033	0.254	-0.049	-0.025	-0.021
Minimum	-0.035	0.014	0.899	-0.160	0.108	-0.213	-0.259	-0.211
Average	0.027	0.101	0.932	-0.058	0.198	-0.140	-0.136	-0.122
Hypothesized Direction	+	+	+	-	+	+	-	+

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AN EMPIRICAL EVALUATION OF DECISION HEURISTICS
IN THE PROCESS OF EVOKED SET FORMATION

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Abstract

This study investigates the consumer's use of five heuristics (conjunctive, disjunctive, lexicographic, linear additive, and geometric compensatory) in the evoked set formation regarding beer brands and fast food outlets. By using a decomposition approach in determining the consumers' choice heuristics, it was found that the conjunctive heuristic is the most often used decision model in the evoked set formation for the two product classes.

Introduction

An important axiom of consumer decision making is that consumers have a limited information processing capacity (Miller 1956). Therefore, faced with a large amount of brand and information stimuli, the consumers often have to devise means of simplifying their purchasing task. One of the results of this simplification process has been the formulation of what Howard has referred to as an "evoked set," which includes the brands the consumers consider acceptable for the next purchase (Howard 1963).

Two fundamental issues relative to the evoked set phenomenon can be identified as: 1) why consumers move to simplify and limit the number of brands; and 2) how the consumers form their evoked sets. The first question has been addressed by researchers using the Miller (1956) and Wallace (1961) arguments that the consumer limits the number of brands and/or attributes in consideration due to the limitation of cognitive capacity (Howard and Sheth 1969; Ostlund 1973; Hauser and Wernerfelt 1990).

The relative paucity of research on the second question, the process of forming an evoked set, has been partly attributable to the lack of a sound theoretical base. However, recent developments in the consumer information processing approach provide a guidance for this research. An appealing proposition has been to view the formation of an evoked set as the consumer's first stage of a two-stage choice strategy (Parkinson and Reilly 1979; May 1979; Myer 1979; Brisoux and Laroche 1981). In the two-stage choice model, the consumer decides in the first stage which brands to consider, that is, forms an evoked set by applying a decision choice heuristic, and when a purchase situation arises, the consumer moves to the second phase, which is to compare the remaining brands. The main purpose of this study is to investigate an issue that emanates from this view that the evoked set is the result of the first stage of phased strategy: choice heuristics used by consumers in formulating evoked sets. It builds upon an earlier study by Brisoux and Laroche

(1981) and extends it to include a service choice situation with improved methods.

Literature Review

Evoked Set Formation

Much less research has been conducted on the formation of the evoked set than on its size and content. Only a few studies have had a primary focus on evoked set formation; most notably among them, the studies of Parkinson and Reilly (1979) and Brisoux and Laroche (1981).

Parkinson and Reilly (1979) first investigated the dynamics of evoked set formation from an information processing perspective. Regarding the formation of evoked set as the consumer's first stage of a two-stage strategy, the authors considered five decision heuristics: unweighted linear compensatory, weighted linear compensatory, conjunctive, disjunctive, and lexicographic heuristics. They then examined these heuristics using toothpaste and deodorant as product classes of interest. The results showed that the best fitting heuristics were the unweighted linear compensatory and lexicographic heuristics for both perfect criterion and best criterion. When perfect criterion -- i.e., an exact match between the actual and simulated evoked set -- was applied, the lexicographic heuristic showed a 50% success rate for toothpaste and a 26% success rate for deodorant, while unweighted linear compensatory showed 45% and 33% success rates respectively.

The approach the authors employed can be regarded as a composition approach as they compared the actual evoked set with those composed by the decision heuristics from the collected data on perceptions, importance of attributes, and cutoff points. However, this approach appeared to have methodological difficulties in the areas of data collection and analysis. Parkinson and Reilly reported that it was fairly difficult for the subjects to complete the measures of conjunctive and disjunctive cutoff points and therefore any response errors are probably magnified during the simulation procedure.

Brisoux and Laroche (1981) investigated the evoked set formation for regular male beer drinkers in a specific scenario. Based on the phasing model (Russ 1971; Howard and Sheth 1969) -- that is, consumers establish their evoked set by using one cutoff heuristic (i.e., a conjunctive or disjunctive heuristic) -- they tested six decision heuristics; three non-compensatory heuristics (conjunctive, disjunctive, lexicographic) and three compensatory heuristics (one linear compensatory and two types of geometric compensatory which

center on the ideal point or the preferred brand). Brisoux and Laroche found that on a perfect criterion basis, the best fitting heuristic was the conjunctive one, which showed a 72% success rate in all respondents.

The methodological procedure for the analysis employed in the study was what Brisoux and Laroche called a "decomposition" approach. There were four steps involved in the analysis: 1) by using the data on brand perceptions, determine if there are any segments of homogeneous perceptions, 2) derive a product space for each segment by using multiple discriminant analysis, 3) decompose the product space a posteriori according to six decision heuristics for each individual, and 4) find out if the evoked set zone provided by each decision heuristic contains any brand other than the evoked ones. (A decision heuristic is considered to be successful if the zone contains only evoked brands.) The decomposition approach overcomes the methodological problem found in the composition approach, as the researchers do not need to measure the conjunctive and disjunctive cutoff points directly.

Research on the process of evoked set formation is still in its infancy. The only product classes which have been investigated are toothpaste, deodorant (Parkinson and Reilly 1979), and beer (Brisoux and Laroche 1981). Parkinson and Reilly called for caution in interpreting their results due to methodological problems. Brisoux and Laroche controlled the homogeneity of respondents by limiting their research to a specific group in a specific scenario (regular male beer drinkers.) Therefore, questions about generalizability of the findings across a variety of product classes or about factors which affect the use of the decision heuristic in the evoked set formation are still unresolved.

Decision Heuristics

There has been a large number of studies on decision heuristics in the marketing literature. In this study, only those that consider phased strategies will be reviewed as these studies provide insights for exploring the process of the evoked set formation.

In one of the earlier information processing studies, Russ (1971) reported that his sample of housewives eliminated alternatives from further consideration (often during search) typically on the basis of unacceptable values of one or more attributes. Of those satisfactory alternatives which remained, they chose the alternative which was lexicographically best. The author commented that a number of factors such as the number of attribute and existence of particularly poor values of attributes influenced the way in which the subjects evaluated alternative brands.

Pras and Summers (1975) examined the predictive abilities of three alternative heuristics, namely, conjunctive, lexicographic, and linear compensatory heuristics, for preference rank orders under different conditions manipulated by

the number of attributes and the acceptability of alternatives. Using a rank-order correlational technique, the authors found that when all alternatives were considered, the conjunctive heuristic was the best predictor of preferential rank order (rank order correlation = 0.781) followed by linear additive heuristic (roc = 0.695). On the other hand, when only acceptable alternatives are included, the linear additive heuristic (roc = 0.556) was slightly better than the other two heuristics. This finding supports the notion of elimination phase using a conjunctive heuristic.

The studies by Payne (1976), Lussier and Olshavsky (1979), and Kaas (1984) investigated the effects of task complexity on the use of decision heuristics. The results of these studies suggest that when the number of alternative brands is large, consumers tend to use noncompensatory heuristics (e.g., the conjunctive or elimination by aspects model) to eliminate unacceptable brands, followed by compensatory heuristics (e.g., the linear compensatory or additive difference model) to evaluate a smaller set of brands.

The focus of Park (1976) and Park and Sheth (1975) was on the effects of prior familiarity and perceived product complexity on the consumer's use of decision heuristics. The heuristics investigated were linear compensatory, conjunctive, and disjunctive heuristics. According to their findings, the conjunctive heuristic had the highest predictive power when product familiarity was moderate and product complexity was high. The unweighted linear compensatory was the best predictor when product familiarity was low whereas the weighted linear compensatory was the best when product familiarity was moderate to high. After examining his findings, Park (1976) further noted that there are two main ways to simplify the evaluation task: (1) reduce the number of attributes to be cognitively processed in evaluation and (2) reduce the number of acceptable brands in the evoked set. He suggested that the unweighted and weighted linear compensatory heuristics are the most appropriate for the first type of simplification process. With respect to the second type of simplification, he stated that "the consumer might most effectively use the conjunctive model (for rejection) for the purpose of reducing the number of brands (in order to simplify the decision task) in his evoked set during the transition period between the low and high levels of familiarity." (p. 150)

Although this quotation itself provides meaningful insights for exploring the evoked set formation, Park's conceptualization of the evoked set is debatable. The author claimed that the acceptable brands in the evoked set would be reduced by rejecting unacceptable brands using the conjunctive heuristic. If one considers that the evoked set is a result of the simplification process, it would be more appropriate to say that the conjunctive heuristic may be most effectively used for brands in the awareness set for unacceptable brands to be rejected.

The study by Bettman and Park (1980), investigating the effects of prior knowledge and experience, and phase of the choice on the decision process, found that consumers with more knowledge and experience tend to use the PBB (processing by brand) form of processing. Another result showed that consumers tend to use an attribute based evaluation (i.e., PBA) in early phases and brand based evaluation (PBB) in late phases of decision making. Furthermore, among the six alternative decision heuristics considered, the authors found that information elements compatible with the elimination-by-aspects tend to be used early in the decision process, and elements of additive difference heuristic tend to be used in later phases of the process. Finally, elements compatible with the conjunctive heuristic tend to be used in the later part of the elimination phase by groups with low and average knowledge and experience. Regarding this finding, the authors commented that subjects with low and average knowledge and experience might require time to set up cutoff points.

This review, though not exhaustive, has shown that there is ample evidence for phased strategies. Some studies found the evidence by directly examining the process by which consumers evaluate alternatives (Russ 1971; Payne 1976; Lussier and Olshavsky 1976) while other studies deductively inferred the evidence by examining the predictive abilities of heuristics (Pras and Summers 1975). Although these studies do not deal specifically with the evoked set phenomenon, some researchers explicitly or implicitly related their findings on the phased strategies to the concept of evoked set.

As stated earlier, the focus of this study is on the elimination stage of the phased strategy. Specifically, it examines the use of five selected heuristics (conjunctive, disjunctive, lexicographic, linear additive, and geometric compensatory) by consumers in the evoked set formulation regarding beer brands and fast food outlets. Instead of relying on the traditional method of experiment in tracing the consumer's choice heuristic, the decomposition method used in this study employs survey data collected from the general population.

Methodology

Sample

The beer data were collected through personal interviews of randomly selected respondents in two small adjacent towns. For each town, streets were randomly selected, and for each street, every second household was solicited for participation in the study. For each household, the person with a date (i.e., month and day) of birth closest to the date of the survey was interviewed. In addition, the sample was restricted to consumers aged 18 years and over who drink at least one bottle (12 ounces) of beer per week. From approximately 900 households contacted, 260 consented to participate, which yielded 234 usable questionnaires. The average

age of the participants was 37 years, 81% were males and 19% females, 34% were blue collar workers, and 52% had completed high school only.

The fast food data were collected in a major metropolitan area with the help of managers of various companies who provided lists of employees willing to participate in the study, and acted as go-between. Copies of the questionnaires were left with the employee to self-administer, and the completed questionnaires were to be returned in exactly one week. In all 20 companies participated, and the number of questionnaires distributed varied between 3 and 24. In addition, questionnaires were also collected from students at two universities and church attendees. Of the 273 questionnaires distributed, 243 were returned, and 235 were usable. Although the sample is a convenience one, it is well distributed in terms of age (41% under 25 and 26% over 40), sex (43% males, 57% females), and education (23% high school, 24% junior college, 30% undergraduate, 23% graduate).

Questionnaire

Among other responses contained in each data set, two kinds of information were used for this research: the consumers' perception of brands as well as categorization of brands for each product class. The consumers' perception of brands was measured for the most salient attributes of each product class, using nine-point semantic differential bi-polar scales. The selection of specific attribute scales was made based upon the results of a pre-test, the researcher's judgment, and a review of previous similar research.

Measurement of the evoked set was adapted from the Brisoux-Laroche brand categorization model (Church, Laroche and Rosenblatt 1985) and used the following questions:

What is the brand of beer that you would consider buying? If, for some reason, this brand was not available, what other brand(s) would you be willing to drink instead? Any other? (Unaided)

Please indicate which fast food outlet would you prefer to eat at. Suppose, for whatever reason your first choice is no longer available. From the list below, what other fast food outlet would you consider eating at? (Aided)

Analysis

The decomposition approach developed by Brisoux and Laroche (1981) is employed to explore the consumers' use of decision heuristics for the evoked set formation for the two product classes. This approach develops a perceptual space for the sample and decomposes this space according to the rules of consumer decision heuristics.

The decomposition approach derives a product space by using Johnson's procedure (1971). In this procedure, a product space is built by means of a multiple discriminant analysis.

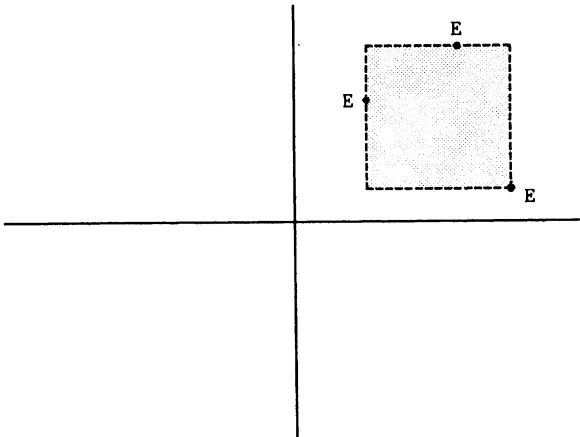
After a perceptual product space is determined by the discriminant functions, this space is decomposed a posteriori according to five decision rules; three non-compensatory (conjunctive, disjunctive, and lexicographic heuristics) and two compensatory (linear additive and geometric compensatory heuristics, the latter centered on the most preferred brand.) This decomposition procedure is done for each individual as each individual has a different configuration of brand perceptions. **Figure 1** shows one example of the procedure, i.e., the shaded area would be the evoked set zone if the model were true. For each case, the evoked set zone is defined as the smallest area containing all evoked brands. A decision rule is considered successful if that zone does not contain any brand other than the evoked ones. If, however, the zone does contain one or more brands which are not evoked brands, the next step would be to find out to which category these "offenders" belong (Brisoux and Laroche 1981, p. 358).

One of the limitations in the study conducted by Brisoux and Laroche (1981) was that they only looked at minimum cut-off points. In this study, maximum cut-off points as well as minimum ones are considered. It is also an application of the same procedure to services. In addition, whereas Brisoux and Laroche used an aided measure of the evoked set for beer brands, this study uses an unaided measure.

Figure 1

Evoked Set Zone As Defined By the
Logic of a Decision Heuristic
(Assuming Two Discriminant Functions)

The shaded area is the smallest one which
(1) is representative of the decision heuristic,
(2) contains all evoked brands.



Example: Conjunctive Heuristic: Derived cutoffs on all attributes.

For the first part of the analysis, the SPSS-X package is used to obtain discriminant functions and compute discriminant scores for each brand. For the second part of the analysis, a program

was developed using PASCAL language. The program defines an evoked set zone for each individual according to each decision heuristic and finds "offenders" in the zone.

Findings and Interpretation

Beer

A multiple discriminant analysis employed to develop a product perceptual space for the 16 brands of beer showed four significant discriminant functions, explaining 53.6, 27.9, 9.8 and 3.4 percent of the total variance, respectively. Since the fourth function explains only 3.4 percent of total variance, it was decided to use only the first three functions for the rest of the analysis.

Table 1 presents the results of correlations between the first three functions and the perceptions of respondents. The table shows that attributes such as "Light/Heavy" and "Mild/Harsh" are highly correlated to Function 1. Function 2 is highly correlated to attributes such as "Would/Would not serve to my friend" and "Decreasing/Increasing in popularity." Function 3 is correlated to the attribute "For heavy/For occasional drinkers." Taking this into account, these three functions can be interpreted as the "Strength," "Popularity," and "Drinker" dimensions, respectively.

TABLE 1
CORRELATION RESULTS BETWEEN THE DISCRIMINANT
FUNCTIONS AND RESPONDENTS' PERCEPTION FOR BEER

Attributes	Function 1	Function 2	Function 3
Light/Heavy	.89459*	-.05994	-.33495
Would/Would not serve to my friends	.05266	.68671*	-.05566
Decreasing/Increasing in popularity	.32547	.66371*	.06062
For heavy/occasional drinkers	.29719	-.38921	.77783*
For young/older people	.39291	.44790	.42550
Mild/Harsh	.59715*	.23932	-.11322
Not bitter/Bitter	.36576	.14516	-.00337
Easy/Hard to digest	.34580	.32343	-.13707

Based on these three discriminant functions, an evoked set zone was defined according to each decision heuristic for each individual. Then, in order to determine whether or not a decision heuristic was successful, the number of non-evoked brands (i.e., brands in hold or reject set) in an evoked set zone was examined. If the zone contained only evoked brands, then the decision heuristic was considered as successful for that individual.

Table 2 presents percentages of cases for which

each heuristic was successful as well as the classification of brands which were found in the zone determined by a heuristic. The table shows the conjunctive heuristic had the highest success rate (62.0%) among the five decision heuristics. This result supports not only the findings by Brisoux and Laroche (1981), but also several studies on the phased strategies such as Payne (1976), Pras and Summers (1975), and Lussier and Olshavsky (1979).

TABLE 2
RESULTS OF THE DECOMPOSITION APPROACH FOR BEER

Percent of cases for which the zone of evoked set brands defined by the decision heuristic contains			
Decision Heuristics	No other brand	At least one reject brand	At least one holdbrand
Conjunctive	62.0%	29.1%	18.8%
Disjunctive	12.4%	67.9%	62.0%
Lexicographic	34.6%	49.6%	38.0%
Linear			
Compensatory	47.8%	37.4%	28.9%
Geometric			
Compensatory	37.9%	47.4%	43.1%

Among the non-compensatory heuristics (i.e., the conjunctive, disjunctive, and lexicographic heuristics), the disjunctive one showed the lowest success rate. The percentage of success increased from the largest area (the disjunctive heuristic with 12.4%), to the smaller area (lexicographic heuristic with 34.6%), and to the

smallest area (conjunctive heuristic with 62.0%). This pattern is consistent with the findings of Brisoux and Laroche (1981).

Fast Food Outlets

Results of the discriminant analysis for the 13 fast food outlets showed six significant discriminant functions at the $p=.01$ level. However, the fifth and sixth functions explain only 3.3% and 2.0% of total variance, respectively. Since the first four functions explain 92.6% of total variance, it was decided to use these four functions for the rest of the analysis.

Table 3 summarizes the results of the correlations between these four functions and the perceptions of respondents. The first function can be interpreted as the "Popularity" dimension, the second as the "Geographic location" dimension, the third as the "Cleanliness" dimension, and the fourth as the "Menu variety" dimension.

Table 4 presents the results of the decomposition approach for fast food outlets. The result showed that the conjunctive heuristic had the highest success rate with 60.7%. Only 19.7% of the total respondents had one or more reject brands in the evoked set zone defined by this heuristic. This finding is congruent with the earlier findings by Brisoux and Laroche (1981) and Russ (1971).

The three non-compensatory heuristics showed the same pattern as was found in the previous analysis. That is, the conjunctive heuristic was most successful with a 60.7% success rate, followed by the lexicographic one with a 39.7% success rate. The disjunctive was the least successful with a 26.1% success rate.

TABLE 3
CORRELATION RESULTS BETWEEN THE DISCRIMINANT FUNCTIONS AND RESPONDENTS' PERCEPTION FOR FAST FOOD

Attributes	Function 1	Function 2	Function 3	Function 4
Popular/Unpopular with children	.85157*	-.20805	.16599	-.02528
Out of the way/Close to where I am (location)	.40760	.66735*	-.26276	.52685
Unclean/Clean	.29756	-.09636	.43268*	.42302
Narrow/Wide variety of menu	-.08387	-.39407	-.02657	.80339*
Bad/Good quality of the food	-.04623	.13123	.35228	.34022
Inexpensive/Expensive	-.16294	.20312	.58164	.05602
Bad/Good taste	-.03092	.13105	.24768	.29619
Slow/Fast service	.19095	-.32902	-.29065	.17325
Unfriendly/Friendly	.19719	-.11851	.27596	.54901

TABLE 4
RESULTS OF THE DECOMPOSITION APPROACH
FOR FAST FOOD OUTLETS

Percent of cases for which the zone of evoked setbrands defined by the decision heuristic contains

Decision Heuristics	No other brand	At least one reject brand	At least one holdbrand
Conjunctive	60.7%	19.7%	24.4%
Disjunctive	26.1%	38.5%	53.0%
Lexicographic	39.7%	31.6%	40.2%
Linear			
Compensatory	42.3%	27.4%	38.9%
Geometric			
Compensatory	50.6%	24.7%	35.5%

Discussion

This study investigated the process of evoked set formation from the information processing perspective. As reported above, results of this study render strong support for the notion that consumers establish their evoked sets by using a cutoff heuristic. The decomposition approach used in this study revealed that the conjunctive choice rule was most successful in explaining the process of evoked set formation for both beer brands and fast food outlets.

In addition, a consistent pattern has been found among the three non-compensatory heuristics across the two product classes. The conjunctive heuristic has consistently showed the highest success rate followed by the lexicographic one. The disjunctive heuristic has always been the least successful. The same pattern was found in the study by Brisoux and Laroche (1981). This finding suggests that respondents include a brand in the evoked set if the brand meets the cut-off points on all major dimensions. Park (1976) argued that the conjunctive heuristic is more effective in the rejection of a brand while the disjunctive heuristic is more effective in the acceptance of a brand. The pattern found in this study implies that consumers form their evoked sets by eliminating a brand which falls short of any cut-off point on major dimensions, rather than by accepting a brand which meets one of the cut-off points.

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SELF-MONITORING, SOCIAL APPROVAL OF APPEARANCE AND
CONFORMITY OF ASIAN-AMERICAN AND ANGLO-AMERICAN WOMEN:
IMPLICATIONS FOR CONSUMER BEHAVIOR

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Abstract

A study of the differences in self-monitoring, the need for social approval of appearance, and conformity in appearance between Asian- and Anglo-American women was conducted. It was found that Asian-American subjects were significantly lower in self-monitoring but significantly higher in need for conformity in appearance than the Anglo-Americans subjects.

Background

Bank of America vice president Warren Branazburg believes that "Investing in the Asian market is investing in our future" (Fost, 1990 p. 34). However, Asian consumers remain less studied than blacks and Hispanics (Sukhdial, Kahle, Beatty, and Homer 1987; Tan and McCullough 1984). This is especially surprising given that Asian-Americans are the most affluent and fastest growing ethnic group in America today (Riche 1991). O'Hare projected that, "All signs point to increased market potential among Asian Americans. Because this market is relatively young and well educated, businesses will profit in the years ahead by paying attention to Asian Americans now," (1988 p. 31).

The Asian Culture

A major task for researchers is the necessity of determining how to define the population under study (Laroche, Joy, Hui, Kim 1991). Hirschman (1981) and Deshpande, Hoyer and Donthu (1986) warned against categorizing members of cultural groups together without taking into consideration their uniqueness. Thus, there could be a dozen or so Asian sub-groups to research. On the other hand, Fennell and Saegert (1990) pointed to the absurdities to which special group marketing can be carried by delineating over 60 population segments which could be developed in the US. alone.

To determine whether an Asian culture actually exists, Tse and Wong (1992) explored the extent to which globalization had erased conventional social, ethnic and economic differences among five Asian communities. They found some commonalities and some differences among both instrumental values and consumption behavior, but they suggested that factors other than ethnicity, such as age, might also explain differences in consumption behavior.

Perhaps the nature of the research problem itself might give direction as to whom should be included in a study. Wallendorf and Reilly (1983 p. 292) defined culture as, "...a set of socially acquired behavior patterns common to the members of a particular society or on-going, large-scale human group." "A premise of the study of culture is that the behavioral patterns characteristic of a particular culture express the shared values and beliefs of that culture." Thus, members of sub-cultures might be grouped together when researching commonly held beliefs. Broad cultural values have been identified which are widespread among the various sub-groups within the Asian culture such as the emphasis on the group rather than the individual and a strong sense of protocol and rank (Peter and Olson 1993).

A second obstacle to conducting cross-cultural consumer research is that researchers infrequently consider relevant subcultural norms when developing hypotheses (Hirschman 1981). Too often, researchers seek differences as to how different ethnic groups behave in regard to price, brand loyalty, etc., failing to take into consideration more subtle differences which might explain the behavior.

Similarly, Sukhdial et. al (1987 p. 1) stated that, "While it is important to know how subcultures differ in their consumption of products it is equally important to understand why they differ." "Marketers need to understand not only how consumer behavior differs across subcultures but also why it differs," (p. 5). By focusing on the 'whys', we come to serve cross-cultural and subcultural markets better, and we come to understand the people better at the same time (Lee, 1989).

Self-Monitoring

Self-monitoring is the act of attuning one's self presentation in social situations to create a desired impression (Snyder 1974). High self-monitors are sensitive to situational variables, are subject to social and interpersonal cues of appropriate behavior, and manage their expressive self-presentation. Low self-monitors, are less concerned with their appearance management, prefer to act in a manner more consistent with their own beliefs, attitudes, and values, and are driven by dispositional variables (Gerstein, Ginter and Graziano 1985; Sullivan and Harnish 1990; Snyder and Gangestad 1986).

Differences between high and low self-monitors have been of interest to consumer behaviorists in relation to the purchase of private versus national brands (Becherer and Richard 1978), the effects of product endorsers (Harnish 1992), the effects of

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advertising (DeBono 1988; Snyder and DeBono 1985; Stayman and Kardes 1992), product ownership and use (Cash and Wunderle 1987; Johnson and Lanke 1989), and the buyer/seller relationship (Fine and Schumann 1988; Lim, Kotabe, and Dubinsky 1988).

Appearance as Related to Self-Monitoring

Davis and Lennon (1985) found that high self-monitors placed greater emphasis on using clothing as a means of appearing socially appropriate and as a means of gaining peer approval. High self-monitors were more conforming in their clothing behavior and were more prone to seek attention through dressing in individual styles. Similarly, Sullivan and Harnish (1990) found that high self-monitoring females placed more importance on their physical appearance than low self-monitors.

Self-Monitoring Among Asians

A single study on self-monitoring among Asians found no differences among salespeople in the US., Japan and Korea (Lim, et al 1988). A positive relationship between self-monitoring and sales performance was found for the Korean subjects.

As no studies were found on Asian women and self-monitoring, sociological, ethnological, and historical literature was searched in an effort to develop a profile of general traits (Bloodworth 1981; Lee 1991; Olson 1979; Takaki 1989). Asian-American women are profiled as adhering to the cultural value of placing the group above the self, placing importance on social order and protocol, and the need to 'save face.'

Purpose

The purposes of the study were to determine the difference between Anglo-American and Asian-American women on self-monitoring and to determine the relationship between clothing/appearance and self-monitoring of Asian-American and Anglo-American women.

Due to the lack of sufficient, previous empirical evidence concerning Asian-American women, no formal hypotheses were developed. It was informally predicted that the Asian-American subjects would exhibit higher self-monitoring than the Anglo-American subjects because of the cultural trait of "saving face." No predictions were made regarding the relationship between self-monitoring and the need for social approval of clothing and appearance among the Asian-American subjects, due to a lack of previous research from which to support any assumptions. Both the need for social approval of appearance and high conformity were expected to relate to high self-monitoring among the Anglo-American subjects.

Research Instruments

A list of thirty-nine statements each concerning a single concept about appearance (for example, "I look forward to getting compliments about my appearance from family and friends") was compiled. They were based on published comments made by women during interviews and printed in women's magazines, statements made during client/counselor sessions (Freedman 1986), attitudes and comments reported in previous research (Sanford and Donovan 1984), and statements made by women who were asked to comment on their appearance to the researcher. The statements were balanced so that 50 percent presented a positive attitude and 50 percent presented a negative attitude.

The statements were rated on a five-point scale, 1 = "does not describe you well at all" to 5 = "describes you extremely well," by 121 female subjects in Southern California. Subjects ranged in age from 21 to 78 years. The ratings were factor analyzed using a principal components analysis with a varimax rotation. Two factors were extracted: a social approval factor and a conformity factor.

The social approval factor contained three statements concerning the desire for one's appearance to be noticed and complimented by others ($\alpha=.75$). The conformity factor contained three statements which reflected the desire to conform to others in appearance ($\alpha=.72$).

Snyder's measure of self-monitoring was used (Snyder 1974; Snyder and Gangestad 1986). The instrument includes twenty-five true/false questions.

Administration of Instrument

A questionnaire containing the appearance-related statements and the self-monitoring measure was mailed to potential respondents. The mailing list was provided by the Alumni Association of a small, private university on the West Coast. Additional participation was solicited personally through associates of the researcher.

Sample

A larger study consisted of a nonprobability sample (Churchill 1987) of 1330 females from across the United States. Of these, 486 were returned and 471 were deemed usable (35%). This sample excluded the 121 participants used for the development of the appearance-related factors.

The thirty-one Asian-American women who returned the questionnaires were used as subjects for the current study. These subjects reflected a higher percent of the total sample than are represented by Asian-Americans in the total US. population (6.6% versus 3%) (Post 1990). The Asian-American subjects resided in the Western states and were

younger than the larger sample (none of the Asian subjects were over 65). These data conform with standard demographic data for the Asian-American population-at-large (Fost 1990; Riche 1991).

In an effort to determine whether any differences between the Asian-American and the Anglo-American subjects were attributable to true cultural differences rather than to demographic differences, Anglo-American subjects were chosen from the larger sample who mirrored the demographics of the Asian-Americans. Those who resided in the Western states, were 65 years-of-age or under, and who had similar educations to the Asian-Americans subjects were used (n = 165).

Data Analysis

Reliabilities were analyzed using Chronbach's alpha. T-tests were used to determine differences between the two groups. Stepwise regression was used to determine the relationship between self-monitoring and the two appearance factors. Due to the small sample of Asian-American subjects, standard deviations were monitored carefully so that levels of confidence were not violated due to too few subjects (Brase and Brase 1991).

Findings

Subjects' ratings on the appearance factors were summed. Possible scores on the factors ranged from 3 (low need for social approval of appearance and low conformity) to 15 (high need for social approval and high conformity). The Asian-American subjects' scores on the social approval factor ranged from 5 to 15 (\bar{x} =9.67) and from 3 to 14 (\bar{x} =7.36) on the conformity factor. The Anglo-American subjects' scores on the social approval factor ranged from 3 to 15 on the social approval factor (\bar{x} =9.94) and from 3 to 12 on the conformity factor (\bar{x} =6.27).

The self-monitoring measure was scored according to the key provided by Snyder (1974). The Asian-American subjects' scores ranged from 2 to 16 (\bar{x} =9.16), and the Anglo-American subject's scores ranged from 3 to 21 (\bar{x} =10.74).

There were no differences between the Asian-American and the Anglo-American subjects' scores on the measure of need for social approval of appearance ($t=-.83, p$ ns). The Anglo-American subjects scored significantly higher than the Asian-American subjects on the self-monitoring measure ($t=2.24, p<.03, p<.01$). The Asian-American subjects scored significantly higher on the measure of appearance conformity ($t=2.39, p<.02$).

No relationships were found between self-monitoring and either the need for social approval or conformity in appearance for the Asian-American subjects. No relationship was found between self-monitoring and the desire to conform to the appearance of others of the Anglo-American subjects. A relationship was found between self-monitoring and the need for social approval for the Anglo-

American subjects ($r=.263, p<.0006$). High self-monitors had a higher need for social approval of their appearance.

Discussion

The Anglo-American subjects' significantly higher score on self-monitoring was unexpected. As Asians have been described as more group oriented and concerned with publicly saving face, their lower score on self-monitoring was surprising. The Asian-Americans' lower score on self-monitoring might be explained by Barnlund (1989), who maintained that Japanese prefer an interpersonal style in which aspects of the personal self made accessible to others is relatively small, while the proportion of the private self (that part of the self not revealed to others) remains large. The Japanese prefer to interact selectively with fewer persons, with greater formality, disclose their thoughts and feelings less openly, with less physical demonstration, and more passively than Americans.

Based on this theory, one might conclude that although Asians are culturally more predisposed to value the group than the individual and are more subject to the need to 'save face' than are Americans. Therefore, it is possible that these needs are met through selective interaction, formal interactions, and by disclosing little of the public self during interpersonal interactions rather than by altering one's self-presentation. Thus, the need to monitor one's behavior during interpersonal interaction would be decreased. The Asian-American subjects' desire to conform in appearance might indicate an unwillingness to make any personal statement through their dress which would violate group norms.

Americans, on the other hand, prefer a communicative style in which "the public self dominates the private self" (Barnlund 1989, p. 33). In so doing, however, Americans may find that as the opportunities for interpersonal communication are enhanced the risk of social disapproval increases. Thus, the need for self-monitoring is increased for Americans.

The need for social approval of appearance was related to self-monitoring only in the Anglo-American subjects indicating that Anglo-American subjects who were high self-monitors placed a greater emphasis on gaining approval of their appearance by others than did the low self-monitors. This finding is supported by Davis and Lennon (1985) who found the same need for gaining social approval through dress among a group of undergraduate women.

If, as suggested by Barnlund (1989), Asians operate in a smaller public arena but have a larger private arena than their Anglo-American counterparts, the Asian-American subjects may have felt the need to conform in their appearance to facilitate interpersonal interactions to a greater extent than their Anglo-American counterparts. However, as their scores on the social approval measure were similar to the Anglo-American subjects perhaps they

nave a need for social approval of their appearance but more for personal or private than public reasons.

Conformity in appearance was not related to self-monitoring in the either group of subjects. This is contrary to Davis and Lennon's (1985) findings of a positive relationship between high self-monitoring and conformity in appearance among undergraduate women. This suggests that conformity and self-monitoring are, perhaps similar, but not related constructs. As self-monitoring is not merely an act of following others but a measure of regulating one's behavior in an effort to gain social approval, the mere act of conforming to others' appearance might not necessarily be a positive way of gaining social approval.

Perhaps conforming with the appearance of others is a self-regulating behavior which might or might not relate to self-monitoring, depending on other factors such as age or the expectations of the specific social group. Subjects in the current study were older than those in Davis and Lennon's study. Perhaps need to conform in dress is a self-regulating behavior for young women only.

So, too, cultural expectations regarding self-regulation in relation to social norms and conformity in dress might vary. This might explain why the Asian-American subjects' scores could be significantly lower on the measure of self-monitoring but higher on the measure of conformity in dress than the Anglo-Americans.

Conclusions

If, as suggested by the findings, Asian-American women are lower self-monitors than Anglo-American women, and if they do not respond similarly to Anglo-American women in regard to the need for social approval of their appearance, then the marketing efforts directed to this group of consumers may be missing the mark. Although the Asian-American market is complex (Fost 1990), marketers, especially regional marketers in California where fully 39 percent of Asian-Americans reside, cannot afford to risk overlooking fundamental differences in the between the Anglo and the Asian markets (Riche 1991).

Three final points are in order. First, the analysis of self-monitoring and appearance factors among Asian-American women needs to be undertaken with a larger group of subjects. While the standard deviations were carefully monitored so that levels of confidence were not violated due to too few subjects, having additional subjects would have enabled a more thorough examination of the variables. Second, the findings point to the same needs for further study of the Asian-American subculture suggested by Sukhdial, et al (1989). The study needs to be replicated with different segments of the Asian-American subculture. The differences between Asian- and Anglo-Americans on self-monitoring and its relationship to seeking social approval via the appearance need to be

probed. Finally, these differences need to be related to actual consumption behavior.

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THE EFFECT OF PSYCHOGRAPHIC VARIABLES
ON CONSUMER SATISFACTION

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Abstract

This study attempted to identify why some people are more satisfied with a mall than others. This study found two preliminary results. First, discriminant analysis indicated that a "value seeking group" is more prone to be satisfied with its decision for selecting a mall than a "social shopping group." Second, the shopping profile psychographic variables can easily identify which consumers are more likely to be satisfied with the same kind of service or product than others.

Introduction

Since the early 1950's, consumer satisfaction at a profit has prevailed in marketing and a significant effort has been made to understand its nature and its impact on business operation (Anderson 1973). However, there are many unsolved issues in this important area. For instance, Oliver and DeSarbo (1988) indicated several future research directions: (1) to identify distinct differences in how individuals respond to stimuli, (2) to broaden satisfaction determinants and products, and (3) to improve dependent measurement. This study responds to one of these issues by analyzing the relationship between the shopping profile psychographic variables and the level of satisfaction. One possible outcome of this study is to determine why some people are more prone to be satisfied with a mall while others are not. This paper is organized into four parts. The first will briefly review previous studies and will develop two hypotheses. The second will discuss the methodology of this study. The third will present the results of the statistical analysis. The last will summarize the study. The main differences between this study and most previous studies are that this study used an actual purchasing environment instead of a simulated shopping environment and the sample in this study was from actual shoppers rather than from students. Additionally, this study focuses on mall satisfaction. These differences will provide an additional perspective to understanding consumer satisfaction.

Previous Studies and Issues

After Tse and Wilton (1988) reviewed previous studies in consumer

satisfaction, they suggested that there are two general agreements in this area: (1) consumer satisfaction can be defined as the consumer's response to the evaluation of the perceived discrepancy between prior expectations (or some norm of performance) and the actual performance, and (2) consumer satisfaction is influenced by a pre-experience comparison standard and disconfirmation. Their view is based on the theory of disconfirmation and is shared by many authors (e.g., Churchill and Surprenant, 1982; and Oliver, 1980; Weaver and Brickman, 1974; and Woodruff, Cadotte and Jenkins, 1983). However, Oliver and DeSarbo (1988) argued that consumer satisfaction can be reviewed by equity theory, attribution theory and performance theory in addition to disconfirmation theory. They tested these four theories and found no consistent relationship between the four theories and the consumer's satisfaction in simulated stock market scenarios. Their result was supported by Tse and Wilton (1988) who analyzed the equity concept as a part of comparison standards and found that equity fails to produce a direct effect on any of the three variables, expectations, perceived performance and disconfirmation. They inferred that equity is not a good operationalization of the comparison standard. On the other hand, Oliver and Swan (1989) showed that the fairness dimension of equity mediates the effect of inputs and outcomes on satisfaction, whereas preference does not. They also showed that the fairness influence is robust against the simultaneous inclusion of disconfirmation in the satisfaction equation.

One reason for conducting this study is to expand our understanding of consumer satisfaction to non-tangible areas. With few exceptions (Oliver, 1980; Crosby and Taylor, 1982), most previous studies in satisfaction confined their interest to a tangible product. Consequently, it is difficult to generalize these findings to other areas such as consumer satisfaction for service. This is especially true when we recognize that consumer behavior is product specific.

Another major issue on consumer satisfaction is the effect of psychographic variables. Most satisfaction studies assumed that each

consumer has the same psychological background. For instance, Churchill and Surprenant (1982) reviewed previous studies and argued that the full disconfirmation paradigm encompasses four constructs: expectations, performance, disconfirmation, and satisfaction. In this paradigm, most early research focused on the link between expectations and perceived performance, while recent research has focused on the relationship among all four constructs. However, Lesser and Hughes (1986) found seven generic shopper types in a nation wide sample: inactive, active, service, traditional, dedicated fringe, price, and transitional. Their study implied that because of different inherent variables and lifestyles, each consumer may have a different satisfaction process and satisfaction determinants. Consequently, it is worthwhile to correlate consumers' attitudes toward satisfaction with their lifestyles and other shopping variables. This research may show why some consumers are more often satisfied with a product while others are not, or why some consumers always complain about a product or service while others do not. Furthermore, it may suggest to management that in some cases the performance of a product has nothing to do with consumer's satisfaction. Instead different market segments may be more prone to product satisfaction. Singh (1990) supported this proposition by saying that 55% of the total variance of complainers and non-complainers can be explained by selected consumer characteristics. Based on the adaptation theory, Oliver (1980) also suggested the necessity of the influence of individual characteristics. He argued that expectations, one of the major constructs of satisfaction, are influenced by the same factors suggested by the adaptation theory; product, context and individual characteristics. Oliver and DeSarbo (1988) also supported this position. Their results indicated that some consumers are more expectation-influenced, some are more performance-influenced and some are more disconfirmation-influenced.

These discussions lead to investigate the influence of lifestyle and shopping profile on consumer satisfaction. The answer for this question will complement the traditional constructs of satisfaction. Thus the first hypothesis to be tested for this study is:

The level of consumer satisfaction can be explained by consumers' lifestyles and shopping profiles.

If the first hypothesis is true, we can suggest that the lifestyle alone may classify consumers into three general groups: satisfaction prone, dissatisfaction prone and neither of them. Thus the second hypothesis is:

Their lifestyles and shopping profiles can be used to classify the people into three groups (satisfaction, dissatisfaction, and neither of them).

Methodology

Although the experimental design provides some insight on satisfaction, such as the effect of manipulation in a controlled environment, the purchasing situation in the design is limited. Thus a survey method was needed to expand our understanding of satisfaction. The sample selection also needed improvement. Although a student sample provides some insight on satisfaction, we definitely needed more "average Americans" as a sample.

This study used shopping center sampling to collect the necessary data. The subjects who were 18 and older were told about the purpose of this study and asked to cooperate without any monetary incentive. One hundred people filled out the questionnaire.

The psychographic dimensions of this study were adopted from the work of Lesser and Hughes (1986), who developed them for a retail store. They were modified for this study, which was a shopping profile for a mall. These dimensions reflected not only general lifestyle activities but also consumer shopping orientations. Specifically, they included: price consciousness, interest in private brands, shopping information acquisition activities, importance of shopping convenience, interest in outdoor activities, tendency to be a do-it-yourselfer, propensity to try new products, and tendency to make impulse purchases. Respondents ranked these variables on a scale of 1 (strongly disagree) to 5 (strongly agree). Since this scale was consistent with other psychographic studies and tested extensively by Lesser and Hughes (1986), no further validity test was conducted.

Results

Because of missing variables, 93 subjects were used for this analysis. Based on a global measurement of satisfaction of their experience with the mall, 67 people were mildly and strongly satisfied with the mall, 6

mildly and strongly dissatisfied, and 20, had no opinion about their satisfaction.

Discriminant analysis was adopted to test the hypothesis that the three groups (satisfied, dissatisfied and no opinion) have the same lifestyle and shopping profile. This analysis is an appropriate technique since the dependent variables of this data are categorical and the independent variables are metric (psychographic variables with a 5-point scale).

The discriminant analysis identified two functions. Both functions were significant based on a test of a residual procedure using Wilks' Lamda values for their significance. Table 1 includes the values of Wilks' Lamda, Chi-squared, the degree of freedom and the significance level. The results show that both functions are significant.

TABLE 1

TESTS OF SIGNIFICANCE
FOR DISCRIMINANT FUNCTIONS

After Function	Wilks' Lamda	Chi-Squared	D.F.	Significance
0	0.114	170.97	46	0.000
1	0.449	63.16	22	0.000

There are two methods to interpret the discriminant functions: (1) examine the standardized coefficients, and (2) examine the correlation between each discriminant function and each original variable. The ideal situation would be to use both methods to interpret the functions. However, the preliminary examination indicated that this would not work for this study. Thus, as Meredith (1964), Porebski (1966) and Darlington, Weinberg, and Walberg (1973) suggested, this study adopted the latter method for two reasons: (1) it is assumed that there is a greater stability of correlations in small- or medium-sized samples, especially when there are high or fairly high intercorrelations among the variables, and (2) the correlations give a direct indication of which variables are most closely aligned with the unobserved trait represented by the discriminant function.

Table 2 contains the correlations between the discriminant functions and the original variables and the group centroids (the means of the groups on the discriminant functions). The analysis of the group centroids indicated that group 2 (not satisfied, neither satisfied nor dissatisfied) was the most important for the first function, while group 1 (satisfied) was the most important for the second function. In other words, the

interpretation of the first function is for group 2 and the second function is for group 1. The correlations between the discriminant functions and the original variables for the first function is interpreted as a social shopping construct since the top three variables (shopping with friends, seeking advice from friends, and visibility to friends) are the most dominant in this function. There are two speculations about this finding. First, when some people go to a shopping mall with their friends, their primary objective is not to buy but to spend time with their friends. Second, this group may have very low confidence in their own shopping skills. They always seek their friends' advice and want to obtain confirmation from them. For this group the reference group influence is great.

The second function is not as clear as the first one. The top three variables in this function are: (1) attention to advertisements for sale, (2) try new products, and (3) enjoy shopping. The construct of this function may be a value seeker group. This group may want to try new products as long as the price is right and they do not mind driving a distance to get the value. Since the signs of these correlations are positive, the more that people look for value, the more that they are disappointed with a mall which fails to provide value. Though the sample for this group is too small to generalize this finding, it is worthwhile to pay attention to the demand for value. In addition to the product or the store, consideration may be what position a mall wants to take in a consumer's mind: does it want to be a prestige mall, a bargain mall or a value mall.

TABLE 2

DISCRIMINANT FUNCTION-VARIABLE
CORRELATIONS AND GROUP CENTROIDS

Variables	Functions	
	1	2
I always shop at this mall with family members or friends because they provide good advice on what to buy.	-0.285	
I often seek my friends' advice on what to buy.	-0.243	
The products I buy at this mall are very visible to my friends.	-0.224	
I pay attention to advertisements about sales.		0.387
I often try new products.		0.348
I enjoy shopping.		0.281
Group Centroids		
Dissatisfied Group	1.059	-4.087
Neither satisfied nor dissatisfied	3.061	0.623
Satisfied Group	-1.008	0.180

This study also determined whether we can identify people who are more prone to being satisfied, dissatisfaction or

uninterested in what they buy by using psychographic variables and shopping profiles. The discriminant analysis provides a hit rate for the number of correct classifications. **Table 3** provides this classification. The hit ratio is 95.7%. This figure implies that based on the shopping profile and psychographic variables, we may predict who will be more prone to be satisfied with the product they buy.

TABLE 3
CLASSIFICATION MATRIX

Actual Group	# of cases	Predicted Group Membership		
		1	2	3
1	6	6 (100%)	0	0
2	20	0	20 (100%)	0
3	67	0	4 (6%)	63 (94%)

Summary

This study attempted to identify why some people are more satisfied with a mall while others are not satisfied with the same mall. Based on shopping profile psychographic variables, discriminant analysis indicated that a "value seeking group" is more prone to be satisfied with its decision for selecting a mall than a "social shopping group." Another major finding of this study was that, based on a limited sample, the psychographic variables and shopping profile can easily identify which consumers are more likely to be satisfied with a mall.

Because of the following limitations, the results should be regarded as tentative and a basis for future research. The first limitation is its small sample size and its sample selection being convenience based. Though Stevens (1986) suggested that it is ideal to have about 20 subjects per variable to be confident that the variables selected for interpreting the discriminant function would show up again in an independent sample from the same population, this study had only 93 subjects.

The second limitation is that the study was conducted in only one regional shopping center in the midwestern United States. Though Sudman (1980) and Bush and Hair (1985) recommended how to improve the quality of a mall sample in terms of the number of malls used; the date, time and location of the interview; and the number of trips, this study was not able to follow these guidelines strictly.

A suggestion for a future study is to investigate a relationship between

consumer satisfaction and psychographic variables based on a larger sample and more rigorous sampling procedure. Specifically, this kind of research should be able to answer; (1) how various product, store and mall specific attributes influence on consumer decision making, (2) whether people first select a shopping mall and then find the right store and product within the mall, (3) whether a selection of a mall could be a high involvement or low involvement decision and (4) whether a decision for a mall can be treated as the same as product and store selection.

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SCHEMATIC DISCREPANCY AND PRODUCT INVOLVEMENT AMONG LIGHT AND HEAVY USERS

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Abstract

Previous studies have verified that the extent of schematic discrepancy affects product evaluations. The present study defined self-schema as the formation of a cognitive representation of one's personal attributes. Product-schema was viewed to encompass not only product features but also the personal attributes of the stereotypical user. It was proposed that higher consumption would be related to higher product involvement and lower self-product discrepancy. The findings showed that there was more congruity between the self-schema and product-schema of Heavy Users, as compared to Light Users. An unexpected discovery was that the association between the extent of schematic discrepancy and the level of product involvement was related to consumption levels.

Introduction

Product schema is the organized structure of cumulative knowledge about the product. Several studies have studied the interaction of schematic processing on product evaluation, particularly the effects of a discrepancy between cognitive representations and reality (e.g. Alba & Hutchison, 1987; Meyers-Levy & Tybout, 1989; Ozanne, *et al*, 1992; Stayman, Alden & Smith, 1992; Sujan, 1985; Sujan & Bettman, 1989; Sujan & Dekleva 1987). Recent investigations have shown that the *extent* of schematic discrepancy influences brand differentiation, consumer expectations, and disconfirmation judgments (e.g., Mandler, 1982; Stayman, Alden & Smith, 1992; Sujan & Bettman, 1989).

Most of the cited studies conceived of consumer's schematic processing as concerning product features and brand attributes. Yet, the notions of "brand image", "brand personality" and "brand equity" imply that consumer's schematic processing possibly consists of various components, including *person-schema* alongside with *product/brand-schemata*. Sujan & Bettman (1989) argued that "essentially product schemata are similar to person schemata in that they contain well-organized beliefs".

Person-schema should not be confused with personality. The interest on personality factors as predictors of consumer choices has waned, because of inconclusive findings. Despite the theoretical complications and methodological difficulties, personality or personal motives are still being examined as possible causal factors of consumption (Macdonald & Jacobs, 1992; Burns &

Krampf, 1992). Nonetheless, it seems more feasible to consider a particular trait or motivation of the individual as associated with product categories, rather than with specific brands. If so, person-schema would be related more to product-schema rather than brand-schema.

The notion of person-schema attempts to relate the studies on consumer's self-concept with schematic processing. It has been shown that the congruity between consumer's self-concept and product image affect product preference (Onkvist & Shaw, 1987; Sirgy, 1982, 1985). For example, the symbolic image of products has been found to be an interaction between the consumer's self-concept and his perception of the stereotypical user of a brand (Ericksen, *et al*, 1991).

In terms of schematic processing, the self-concept pertains to "organized beliefs" about one's self. It can be viewed as a *self-schema*, which is the formation of a cognitive representation of one's "personality" through categorization and differentiation of personal attributes. On the other hand, the *product-schema* encompasses not only physical features of the product, but also the personal attributes of the stereotypical user. The extent of discrepancy between the self-schema and the product-schema could possibly have as much impact on consumer choice and usage, as the level of incongruity between product features and brand attributes.

Furthermore, it would not be controversial to assert that the consumer's *product involvement* is associated with product-schema. As defined by Zaichowsky (1985, p. 34), it is the "perceived relevance of the object based on inherent needs, values and interests". Product involvement has been shown to be a critical factor in the formation of favourable brand images from advertising (de Leon, *et al*, 1991). If its effects are robust, product involvement would not only be associated with product-schema, but more so with the extent of discrepancy between the self-schema and product-schema.

Recent findings suggested that consumption levels of beverages were related to different sets of factors (Lesch, Luk & Leonard, 1991). To isolate the possible interactions between schematic discrepancy and product involvement as well as differences in these with consumption levels, the present study explored the associations between self-schema, product-schema and product involvement among *light* and *heavy users*. It was deemed plausible that higher consumption would be related to higher product involvement and lower schematic

discrepancy. Therefore, the present study tempted to verify the following propositions:

Hypothesis 1:

There is more congruity between the self-schema and product-schema of Heavy Users, as compared to Light Users.

Hypothesis 2:

There are significant associations between the level of product involvement and the extent of self-product discrepancy among Light and Heavy Users.

Methodology

The survey was conducted among 650 respondents selected through accidental sampling procedures in Singapore. More than 100 university students were asked to recruit one respondent for each of the six gender-age categories to answer the self-administered questionnaire. With a small population of 2.5 million, the distribution to 100 interviewers adequately dispersed the sampling coverage. The field researcher's role was to ensure that the respondent understood the questionnaire instructions. With 52% male and 48% female, the total sample was divided into almost equal quotas for the three age-ranges of 18-25, 26-35 and 36-45 years. About 75% of the total sample had degrees/diplomas from tertiary-level educational institutions.

The *self-schema* was operationalized as 7-point semantic differential scale of 10 attributes. The respondents were instructed to describe their own personal characteristics, as indicated by the statement "I am...". **Table 1** shows the three factors of the self-schema and the respective reliability scores.

The *product-schema* was measured as the perceived attributes of a "regular user" of the product category. The respondents were presented with the same 7-point semantic differential scale of 10 attributes as used for the self-schema. The responses were elicited by showing the statement, "A cola-drinker is...". Factor analysis defined the same three factors for the product-schema as found in the self-schema inventory, the reliability scores of which are shown in **Table 2**.

Product involvement was measured by presenting respondents with ten of the 18 original items in Zaichowsky's (1985) inventory. On semantic differential scales, the respondents were asked to describe "cola softdrink" in terms of its being irrelevant/relevant, valuable/worthless, significant/insignificant, vital/superfluous, boring/interesting, unexciting/exciting, unappealing/appealing, mundane/fascinating, nonessential/essential, and desirable/undesirable. The reliability of the ten-item inventory was *cronbach's alpha* = 0.924.

TABLE 1
SELF-SCHEMA: FACTOR ANALYSIS AND RELIABILITY SCORES

Modern/Traditional	0.809
Westernised/Asian	0.756
Active/Passive	0.657
Outgoing/Reserved	0.643
Energetic/Weak	0.561
Apprehensive/ Self-Assured	0.781
Tense/Relaxed	0.736
Practical/Imaginative	0.731
Calm/Restless	0.718
Cautious/Innovative	0.524
Cronbach's Alpha	0.769 0.584 0.401

TABLE 2
PRODUCT-SCHEMA: FACTOR ANALYSIS AND RELIABILITY SCORES

Modern/Traditional	0.803
Energetic/Weak	0.745
Active/Passive	0.722
Outgoing/Reserved	0.690
Westernised/Asian	0.592
Tense/Relaxed	0.825
Apprehensive/ Self-Assured	0.818
Practical/Imaginative	0.774
Calm/Restless	0.652
Cautious/Innovative	0.637
Cronbach's Alpha	0.797 0.678 0.501

To measure *product usage*, the respondents were asked to evaluate "how often" they drank cola softdrinks on a 5-point scale of never, rarely, sometimes, frequently, or regularly. The instrument presented the question on product usage after the sections on self-schema, product-schema, and product involvement. Product usage was operationalized as subjective self-assessment rather than an

objective behavioral measurement, so as to be compatible with the perceptual measurement of self-schema and product-schema.

The respondents who stated they "never" drank cola softdrinks were classified as Non-Users, and those who responded "rarely" or "sometimes" were considered to be Light Users, and those who answered "frequently" or "regularly" were categorised as Heavy Users. Of the total sample of 658 respondents, 7% were Non-Users, 48% were Light Users, and 45% were Heavy Users. The Non-Users were eliminated from the sample, and further statistical analyses were restricted to the 320 Light Users and the 295 Heavy Users.

Findings

Hypothesis 1 was confirmed by the findings, as shown by Tables 3 and 4. There were statistically significant correlations in only two out of the ten attributes (20%), between the self-schema and the product-schema of the Light Users. Calm/restless and tense/relaxed comprised the minimal self-product congruity of Light Users, pertaining to two different factors. There was no correlation in any of the items of Factor 1.

TABLE 3
CORRELATION OF SELF-SCHEMA AND
PRODUCT-SCHEMA:
LIGHT USERS OF COLA DRINKS (N=320)

	Correlation Coefficient	Signi- ficance
<i>Factor 1:</i>		
Modern/Traditional	.0151	.394
Western/Asian	.0833	.069
Active/Passive	.0188	.369
Outgoing/Reserved	.0755	.090
Energetic/Weak	.0222	.347
<i>Factor 2:</i>		
Apprehensive/ Self-Assured	.0077	.446
Tense/Relaxed	.1137	.022 *
<i>Factor 3:</i>		
Practical/Imaginative	-.0040	.472
Calm/Restless	.1164	.019 *
Cautious/Innovative	.0337	.274

*** $p < .001$; ** $p < .01$; * $p < .05$

Table 4
CORRELATION OF SELF-SCHEMA AND
PRODUCT SCHEMA:
HEAVY USERS OF COLA DRINKS (N=295)

	Correlation Coefficient	Signi- ficance
<i>Factor 1:</i>		
Modern/Traditional	.0241	.340
Western/Asian	.1044	.037*
Active/Passive	.0120	.419
Outgoing/Reserved	.1491	.005**
Energetic/Weak	.1126	.028*
<i>Factor 2:</i>		
Apprehensive/ Self-Assured	.1006	.044*
Tense/Relaxed	.0191	.372
<i>Factor 3:</i>		
Practical/Imaginative	.1369	.009**
Calm/Restless	.1982	.000***
Cautious/Innovative	.0511	.192

*** $p < .001$; ** $p < .01$; * $p < .05$

In contrast, self-schema and product schema of the Heavy Users were significantly correlated in six out of ten attributes (60%). Self-product congruity of the Heavy Users were found in the following items: practical/imaginative, calm/restless, reserved/outgoing, apprehensive/self-assured, western/asian, energetic/weak. There were significant correlations between self-schema and product schema in all three factors.

There was only one item of self-product congruity (calm/restless) held in common between Light Users and Heavy Users. Also in reference to Factor 3, there was also a highly significant correlations among the Heavy Users in the related attribute of practical/imaginative. However, as this factor had the lowest Cronbach's alpha, the implications of the findings should be further tested by including more attributes into the inventory, with the intention of increasing its reliability.

The measurement of *self-product discrepancy* was computed as the difference between the specific items in the self-schema and product-schema, with the total score of the ten items taken as an absolute value. The reliability of the self-product discrepancy scale was *coefficient alpha* = 0.71. The *mean* self-product discrepancy score of Light

Users was 14.9, (*standard deviation* = 6.7), and of Heavy Users was 14.1 (*standard deviation* = 6.3). The statistical significance of difference between the self-product discrepancy of Light and of Heavy users was at $p < .07$ (t -value = 1.44, df = 589).

The total score for *product involvement* was the sum of responses on the 7-point scale of ten items, with a maximum possible score of 70. The Light Users expressed much **lower** product involvement ($mean$ = 36.5, $standard deviation$ = 11.2) than the Heavy Users ($mean$ = 46.05, $standard deviation$ = 9.5). There was a highly significant difference (t -value = 11.3, df = 610, $p < .000$) between Light Users and Heavy Users in their product involvement with cola drinks.

Hypothesis 2 was conditionally verified, as there were different findings for the two subsamples. Among the Light Users, the linear regression between self-product discrepancy and product involvement was highly significant (R square = .035, F = 12.10, $p < .001$). However, there was *no* relationship between the extent of self-product discrepancy and the level of product involvement of the Heavy Users (R square = .000, F = 0.01, $p < .908$).

DISCUSSION

It was an unexpected discovery that the association between the extent of schematic discrepancy and the level of product involvement was related to consumption levels. Until further studies can be completed, a tentative explanation could be that product involvement is a separate process from *product identification*. Previous investigations concluded that high congruity would result in assimilation with the evoked category (Mandler, 1982; Stayman, Adler, & Smith, 1992). This implies that self-product congruity among Heavy Users enhanced identification with the product image, possibly as a separate mechanism from product involvement. On the other hand, due to the greater extent of self-product discrepancy among Light Users, the identification process possibly did not occur and the effects of product involvement prevailed.

The findings verified that there was a difference in the extent of self-product congruity due to consumption levels. The Heavy Users of cola softdrinks can be considered as loyal consumers of a mature product. Further research should attempt to confirm whether the observed phenomenon is indicative of extended product loyalty. If this is the case, then the larger question is on the nature of the causality between involvement and/or identification processes and brand loyalty.

It should be noted that the notion of product involvement in this study diverted from Zaichowsky's intentions. Usually the inventory determines the relative placement of various products along a continuum, as evaluated by the

total sample. The present researchers are not presently aware of any other instance when product involvement was measured in relation to consumption levels. Future investigations should expand the product involvement model to explain interactions with product identification, consumption, and loyalty.

The evident causality between schematic discrepancy and product involvement is an important area for future research. Product involvement is a construct that pertains to a subjective evaluation of the product, but does not explain the formation of its structural components. This study attempts to link product involvement with schematic discrepancy, so as to expand the construct to include the processes of social cognition. Further verification and expansion of this model would enhance the relevance of product involvement to consumer decision-making, as well as brand loyalty and brand-switching.

In summary, the findings suggest the need to clarify the structural components of schematic processing. The contention in this study was that person-schema was a part of the total product schema; that is, product image includes perceived attributes not only of the physical object but also of the person who uses it. Understanding how the self-product congruity can be enhanced by structural modification would increase the effectiveness of marketing communications in manipulating product preference.

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COUNTRY-OF-ORIGIN EFFECTS AS A FUNCTION
OF PERSONALITY VARIABLES¹

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Abstract

This study uses conjoint analysis to examine consumer evaluations of profiles of automobiles varying according to four informational cues : country of origin, brand name, price and level of service. Based on survey data collected among French Canadian and French Belgian male consumers, the results indicate that personality variables (striving for Excellency, tolerance of Social Risk, belief in the Price-Quality relationship) interact significantly with the cues. The interactions signal opportunities for personality-based segmentation in the elaboration and implementation of marketing strategy for global products.

Introduction

The marketing literature has produced consistent findings regarding country-of-origin (COO) effects on consumer product evaluations (Bilkey and Nes 1982). Knowledge of COO has been shown to affect consumer beliefs about specific product attributes (Johansson, Douglas and Nonaka 1985). The extent of bias seems to correlate with demographic and sociopsychological characteristics of consumers (Johansson 1986). In general, products made in less developed countries are negatively evaluated (Cordell 1992). Learning how to overcome consumer resistance to negatively evaluated foreign products is of practical significance to marketing decision makers. Our review of research findings pertaining to the use of marketing mix variables to improve consumer acceptance of products with different country affiliations reveals the need for a multiple cue approach to the study of this subject across several product categories (Johansson 1989). Recent studies have indicated that COO effects are attenuated in multi-attribute settings (Ozomer and Cavusgil 1991).

Past research on COO has mostly concentrated on the study of consumer attitudes toward export and import products (e.g. Anderson and Cunningham 1972). A few studies have approached the subject from the point of view of North American multinationals (e.g. Johansson and Nebenzhal 1986). The basic concern of these companies is the possible negative effect of changes in product manufacturing location on consumer evaluations of well-established brands. The observed drop in demand for the Volkswagen Rabbit made in the United States provides an example of the risks associated with a new made-in (Business Week 1984, Seaton and Vogel 1981). For firms in developing countries the problem is different. Here, the issue is whether a consumer franchise can be established by manufacturing in a developed country (Chao 1989).

The objective of the present study is to examine the effectiveness of brand, price and service strategies in the framework of global marketing and production decisions across different

countries of origin using personality/psychographic dimensions as segmentation variables. Only a few COO studies have considered the role of personality in consumer evaluations of foreign products. Anderson and Cunningham (1972) found an inverse relationship between Status Concern and Dogmatism, and preference for foreign products. Hampton (1977) has observed a negative relationship between perceived risk and the willingness to buy products manufactured in developing countries.

Research Hypothesis

Jackson, Ahmed and Heapy (1976) define Excellence as an individual's motivation to aim for perfection. From the perspective of decision-making, one would expect individuals scoring high on Excellence to use a larger number of cues in making product evaluations than those scoring low. Individuals scoring high on Self-Esteem are less confident in their capabilities in general (Jackson 1967). Therefore, they should be more concerned about the purchase of a product with a poorly evaluated brand name and/or country of origin. Monetary Risk is a personality trait that denotes tolerance to risk taking in situations where financial risk is involved (Jackson, Hourany and Vidmar 1972). Hence, consumers scoring high on Monetary Risk should be more willing to try products with negative COO and/or brand image if the price is right. Social Risk is a measure of how one is tolerant to risk associated with various social situations. Therefore, Social Risk should be positively associated with the willingness to try products with negative COO and/or brand image if the price and/or the level of service are acceptable. Finally, individuals differ in terms of their belief in a price-quality relationship (Peterson and Wilson 1985). Consumers scoring high on Price-Quality should be more inclined to buy high quality products even if the price is high. On the basis of the above discussion, the following general hypothesis is put forward :

H₁ : Excellence, Self-Esteem, Monetary and Social Risk as well as Price-Quality are variables that moderate the effects of brand name, country of origin, price and service on consumers' evaluations.

Method

Toyota, Ford and Lada were chosen as brands of automobiles for the study. All these makes are presently available in Canada and in Belgium. Toyota represents the most prestigious brand and Lada the least prestigious one. Japan, home country (Canada or Belgium) and Russia were selected as countries of origin. Japan is the best made-in and Russia the worst. The price levels of the automobiles were 7,000 \$, 10,000 \$ and 13,000 \$ in Canada and 250,000, 350,000 and 450,000 Belgian Francs in Belgium. Finally, the levels for the service attribute were poor, average or good. The brand, country-of-origin, price and service levels were defined from a pilot study. Combining all attributes results in 81 (3⁴) possible profiles. In order to make the evaluation task easier for the respondents, a one-ninth fractional factorial design in three blocks was constructed (Cochran and Cox 1957). Subjects only had to evaluate nine automobile profiles using a nine-point very good buy/very bad buy bipolar scale.

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The selection of scales to measure the personality variables was based on the necessity to maintain consistency in measurement and scale robustness. Items were selected from the scales of Jackson, Hourany and Vidmar (1973) to measure Monetary and Social Risk. Items for Self-Esteem were derived from the Jackson Personality Inventory (Jackson 1967) and Excellence was measured with items from a six-dimensional Achievement scale developed by Jackson, Ahmed and Heapy (1976). Each scale comprised sixteen self-reference true or false items. Price-Quality however was measured with only four customized items. The scale items were dispersed randomly in order to avoid response bias.

Participants in this study had to evaluate the automobile profiles first. Then, they completed the personality inventory and provided answers to various socio-demographic questions. The questionnaire was written in French and was well understood by the Canadian and Belgian respondents.

Data Collection

Using an area sampling procedure, 270 individuals in the city of Sherbrooke, Québec, Canada were approached to fill out the questionnaire. In order to be eligible, all participants had to be males of 18 years or more. The restriction to an all-male sample was decided because the researchers wanted to achieve sample homogeneity and avoid gender influence on the findings, given the suspicion that males exert more influence in the purchase of cars (see Davis and Rigaux 1974). When there was more than one individual eligible in a dwelling, respondent selection was made using the birthday method. That is, the person with the most recent birthday was asked to participate (Salmon and Nichols 1983). After giving appropriate instructions concerning how to proceed with the materials, the interviewer either left the questionnaire with the respondent and picked it up the next day or waited on the spot for its pick-up. A total of 225 individuals accepted to participate and 191 completed questionnaires were picked up. After taking into account the incomplete responses, 179 questionnaires were available for the analysis (66% response rate).

The Belgian data were collected in Mons, a French-speaking Belgian city located south-west of Brussels, the capital. Mons was selected because of its comparability with Sherbrooke in terms of number of inhabitants, language, and educational and industrial structures. Using a sampling procedure similar to that employed in Canada, a total of 197 usable questionnaires were available for the analysis (55% response rate).

Results and Discussion

The reliability of the scales was assessed with Cronbach's alpha. All scales except that for Excellence had alphas ranging from 0.65 to 0.76. For the Canadian sample, the Excellence scale had a low alpha reliability of 0.42. It was 0.46 for the Belgian sample. Despite the low alphas associated with the Excellence scale, it was retained for analysis given the exploratory nature of the study.

To assess the moderating effect of Price-Quality, the samples were divided into low and high groups using the median score as a cut off point. For the other variables, the samples were divided into low, medium and high groups based on the corresponding quartiles. Table 1 presents the analyses of variance results for the model incorporating the main effects of the attributes (made-in, brand name, price and service), the personality variables (Monetary Risk, Social Risk, Excellence, Self-Esteem and Price-Quality), and the country factor (Canada versus Belgium) as

TABLE 1

ANALYSIS OF VARIANCE RESULTS

Source of Variation	F Statistic	P-Value
Made-in (A)	224.7	0.0001
Brand Name (B)	495.4	0.0001
Price (C)	22.1	0.0001
Service (D)	94.1	0.0001
Country (E)	0.3	0.6200
Monetary Risk (F)	1.5	0.2155
Social Risk (G)	1.5	0.2252
Excellence (H)	6.4	0.0017
Self-Esteem (I)	2.8	0.0629
Price-Quality (J)	0.9	0.3524
C X F	4.4	0.0014
D X G	2.4	0.0461
E X G	4.4	0.0121
B X C X G	2.4	0.0148
C X E X G	2.5	0.0409
A X H	2.5	0.0368
A X C X E X H	3.8	0.0002
B X C X E X H	3.4	0.0007
A X C X E X I	4.2	0.0001
B X J	6.0	0.0026
A X C X J	3.6	0.0068
B X C X J	3.9	0.0038
B X C X E X J	2.3	0.0534

well as the statistically significant (only) interactions. As can be seen, Price-Quality shows the strongest effects (four effects : F = 6.0, 3.9, 3.6 and 2.3), followed by Social Risk (three effects : F = 4.4, 2.5 and 2.4) and Excellence (three effects : F = 3.8, 3.4 and 2.9). The effects of Monetary Risk and Self-Esteem are quite weak (only one statistically significant interaction).

The plotting of the interaction effects involving Price-Quality indicated that consumers scoring high on this trait gave higher ratings to low-cost, made-in Japan cars and lower ratings to medium-price and high-price Japanese cars in this order. This was opposite to low Price-Quality respondents who valued low, medium and high-price Japanese cars almost equally. Low-price home country cars were perceived as having the best purchase value by low Price-Quality respondents whereas for high Price-Quality individuals medium-price automobiles were best valued (for more details, see Ahmed and d'Astous 1992).

It is interesting to note that when it comes to Japanese cars, high Price-Quality consumers do not feel that a higher price means higher value. They seem to believe that cars made in Japan represent the best value, regardless of price. Perhaps, these respondents are more likely to stereotype and that their country-of-origin stereotype is more salient than their price-quality schema. Hence, for them the lower the price of a Japanese car, the better its purchase value. Somewhat similar results are also evidenced for brands associated with Japan. Thus, high Price-Quality consumers gave better ratings to low and medium-price Toyota cars than to high-price Toyota cars whereas low Price-Quality individuals valued higher priced Toyotas over low and medium-price ones.

Low-price Ford cars were rated highest by low Price-Quality respondents. High Price-Quality respondents rated low and medium-price Ford cars equally. Low Price-Quality consumers evaluated low and medium-price Lada cars higher than high Price-Quality consumers. Thus, for segmentation purpose, it appears that low Price-Quality consumers in the Canadian and Belgian markets are receptive to low and medium-price Lada and low-price Ford automobiles.

The plot of the interactions involving Social Risk indicated that whereas in Canada, Social Risk was unrelated to the perceived purchase value of a car, in Belgium the lower the Social Risk the higher the evaluation of an automobile. High Social Risk respondents gave high ratings to low-price Lada cars and low ratings to high-price Lada cars. This was also observed, albeit to a lesser extent, for medium Social Risk respondents. Low Social Risk individuals evaluated Lada cars about equally. Whereas high Social Risk consumers perceived high-price Toyotas as having the best purchase value and low-price Toyotas the worst, the opposite was true for medium Social Risk individuals. Both low and medium Social Risk respondents rated low-price Ford automobiles the highest, followed by medium and high-price ones. Medium Social Risk individuals gave the highest ratings to medium-price Ford cars (see Ahmed and d'Astous 1992 for more details).

The perceived purchase value associated with differently priced cars for low and high Social Risk respondents did not vary greatly across Belgium and Canada. Large inter-country differences were however observed with medium Social Risk individuals. Whereas the best valued cars for medium Social Risk Canadians were medium priced, for Belgians it was the lowest priced ones. Medium Social Risk Canadians perceived high-price cars as having the worse purchase value, whereas in Belgium it was the high Social Risk respondents who did so.

For the Lada and Ford brands, the lower the price of a car, the higher its evaluation by the high Social Risk segment in both Canada and Belgium. The opposite is true for the Toyota brand. Thus, individuals who are willing to take social risk seem to be confident that a Japanese brand gives value for the money and think that for domestic and developing-country brands one should look for price bargains. The medium Social Risk segment in Canada exhibits an evaluation pattern quite different from that of the corresponding Belgian segment. For Belgian medium Social Risk consumers, the lower the price the higher the perceived purchase value of a car. In Canada, no such relationship exists.

The plot of the interaction effects involving Excellence shows that the pattern of results is not uniform across the two nations. Whereas in Canada, low and medium Excellence respondents evaluated all the differently priced Russian cars equally, in Belgium consumers evaluated low-price Russian cars higher than high-price Russian cars. In general, Belgians gave better ratings to made-in Russia cars than Canadians. Whereas high Excellence Belgians put the highest value on low-price Toyota cars, followed by medium and high-price ones, high Excellence Canadians evaluated all high-price cars equally. Medium Excellence Belgian consumers also rated low-price home country cars as best, followed by high-price ones. But in Canada, the reverse was observed.

For high Excellence Belgians, a low-price Lada represents the best purchase value, followed by a medium-price one. The opposite is true in Canada where medium-price Lada cars get the best ratings followed by low-price ones. Medium Excellence Belgians gave their highest ratings to low-price Ford cars but Canadians in the same segment gave their highest ratings to medium-price Ford cars. Low Excellence Canadians valued a low-price Ford automobile the highest whereas low Excellence Belgians preferred medium-price Ford cars. Finally, whereas low Excellence Belgians rated all Toyota cars equally, low Excellence Canadians gave higher ratings to medium-price Toyota cars.

Clearly, the moderating effect of Excellence varies across the two consuming countries considered in this study. The most interesting

example is found in the Brand x Price x Excellence interaction. Regardless of the manufacturing location, for high Excellence Belgian consumers, the lower the price of an automobile the higher its perceived purchase value. However, price has no impact on the evaluations made by high Excellence Canadians.

How can we explain these differences between the two countries? One explanation has to do with different product/brand experience of consumers. Canadians have greater experience with Japanese products because made-in Japan cars have captured over 20% of the Canadian market. This is true of the Toyota brand which is now being manufactured in North America. Therefore, high Excellence Canadian respondents who tend to be perfectionists and knowledgeable are more likely to associate higher priced Japanese cars with higher quality. This does not seem to be the case in Belgium. Many Ford automobiles are made in Germany which Europeans regard as a prestigious manufacturing location (Cattin, Jolibert and Lohnes 1982). Thus, Belgians have in general a better opinion of this brand than Canadians (Ahmed et d'Astous 1993). The observed differences in the evaluation of the Lada brand and Russia as a manufacturing location may be due to Belgium's geographical and cultural closeness to Russia. Compared to that of Canadians, Belgians' knowledge of Russian products would probably be greater.

Another phenomenon that may explain the interactions between personality and consuming country is the possible differential weighting attached to various features of an automobile. For instance, Belgians may value more fuel-efficient automobiles than Canadians due to higher gasoline prices in Europe. Assuming high-price Japanese cars are perceived as less fuel-efficient, this would explain why Belgians would not consider them as having high purchase value.

Conclusion

Our research hypothesis concerning the moderating effect of personality variables is generally supported. Only two personality variables, namely Monetary Risk and Self-Esteem, did not interact significantly with the informational cues in explaining the perceived purchase value of the automobiles. This may perhaps be attributed to the stimuli chosen for the investigation. The specific brands and countries of origin selected are well known in Canada and Belgium and therefore respondents were probably able to make their risk assessment easily.

Price-Quality is the strongest moderator among the variables considered in this study. Although its impact on consumer perceptions of purchase value across the two consuming countries is complex, it would seem important that global marketers take this individual characteristic into account in the elaboration of their international marketing programs.

The results presented in this paper have to be interpreted with care since the respondents were not exposed to real products and were not involved in a real purchase situation. Moreover, the personality scales employed in this study were generalized rather product-specific scales. In spite of these limitations, the findings show the value of carrying out large scale studies of this type using probabilistic samples. These studies can provide useful information to producers regarding, for instance, whether or not it makes sense to manufacture products in prestigious countries just to use their made-in label. They can also indicate which psychographic segments would be most appropriate for launching new products and what might be the best pricing and service strategies to adopt for different segments across different countries.

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PERSONALITY TRAITS AND COUNTRY-OF-ORIGIN CUES: EVALUATING
CONSUMER PREDISPOSITIONS TO SEEK COUNTRY OF ORIGIN INFORMATION

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Abstract

This study attempts to utilize personality traits to identify consumers most likely to seek and use country-of-origin information in the product evaluation process. In this regard, a number of personality variables are assessed and differences are noted between individuals rating low and high on the respective variables with regard to their country-of-origin information search activity.

Introduction

A substantial amount of research in marketing has been devoted to the study of country-of-origin as an extrinsic product cue (Schooler 1965; Reiersen 1967; Baumgartner and Jolibert 1977; Bilkey and Nes 1982; Cattin, Jolibert, and Lohnes 1982; Kaynak and Cavusgil 1983; Erickson, Johansson, and Chao 1984; Johansson, Douglas, and Nonaka 1985; Chao 1989; Han 1989; Hong and Wyr 1989, 1990; Thorelli, Lim, and Ye 1989; Cordell 1992). Consumers frequently rely on country-of-origin information when evaluating product offerings. While country-of-origin information, much like other cues such as a product's brand name and its price, has been demonstrated to have some bearing on the product's performance, it is still likely to act as a risk mitigant or quality cue for consumers who are unable or unwilling to directly evaluate the product's quality (Cordell 1992, p. 253) and it is frequently likely to constitute an important determinant of the consumer's purchase decision.

Country-of-origin effects have been examined from a number of perspectives. Two models have been advanced in order to explain how country-of-origin affects product evaluation: a halo effect model (Erickson, Johansson, and Chao 1984; Johansson, Douglas, and Nonaka 1985), whereby country of origin is thought to affect beliefs about tangible product attributes, which then affect the product's overall evaluation, and a summary construct model (Han 1989), whereby consumers infer product information into country image, thereby influencing their attitude toward the respective brand.

Most country-of-origin studies to date have focused on product evaluations, addressing, for instance, differences between products sourced in industrialized countries and those sourced in lesser developed countries (Tan and Farley 1987; Cordell 1992); comparing evaluations of unination and binational products (Han and Terpstra 1988); examining positive (Netemeyer, Durvasula, and Lichtenstein 1991; Chao 1989; Shimp and Sharma 1987; Schooler 1965) and negative (Tan and Farley 1987) home country bias; and determining whether or not country-of-origin bias is product dependent (Kaynak and Cavusgil 1983). With the exception of the attempt to evaluate consumers on the extent to which they hold the belief that it is appropriate and moral to purchase foreign-made products, i.e., the extent to which they are ethnocentric (Shimp and Sharma 1987; Netemeyer, Durvasula, and Lichtenstein 1991), little attention has been devoted to identifying the type of consumer most likely to assign a greater weight to country-of-origin information in purchasing decisions.

The purpose of the present study is to identify a number of personality traits that are most likely to predispose an individual consumer to seek and use country-of-origin information.

Overview of Potential
Personality Traits

In this exploratory study, the relationship between likelihood to seek and use country-of-origin information and a number of personality traits is examined. One of the variables thought to affect the extent to which one is likely to seek country-of-origin information is Attention-to-Social-Comparison-Information (ATSCI) -- the extent to which individuals are likely to be aware of the reactions of others to their behavior and are concerned about or sensitive to the nature of those reactions (cf. Bearden and Rose 1990; Lennox and Wolfe 1984). Such individuals may be more concerned with what others think of them and the products they purchase. These consumers may be more likely to exhibit a preference for products made in certain countries -- probably those that have a better reputation in producing certain products, -- rather than in other countries.

H1: High ATSCI subjects are more likely to search for country-of-origin information than low ATSCI subjects.

Self esteem, on the other hand, is thought to have a different effect: individuals high in self-esteem do not need external validation for their product purchase decisions. Such individuals will evaluate a product on its more tangible attributes, rather than on external cues, (Bearden and Rose 1990) such as brand image, and price. Thus, they are thought to be less likely to seek country-of-origin information when engaging in product evaluation or purchase.

H2: High self-esteem subjects are less likely to search for country-of-origin information than low self-esteem subjects.

The extent to which one is likely to be individualistic may also influence whether or not he or she is likely to seek country-of-origin information. Again, a more individualistic subject is more likely to evaluate a product based on the respective product's tangible qualities. A subject who is less individualistic, however, may rely on country-of-origin information to ascertain the "correctness" of the product purchase decision.

H3: An individual rating higher on the individualism scale is less likely to rely on country-of-origin information than individuals with a low individualism rating.

Another trait that may be relevant for the purpose of this study is the extent to which individuals are likely to view their own group as omnipotent, to view other groups from their own perspective, and to reject culturally dissimilar ideas while blindly accepting culturally similar ideas and people, i.e., consumer ethnocentrism (Shimp and Sharma 1987).

H4: Highly ethnocentric individuals are less likely to rely on country-of-origin information than individuals rating low on ethnocentrism.

Methodology

Forty-one undergraduate students at a business school in the Mid-Atlantic region were recruited for this study. The subjects were told that a group of researchers were attempting to determine the extent to which individuals believed that country-of-origin information is important in deciding what products to purchase. The subjects were given the definition of the country-of-origin concept

and then were presented with a number of questions related to the importance of country-of-origin in the consumers' decision-making process. They were told to indicate the extent of their agreement with the country-of-origin statements by circling 5 if they strongly agreed, 4, if they agreed, 3, if they neither agreed or disagreed, 2, if they disagreed, and 1, if they strongly agreed with the respective statement. Table 1 contains the respective questions and their abbreviations -- which will further appear in Table 2.

The subjects were then asked to complete a number of summated scales: the 13-item Attention-to-Social-Comparison-Information (ATSCI) scale -- alpha=.90 -- (Lennox and Wolfe 1984; Bearden and Rose 1990); the self-esteem scale -- alpha=.93 -- (Rosenberg 1965); the individualism scale -- alpha=.94 -- (Campbell 1966); and the CETSCALE -- alpha=.93 -- (Shimp and Sharma 1987; Netemeyer, Durvasula, and Lichtenstein 1991) using the same scale described above. The study participants were also asked to provide demographic statements (gender, family income, age, region of permanent residence), and to indicate whether they have visited or lived in another country.

Results

Subjects were first collapsed into low and high ATSCI, self-esteem, individualism, and ethnocentrism categories based on a median split. As hypothesized, high ATSCI subjects were found to be more likely to seek country-of-origin information. They were more likely to seek such information first and to assess the quality of the product based on this information. Moreover, they indicated that they would look for the product's country of origin to ensure that the product they purchase is acceptable to friends and family. (See Table 2.)

Surprisingly, high self-esteem subjects and highly individualistic subjects were also found to be more likely to seek country-of-origin information than low self-esteem and less individualistic subjects. High self-esteem individuals felt it was important to look for country-of-origin information when deciding which product to buy and when attempting to ensure that the product bought is of high quality, especially if the product is expensive (see Table 2). Similarly, highly individualistic subjects indicated that it was important to look for country-of-origin information when deciding which product to buy, in order to ensure that the product bought is of high quality, even if the risk of malfunctioning is low (see Table 2).

Another unexpected finding is that consumer ethnocentrism -the extent to which individuals are likely to view their own group as omnipotent, to view other groups from their own perspective, and to reject culturally dissimilar ideas while blindly accepting culturally similar ideas and people, (Shimp and Sharma 1987) - was not found to be a determinant of the degree to which an individual is likely to actively consider country-of-origin information in his or her purchase process. An incidental finding was that consumers rating higher in ethnocentrism indicated that they believed that a person should seek country-of-origin information when buying a product with a fairly low risk of malfunctioning (see Table 2). A significant difference was not noted, however, between subjects rating high and low on ethnocentrism with regard to likelihood of country-of-origin search for products that are high in risk of malfunctioning, or with regard to any other dimensions.

As expected, no differences were found with regard to any country-of-origin variables and the personality variables between males and females and with regard to family income, age, and region of permanent residence. In addition, there were no differences noted between individuals who have lived or visited other countries with regard to the personality variables.

Conclusion

Such information is useful for companies devising strategies for positioning domestic and foreign goods. A reasonable issue to consider is: where should a product's country-of-origin information or appeal be advertised? When should a product's country-of-origin information be emphasized and to what types of consumers should such appeals be targeted? The current study suggest that products which use peer association as a part of their strategy would do well to promote to high ATSCI type buyers to support their concern for peer approval or possible insecurities. Relatively expensive products promoting high quality product benefits through country-of-origin information should gear promotion and distribution channel decisions toward individuals who exhibit high self-esteem and are individualistic in nature.

Although this exploratory study is limited by the homogeneity of the subjects questioned and the unrepresentative nature of the sample, the data does yield some interesting findings which warrant discussion and further study. The purpose of the current study was to furnish benchmark data to provide a basis for more in-depth investigation. Future research utilizing a more representative sample,

thus rendering the data generalizable, should consider the proposed personality dimensions, as well as status concern and consumer involvement as they relate to the use country-of-origin information in the product evaluation process. Such research should also allow for the analysis of possible demographic and psychographic differences which would be beneficial in the development of various promotional appeals and other product positioning questions.

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Table 1

Country of Origin Questions

Question and Abbreviation (in Parenthesis)

1. I feel that it is important to look for country-of-origin information when deciding which product to buy. (IMPORT)
2. When I am buying a new product, the country of origin is the first piece of information that I consider. (FIRST)
3. If I have little experience with a product, I search for country-of-origin information about the product to help me make a more informed decision. (LITTLE)
4. To make sure that I buy the highest quality product or brand, I look to see what country the product was made in. (QUALITY)
5. In order to buy a product that is acceptable to my friends and my family, I look for the product's country of origin. (ACCEPTAB)
6. When buying an expensive item, such as a car, I always seek to find out what country the product was made in. (MOREEXP)
7. A person should always look for country-of-origin information when buying a product that has a high risk of malfunctioning, i.e., when buying a watch. (HIRISK)
8. A person should seek country-of-origin information when buying a product with a fairly low risk of malfunctioning, i.e., when buying shoes. (LORISK)
9. I look for the "made in ..." labels in clothing. (MADEIN)
10. I find out a product's country of origin in order to determine the quality of the product. (DETERMINE)

Table 2

Personality and Country-of-Origin Variables: Mean Differences

Country-of- Origin Dimensions	Personality Variables		t	Prob.
	LOW ATSCI	HIGH ATSCI		
FIRST	2.71	3.38	-1.45	<.01
QUALITY	2.14	2.88	-1.45	<.10
ACCEPTAB	1.29	2.41	-4.16	<.01
	LOW SELF- ESTEEM	HIGH SELF- ESTEEM		
IMPORT	1.52	3.68	-2.45	<.05
QUALITY	2.48	3.37	-2.56	<.05
MOREEXP	3.86	4.53	-2.25	<.05
MADEIN	2.05	2.74	-2.59	<.05
	LOW INDIVIDUALISM	HIGH INDIVIDUALSIM		
IMPORT	3.07	3.69	-1.95	<.10
MOREEXP	4.04	4.54	-1.81	<.10
LORISK	2.29	3.77	-2.83	<.01
DETERMINE	4.39	4.69	-2.43	<.05
	LOW ETHNO- CENTRIC	HIGH ETHNO- CENTRIC		
LORISK	2.41	3.13	-2.49	<.05

FORTY SHADES OF GREEN TOWARDS A CLASSIFICATION OF CONSUMER GREENNESS

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Abstract

This paper reviews previous market research into green consumer behaviour in the United Kingdom. A series of longitudinal studies into purchasing patterns for environmentally friendly products in Northern Ireland is presented. By means of these studies the breadth and depth of commitment of the green consumer is identified. It is our opinion that this provides a more accurate classification of the green consumer in the United Kingdom than has been compiled before.

This paper examines green consumer behaviour and the marketing techniques which have been adopted as a response. By comparing existing market research carried out in Great Britain with a series of studies carried out in Northern Ireland, a classification of the extent of consumer greenness is devised, which should indicate potential opportunities and threats for individual manufacturers. It should also equip them with a detailed market segmentation in order to exploit more fully the growing market for greener products.

Background

During the eighties pressure groups such as Greenpeace and Friends of the Earth drew the public's attention to the major environmental problems confronting the earth. National governments and inter-governmental bodies also expressed concern about issues such as pollution, acid rain, the ozone layer and the conservation of rainforests.

Manufacturers of a wide range of products have voluntarily, or in response to legislation, made an effort to play their part in tackling environmental issues. Initially there was a great burst of enthusiasm on the part of manufacturers, retailers and consumers to develop a green stance. It is beginning to be recognised by all that the issue is no longer if they are green, but the extent of their greenness (Mitchell and Levy 1989). As a former president of the Institute of Chartered Accountants indicated, 'Companies setting the pace on environmental issues will be seen as the leaders of the corporate sector' (Macve and Carey 1992).

Developments in manufacturing technology have resulted in more environmentally friendly products. Cars can run on lead-free petrol and have catalytic converters to reduce pollution. The producers of washing powders and detergents have attempted to modify their products to have less environmental impact. Paper products such as disposable nappies and lavatory paper etc are produced with greater respect for the environment. An area which has received much publicity is the reduction in the use of chlorofluorocarbon (CFC) gases in the manufacture of aerosols and in refrigeration, air-conditioning and foam-blowing.

Clearly many manufacturers have responded positively to the green agenda, although it is debatable whether this is out of genuine concern, to comply with environmental legislation or out of

a need to maintain market share in an increasingly competitive atmosphere by reacting to green consumer behaviour. Marketers saw opportunities for launching new products and gaining competitive advantage as an increasing range of products was marketed as environmentally friendly. The green consumer assumed such importance in marketing that some manufacturers jumped blindly onto a green bandwagon. Advertising agencies and research bodies (Hoggan 1989; Kreitzman 1989) conducted surveys which indicated that consumers would buy environmentally friendly products and might even be prepared to pay more for them. However as the public grew more educated in green matters, they became aware of the superficial nature of the environmental friendliness of some products. Friends of the Earth initiated the 'Green con of the year' in 1989 for the organisation which had done the most to hoodwink the public (Plachta 1989).

With an increasing range of environmentally friendlier products on the market, retailers have taken the green challenge on board. Many of the large United Kingdom multiples such as Gateway, Tesco and Sainsburys have devoted significant shelf space to green products. Gateway won the green marketing award in recognition of its efforts to promote products with a reduced environmental impact. The publication of the Green consumer's guide (Elkington and Hailes 1988) followed by the Green consumer's supermarket shopping guide (Elkington and Hailes 1989) further raised public awareness, the number of legal actions invoked by the latter were indicative of its impact (Elkington 1991).

Concern for health issues has increased. In the United Kingdom, government reports into the extent of heart disease brought about healthy eating programmes (Darral 1991). Hanssen's bestselling E for Additives (1986) drew the public's attention to the variety of products routinely included in foodstuffs some of which which were later linked with behavioural problems in children. Various personalities became associated with campaigns to reduce the amount of pesticides used, especially Apple Alar. The great Egg debate about the level of salmonella in eggs caused the resignation of a British Cabinet minister. Significant damage was done to the British meat industry by BSE or mad cow disease. All of these health scares have had an influence on the increasing number of consumers opting for healthier, more environmentally friendly organic foods.

The throw away eighties may be characterised as the apogee of consumerism, while the caring eco sensitive nineties are now in vogue. The limited nature of the earth's resources was epitomised in water shortages in various areas of south-East England. The rise of the eco-thriller as a genre on British television is indicative of the effect on popular consciousness. Instead of lip service to green issues, more fundamental concerns are the order of the day. In response to demand from companies, this year the British Standards Institute published BS7750, the world's first standard for environmental management systems

(Economist 1991). Most recently this is demonstrated by the inclusion of leading environmentalists in the United States Presidential elections, particularly the Democrat running mate Al Gore 'Mr Ozone'. However, green issues may be counterbalanced by the global recession, where consumers may have the profundity of their attitudes tested by financial imperatives, some may ask if they can afford to be green.

A profile of the green consumer

As Croydon (1992) emphasises green consumers are 'not a marginalised minority'. The level of interest is reflected in the mass of market research on environmental-related issues published in the United Kingdom. A profile of the typical green consumer can be drawn from a review of the latest findings (McKenzie 1991: Mintel 1991a b c d e: Mintel 1992).

The ozone layer is the green issue with the highest profile among consumers followed by global warming, forest destruction and pollution of rivers and seas. Women are more concerned than men about environmental issues as 71% mentioned at least one issue, compared with 61% of men. Those with children are more likely to boycott a product because of an environmental issue, again with the ozone layer top of list. Three quarters of ABs could think of at least one environmental issue that would stop them buying a product or service (Mintel 1991a b).

These findings indicate three major characteristics attributed to the green consumer, they are likely to be female, with children and in the social grouping classifications ABC1.

Based on surveys carried out in England, Scotland and Wales, Mintel classify consumers by their willingness to buy environmentally friendly products (EFPs) into dark, light and armchair greens. The dark greens - people who claim to seek out green goods actively - comprise 39% of the sample. They are more likely to be female, with children, influenced more by quality than price and use the green grapevine or personal recommendations when making purchasing decisions.

Some 20% are pale greens, buying such goods only when they see them, divided evenly between the sexes, they tend to be in the age groups 25-34 and 55-64. They are more price led in their buying habits than their darker green counterparts.

Nearly one quarter of respondents are armchair greens, who care about the environment but have not changed their purchasing habits accordingly. Here men are in the majority, and consumers are definitely price led. Only 1 in 10 are not concerned at all about the environment, with 2% positively anti-green making an effort to avoid green products.

It is worth noting that confusion and ignorance do not appear to have much influence on the inclination to buy green products; those who seek out EFPs are just as confused about the claims as other respondents and those who do not buy them are only slightly more likely than others to be sceptical about the prices charged.

Apart from teenagers, who have limited purchasing power, Mintel concludes that the consumers most committed to the environment tend to be female, aged between 35 to 44, from ABC1 socio-economic groups, shop at supermarkets with the fullest shopping trolleys as they have older and hungrier children. Knowledge of the green consumer is

important particularly for the retail industries as environmental issues affect the spending habits of nearly six in ten respondents, in that they buy or try to buy environmentally friendly products.

It is interesting to assess how these results compare with the work carried out in Northern Ireland.

Northern Ireland surveys

These findings are based on a series of longitudinal studies carried out in Northern Ireland over the period 1989-92. The objectives of these studies were to quantify the extent of green activities among consumers in the four major areas - organic food (OF), lead free petrol (LFP), environmentally friendly cleaning agents (EFC) and recycling (REC). In so doing a classification has been established for the extent and level of commitment of green consumer behaviour.

Study 1 1989-90 study of 200 urban and rural motorists interviewed about their usage of lead free petrol

Study 2 1989-90 study of shoppers looking at purchasing of organic food and environmentally friendly cleaning products.

Study 3 1989-90 study of 200 urban households investigating their recycling activity.

Study 4 1991-92 Omnibus study of 1033 urban and rural consumers investigating their purchasing behaviour/activity in respect of organic food, lead free petrol, environmentally friendly cleaning products and recycling.

The findings concerning each of the key areas are examined in turn, comparing the results with existing research in Great Britain.

Use of lead free petrol

This area has shown significant changes with the passing of time. It is currently the most popular of the green activities measured, with half the sample participating.

TABLE 1
USAGE OF LEAD-FREE PETROL 1989-90

Study 1: Usage of lead-free petrol (LFP) 1989-90	
Use lead-free petrol	20.5%
Use leaded petrol	65.5
Diesel	14

Those interviewed gave their main reason for using lead free petrol as being environmental concern (58%) and cost saving (38%). Their main reasons for not using lead-free petrol were the cost of conversion of the engine (53.4%) and reduced efficiency/performance (33.3%).

TABLE 2
USAGE OF LEAD-FREE PETROL 1991-92

Study 4: Usage of lead-free petrol 1991-92	
Use LFP or Super LFP	49.7%
Use leaded petrol	41.4
Use Diesel	8.9

The most important factors considered when buying fuel were price (49.2%), performance (34.7%) and environment (16.1%). The major reasons, apart from using diesel, for not using LFP were that their car was not capable (63.4%), the performance of the car suffers (13.4%) or damage to engine (9%). Just under half (42%) said that they would still use lead free petrol even if it cost more.

These results would indicate a rapid growth in the use of LFP and a higher usage than the overall average in the United Kingdom (33%) but in line with other areas, such as Scotland (36.7%)(Mintel 1991c). This can be attributed to newer cars in Northern Ireland, with stricter roadworthiness testing and various media campaigns by leading fuel companies on local radio. The growth could also be attributed to the phasing out of all leaded fuel except the very expensive (with a price differential of around four pence per litre), the fact that all new cars can take LFP, removal of worries about engine damage or loss of performance.

Recycling

Study 3 indicated that 44% of respondents from urban households are involved in recycling (19% indicating that they did so on a regular basis). Aluminium cans were the most popular area (28%), followed closely by paper (24%) and glass (21%). By 1992, the survey of both urban and rural areas gave 42.2% involvement in recycling. The emphasis had changed, glass (23%) having become the most popular area, followed by cans (18%) and finally paper (14.6%).

The major reasons for not becoming involved in recycling are that it is too awkward, or that people are not interested (49.8%); unaware of collection facilities (45%), with a few indicating that they were unaware of the need to recycle (5.1%). However the proportion of those who make the effort to take items to collection points is high.

TABLE 3
PARTICIPATION IN RECYCLING 1989-90

	Paper%	Glass%	Cans%
Take to collection points	68.5	94.8	91.5
Collected from home	30.5	5.2	8.5

When it comes to paying more for products in recycled packaging 41% of respondents are willing while 49.4% are unwilling, with 8.8% of respondents neutral.

There would appear therefore to be a major and unselfish commitment to recycling by those already involved. This could be further enhanced by the increased advertising of facilities.

Organic foods

In Study 2 10% of respondents regularly bought organic food, two years later, Study 4 reveals that almost 35% of those surveyed are regular buyers. The main reasons for purchasing in Study 2 were health reasons (47%), environmental reasons (28%) and taste (22%). In study 4 the main reasons were that organic foods were healthier (72.7%), had no additives or sprays (49.9%), taste (35.1%), freshness (33.7%) and environmental reasons (32.9%). Reasons for not buying organic foods are:

TABLE 4
REASONS FOR NOT BUYING ORGANIC FOOD

	Study 2	Study 4
Availability	27%	55.8%
Cost	34	37.1

Respondents to study 4 indicated they might switch to organic foods if they were more available (34.2%) and cheaper (30.8%); some of course would not switch (18.6%). Cost is obviously a major

factor, almost 30% of respondents indicated that they would be willing to pay up to 30% more for organic products. In addition, 39.9% of the sample said that people should pay more for organic foods to protect the environment.

It must be acknowledged that there are extra-environmental factors in the areas of food, with particular emphasis on health issues. The primary reasons for the purchase of organic foods is more likely to be in personal interests rather than concern for the general environment, understandable, due to the numerous health scares concerning intensive food production. Nevertheless, concern for the environment remains an important purchasing consideration.

Environmentally friendly cleaning products

A high degree of unanimity was apparent in Study 2 with the main reason for purchasing EFC being environmental concern (83%). Study 4 evinced a greater spread of reasons

TABLE 5
REASONS FOR PURCHASING ENVIRONMENTALLY FRIENDLY PRODUCTS 1991-92

Personal concern for environment	54.4%
Concern through advertising	31.4%
General advertising	16.9%

Prohibiting factors in Study 2 were given as excessive price and lack of efficiency. In Study 4 these were unavailability (37.3%) and preference for other brands (20.1%); just over half of respondents thought that people should not be prepared to pay more for environmentally friendly cleaning products. Some 35% of those surveyed regularly bought environmentally friendly cleaning agents.

In this area the level of environmental concern has dropped, this may be due to the perceived efficiency of the products and greater efforts being made by leading industry players.

Of the four areas examined, the use of lead free petrol is the most popular (49.7%), followed by recycling (42%). The remaining two organic food and environmentally friendly cleaning products, tie for third place (35%). Involvement in any of the four areas shows a level of environmental consciousness, although consumers may have additional reasons as well for using lead free petrol and organic food (because of price differential and health benefits). There are few other direct benefits to the consumer in recycling and environmentally friendly cleaning products. A current study is being conducted to determine consumer behaviour and motivation for buying green products, to separate selfish motives from real 'greens'.

Who are the green consumers?

These studies show a high degree of consistency with previous market research, in that women are more likely to be green consumers.

TABLE 6
GREEN CONSUMERS BY GENDER

	OP%	EFC%	LFP%	RECF
Male	25.9	30.3	31.6	36.1
Female	38.3	36.6	51.0	45.6

This is further emphasised if willingness to pay extra is examined.

TABLE 7
WILLINGNESS TO PAY EXTRA BY GENDER

		Male%	Female%
OF	Would pay more	35.3	42.4
	Would not pay more	30.6	51.8
EFC	Would pay more	36.4	33.0
	Would not pay more	50.4	52.7
LFP	Would pay more	27.0	37.8
	Would not pay more	62.7	49.0
REC	Would pay more	36.4	43.6
	Would not pay more	51.8	52.1

The presence of children is also very significant, with a clear distinction between the purchasing patterns of those with children and those without.

TABLE 8
GREEN CONSUMERS WITH CHILDREN

	OF%	EFC%	LFP%	REC%
Children <18	39.4	35.4	51.6	43.7
Others	31.5	31	48.5	41.0

The primary importance of the socio-economic grouping is in relation to the amount of personal disposable income.

TABLE 9
GREEN CONSUMERS AND DISPOSABLE INCOME

Income	OF%	EFC%	LFP%	REC%
<£10K	27.8	30.5	45.6	37.5
10-20	36.2	36.1	44.1	43.5
20-30	40	38.8	56.4	51.4
30-40	36.5	35.4	57.1	40.0
>40	42.2	33.3	51.1	33.3

There would appear to be some correlation between spending power and environmental issues, whether it is negative, i.e those on low incomes cannot afford to be green, or positive, those with more money are willing to spend on environmentally friendly products, remains to be discussed.

So far both Mintel and the Northern Ireland surveys are in broad agreement. When the age factor is examined, differences appear. According to Mintel, age is an important factor in the profile of the green consumer. When questioned about current purchasing patterns and if people should be willing to pay more for environmentally friendly products, age does not appear to be of significance.

TABLE 10
WILLINGNESS TO PAY MORE BY AGE GROUP

Age groups	18-29%	30-39%	40-49%	50-59%	
OF	Should pay more	38.0	35.0	47.7	41.6
	Should not pay more	51.4	54.3	42.2	48.8
EFC	Should pay more	37.4	27.1	32.6	30.6
	Should not pay more	52.2	58.0	49.8	51.6
LFP	Should pay more	32.8	32.4	36.4	41.6
	Should not pay more	58.5	53.7	52.0	48.0
REC	Should pay more	45.6	41.3	37.9	34.4
	Should not pay more	46.5	49.2	47.0	60.0

The fundamental distinction between the two types of survey should be stressed as the Northern Ireland research has primarily concentrated on actual consumer behaviour rather than intentions or willingness and hence may give more accurate

determinants of behaviour. It therefore provides a more realistic profile of consumer commitment to environmental matters. Based on these indicators, an accurate picture of the various market segments, or shades of green can be devised.

Shades of green

A classification of greenness can be achieved by assimilating both breadth (number of activities concerned) and depth of commitment (if people should be prepared to pay more). In terms of breadth of activity, Study 4 shows the sample to be composed as follows:

TABLE 11
BREADTH OF COMMITMENT

involved in 4 areas	4.9%	OF, LFP, EFC, REC
involved in 3 areas	9.4	
involved in 2 areas	18.3	
involved in 1 area	83.8	
involved in no areas	13.6	

When breadth is crosstabulated with depth of commitment it gives the following results (see also Figures I and II).

TABLE 12
DEPTH OF COMMITMENT

	N.I.	Mintel
active in 3-4 areas & should pay more in 3-4 areas	7.4% committed/super green	13.0% dark green
active in 2+ areas & people should pay more in 2+ areas	18.7% emerging green	29.3% dark green
active in 1+ areas & people should pay more in 1+ areas	36.6% experimental green	21.7% pale green
active in 1 area & people should pay more in 1 area	30.4% potential green	25.0% armchair green
active in no area & people should not pay more	7.0% anti-green	10.9% unconcerned

These classifications should enable manufacturers and retailers to target segments based more accurately. Green marketing strategies can now be more accurately devised to attract the appropriate level of greenness. There is considerable room for growth in these market segments, with some two thirds of the population sympathetic towards environmentally friendly products.

Conclusions

There appears to be a deep seated and growing commitment of consumers to either purchase green products or get involved in green activities. Greener consumers appear to be deeply concerned about environmental issues (although they may not fully understand the direct linkages between environmental impact and product purchase or indeed have any real depth of knowledge about specific environmental issues)(Cope and Windward 1991). However their unease about environmental problems is real enough to make them modify their purchasing patterns/life styles to a significant degree. There are some personal benefits from green purchasing behaviour but these more selfish motives seem to be outweighed by the more selfless determination of green consumers to "do their bit for the environment" in that they may be prepared to incur inconvenience and pay more for poorer performance products.

This presents both opportunities and threats for individual manufacturers. As green consumers

become more sophisticated in terms of linking their purchasing behaviour to real environmental issues, manufacturers who simply try to jump on the green bandwagon by making misleading or erroneous claims will find that it becomes increasingly counter productive. Equally those manufacturers who choose to ignore green concerns and continue to market their products solely on the conventional basis of factors such as increased style, performance and value for money will find that by not addressing an increasingly mainstream purchasing determinant that they will lose market share to greener products. This could be true, even though those greener products may be inferior in terms of conventional marketing advantages and benefits.

Conversely this new consumer movement offers great potential for those who produce more genuinely environmentally sympathetic products. They can now target increasingly sophisticated green segments of the market which will not only be committed to purchasing greener products but also be prepared to pay more for these products and demand more accurate 'green' advertising of them (as Watts (1992) indicates imminent eco labeling may make this obligatory). However, this does not mean that manufacturers can exploit a gullible green market with products which are of grossly inferior performance and for inflated prices. The evidence is there to show manufacturers that while green consumers may be prepared to accept marginally poorer performance products and marginally more expensive products, there are limits to their acceptance.

With 93% of consumers at least interested or involved in some sort of green purchasing and some 26.1% very actively, manufacturers would be extremely foolish to ignore the real opportunities for differentiating products on a green basis and should recognise the potential threats to their products by not addressing a major determinant of future consumer behaviour.

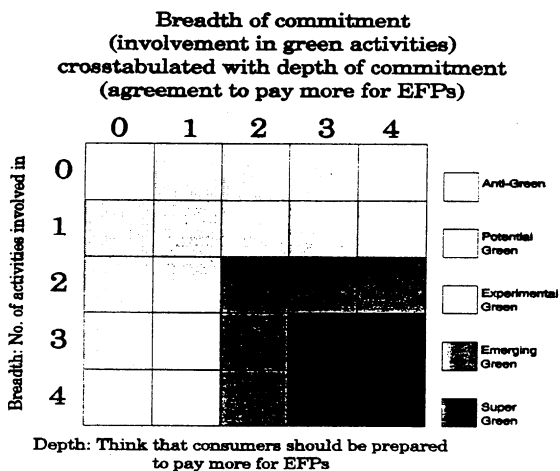


FIGURE I

Pie chart representing proportions of green consumers categorised by commitment.

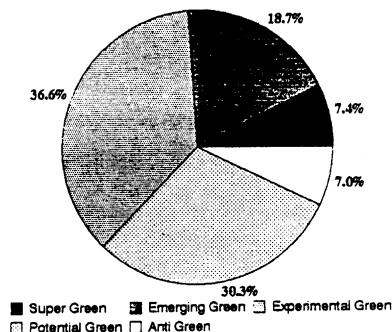


FIGURE II

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THE IDENTIFICATION OF PAN-EUROPEAN SEGMENTS :
AN APPLICATION OF MEANS-END ANALYSIS IN A CROSS-CULTURAL CONTEXT

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Abstract

This article aims to show the potentialities of means-end chain analysis for cross-cultural research. By means of the tandem use of correspondence analysis and cluster analysis, this work attempts to uncover the major attributes → consequences → values chains for perfume purchases which may exist among four European countries (France, Italy, Germany and Switzerland). The results, although still exploratory, lead to the identification of four potential targets which are either pan-European or specific to some of the studied countries.

Introduction

These last four years, the study of cognitive structures has recently received an increasing attention. Within that field, the means-end chain analysis and laddering method proposed by Reynolds and Gutman (1983, 1988) seem to be of prime importance. Their methodology, which is **qualitative** in nature, belongs to the "micro" perspective and hence differentiates much more from the "macro" approach, **quantitative** in essence, aimed to segment individuals into groups defined by a priori specified value orientations. New developments using graph theory and correspondence analysis techniques have been recently proposed (Valette-Florence and Rapacchi, 1991). These improvements not only allow the researcher to draw hierarchical value maps more easily but also give new opportunities for uncovering segments with **specific** means-end orientations. In particular, this is achieved by the tandem use of correspondence analysis and cluster analysis as outlined in Valette-Florence and Rapacchi (1991) original work.

Objectives of The Study

Up to now, we are not aware of any, but one, published studies using the laddering methodology on a cross-cultural basis. The only notable exception is the study of Valette-Florence and Rapacchi (1990a) who have provided hierarchical value maps for four European countries (France, Italy, Germany and Switzerland). Relying on the same data set, the main objective of this research is to go one step further, since it aims to uncovering specific and/or pan-European segments among the four aforementioned European countries. To this end, we prone the **tandem use of correspondence analysis and cluster analysis** for identifying specific groups with homogeneous means-end hierarchies. We then use a **graph theoretic approach**, carefully taking into account the **semantic coherence of the chains** (Roehrich and Valette-Florence, 1992b) to draw for each segment the corresponding hierarchical value map.

Advantages of Means-End Chain Analysis
for Cross-Cultural Research

Almost all commercial studies dealing with an international framework still rely on intensive data collection and heavy use of pre-established questionnaires. Although this produces a kind of "standardized" process among countries, such a choice is still problematic since nothing

guarantees that the cultural patterns prevalent within one country remain unchanged within another country. In practice, taking an instrument designed and tested within the cultural context of one country, using it in other countries after translation, and comparing the result between countries is called a "pseudo-etic" approach (Triandis, 1972), because it uses the "emic" categories of one culture to impose these as quasi-universal categories on others.

In order to prevent the use of pre-established list of items, we believe more attention should be given to **qualitative** data collection procedures which allow subjects to express their **own** values or motivations. Among the available techniques, the means-end chain analysis seems one of the more appealing since it specially focuses on the linkages between the attributes that exist in products, the consequences for the consumer provided by the attributes and the personal values the consequences reinforce. Moreover, recent researches have already shown the superiority of the means-end perspective on a more traditional macro orientation, if one wants to predict brand choice behavior (Aurifeille and Valette-Florence, 1992). Lastly, recent methodological developments enables the researcher to identify segments with specific means-end hierarchies (Roehrich and Valette-Florence, 1992a).

Research Procedure

Choice of a Product Class

Perfumes have been selected for three main reasons :

- they belong to the class of high involvement products (Laurent and Kapferer, 1985, 1986), scoring specially high on the three facets of enduring involvement (pleasure, sign and interest) ;
- as perfumes are mostly associated with luxury products, they are in close connection with social and personal motives ;
- preliminary studies already conducted in France (Valette-Florence and Rapacchi, 1990b) have given promising results as for the nature of the identified segments.

Data Collection Procedures

The methodology designed specifically for uncovering the levels of abstraction is an in-depth interviewing technique called "laddering". The purpose of the laddering is to elicit distinctions at higher levels of abstractions, thus uncovering the **structural** aspects of consumer knowledge as modeled by the means-end chain. In practice, a sequence of *in-depth probes* then traces the network of connections or associations in memory that eventually leads to personal values. The final goal is to determine sets of associations or ladders ($A \rightarrow C \rightarrow V$) which represent combinations of elements that serve as the basis for distinguishing between and among products in a given product class.

With regards to the European nature of this survey, this procedure would have been rather cumbersome due, for example to numerous

translations and back-translations. We chose to adopt a new data collection procedure already tested in France (Valette-Florence and Rapacchi 1990b). Regarding the original process, the following points deserve attention :

- First, within each country, we carried out a **group** as well as a few **individual** surveys in order to elicit the different attributes, consequences and values pursued in perfume purchases. Each of these investigations was conducted within each country by native and at least bi-lingual especially trained students, involved in France in master programs in business administration.

- Once these surveys had been conducted within the four European countries (France, Italy, Germany and Switzerland), the different lists of attributes, consequences and values were compared, in order to create an exhaustive list suitable for the four countries. Of course, this comparison involved translation and back-translation in order to avoid cultural as well as linguistic biases. Finally, the resulting list was compared to that of a previous study conducted in France (Valette-Florence and Rapacchi 1990b) to ensure there was a closed match up.

- Finally, the same students came back to their own country to carry out the interviews. Each of the respondents was first asked to select one perfume among three, in order to elicit distinctions among products. Then, they were presented with cards, each related to one of the attributes. With respect to the selected product, they had to make three piles (most important, average, not important) and then select the most important attribute among those within the first pile. The same process was repeated at the consequence level and so on until the value level had been reached up. It is important to remark that at any given moment of the procedure, the respondent was allowed to write his/her own preferred attributes, consequences or values in order to prevent the loss of an element not incorporated into the pre-established list. The final stage of the interviews consisted of questions about socio-demographic factors and the number of perfumes possessed.

Sampling

Although the outlined data collection procedure is suitable to any country, four European countries, France, Italy, Germany and Switzerland have been selected for geographical as well as practical reasons. Indeed, the four cities (Grenoble, Geneva, Torino, Munich) where the data was collected were located within the same geographical area, while it was also possible to rely on bi-lingual investigators native of these four countries. Due to the exploratory nature of our research, we used convenience samples*. However, they were matched on two critical aspects : all people should be enrolled in the work force and belong to the 20-30 years old. These two points were selected to ensure homogeneity among the four countries. Finally, within each country, the target was the same : 100 people split between 2/3 of women and 1/3 of men.

* Indeed, our samples could be seen as quota samples, since we determined specific criteria which had to be match on. We refer to convenience samples, because the choice of the respondents was made by the investigators on a convenience basis (family, friends, etc.).

On the whole, we got 474 ladders since, on average, more than one ladder was elicited by each interviewed person. All these ladders were then converted into a succession of numbers (see Table 1) used as input for a *Multiple Correspondence Analysis* (MCA). The *raison d'être* for MCA is to provide a spatial representation of **qualitative** profiles in a reduced Euclidean space. Cluster analysis can then be performed on the spatial coordinates in a way analogous to the tandem use of factor analysis and clustering in the case of quantitative variables. Such a procedure not only allows to cluster individuals with analogous means-end hierarchies, but also provides graphical representations of the semantic space determined by the elements (A/C/V) picked up by the respondents (Green et al, 1988).

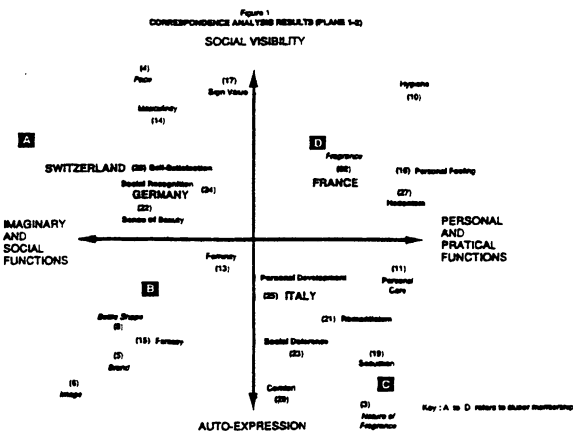
Table 1

Summary Content Codes for Perfume Purchases

Attributes	Consequences	Values
(1) Color	(10) Hygiene	(21) Romanticism
(2) Fragrance	(11) Personal care	(22) Sense of beauty
(3) Nature of Fragrance	(12) Prestige	(23) Social deference
(4) Price	(13) Femininity	(24) Social recognition
(5) Brand	(14) Masculinity	(25) Personal development
(6) Image	(15) Fantasy	(26) Self-satisfaction
(7) Place of distribution	(16) Personal feeling	(27) Hedonism
(8) Bottle shape	(17) Sign value	
(9) Packaging	(18) Self-imagery	
	(19) Seduction	
	(20) Comfort	

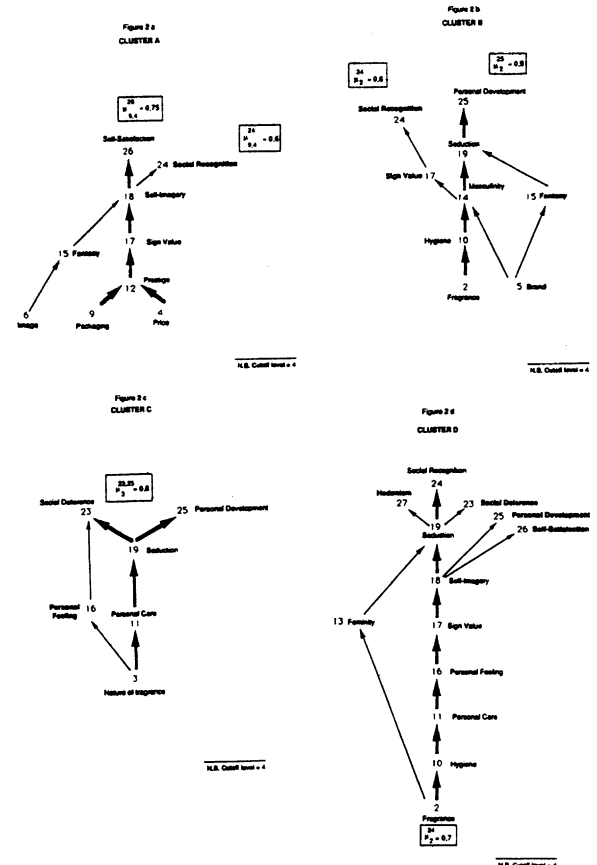
To analyse the data, we used the French method of "dédoublément" (doubling), so that each element (A/C/V) appears twice (picked versus not picked) in the configuration. In practice, this means code 1 was assigned to any element picked up by the respondent, and 0 otherwise (see Valette-Florence and Rapacchi, 1991, for a further illustration). Hence, the multiple correspondence analysis was performed on the 474x54 matrix obtained by doubling the raw data about the columns (474 ladders times 27x2 [picked versus not picked] elements). In our case, the resulting eigenvalues equal their corresponding proportion of inertia because the total inertia is equal to one. Although 54 dimensions recover perfectly the 474x54 doubled data matrix (i.e. : $\sum_{i=1}^5 S_i = 1$), the first five axes were retained for the clustering phase (these axes were selected on the basis of a scree plot of the eigenvalues which indicated an elbow at $t=5$). Since in a doubled binary data matrix with q variables, the row sums equal a constant value (54 in this case) and the row masses equal $1/n$, the row profiles define n points in a $2q$ -dimensional space, but q linear dependencies are present among the columns so the dimensionality of the row is really equal to q .

Figure 1 shows the display of elements (A/C/V) on the plane defined by axes one and two. Although other axes were retained (see above), we selected this representation on the basis of the interpretability and the desire to preserve space. We then performed a cluster analysis on the coordinates of the respondents within the five dimensional solution. We used a hierarchical average-linkage program (called SPAD-N, Lebart, Morineau and Lambert, 1988). The hierarchical tree indicated a clear cut for four groups. Cluster sizes were respectively 165, 71, 55 and 183 for cluster 1 to 4.



well as social functions (Seduction → Social Recognition / Social Deference).

Figure 2. PAN-EUROPEAN MEANS-END HIERARCHIES



It was then possible to draw specific hierarchical value maps for each of these groups. In this study, we performed the analysis carefully taking into account the semantic coherence of the different linkages (A/C/V). Indeed, as outlined by Roehrich and Valette-Florence (1992b), not taking into account the semantic coherence of the diverse paths may lead to numerous spurious and irrelevant relationships. Basically, the method seeks to minimize for each potential chain a conceptual potentiality index μ_{ij}^k , such that :

$$\mu_{ij}^k = \frac{\delta_{ij}^k}{d_{ij}}$$

- where :
- k = terminal node (value)
 - i = initial node (attribute)
 - j = intermediate nodes (consequences)
- and :
- d_{ij} = number of direct relations between i and j
 - $\delta_{ij}^k = d_{ij} - \text{Max}(\text{ind}_{i,j,1}^k)$
 - $\text{ind}_{i,j,1}^k$ = number of indirect relations between i and k via j, through any l.

In practice, μ_{ij}^k has to be kept below 0.5, otherwise less than half of the individuals coming from node i would end up to node k via any j.

The results, displayed in figure 2 (2a to 2d), show specific means-end hierarchies. We refrain to label these four groups, because any name would remain ambiguous and/or reducing. However, it is rather obvious that these clusters do not correspond to the same orientations toward perfume purchase :

- The simplest cluster seems to be cluster C which is mainly in search of personal expression (Nature of Fragrance → Personal Care → Seduction → Social Deference / Personal Development).
- Cluster B corresponds mostly to social as well as a personal expression (Seduction → Personal Development ; Sign Value → Social Recognition).
- Cluster A is more related to imaginary functions (Fantasy → Self Imagery → Social Recognition), but also sign values (Prestige → Sign Value).
- Finally, cluster D is the more complex (i.e. : the longest chains) and in close connection with personal (Personal care → Personal feeling) as

Even more interesting is the cross-tabulation of these four segments with the four European countries ($\chi^2_3 = 133,64 ; p = 0.000$) (table 2). Moreover, a log-linear analysis allows us to identify the strength of the associations between the different clusters (table 3). It clearly appears that cluster D, B and C are mainly associated with one country (cluster D with France, cluster C and B with Italy), whereas cluster A is associated both with Germany and Switzerland. Hence, cluster A could be seen as a kind of pan-european segment in the sense it tapes more than one country. Indeed, if we use the supplementary points fitting capability of MCA (Greenacre, 1984), we can find also on the display of Figure 1, most of the aforementioned associations. Clearly, the choice of a perfume positioning lies in the accurate examination of the means-end hierarchies prevalent within the selected segment. Should Lutheran countries be the choice, cluster A seems to be the right target. On the other hand, more Latin countries such as France or Italy seem to be more specific and need the choice of a more peculiar means-end orientation (like cluster D for France). Lastly, due to its size, cluster D could also be investigated as a potential target for a pan-european positioning among France, and to a lesser extent Italy and Germany.

Table 2

Cross-tabulation of the means-end clusters with the European countries

Cluster	A	B	C	D	TOTAL
Country					
France	5	9	15	80	109
Italy	26	25	20	39	110
Germany	65	21	5	49	140
Switzerland	69	16	15	15	115
TOTAL	165	71	55	183	474

Table 3

Log-Linear Analysis Results

Cluster	A	B	C	D
Country				
France	0.257* (-7.7)**	0.770 (-2.0)	1.737 (0.7)	2.915 (4.9)
Italy	0.762 (-2.1)	1.221 (1.9)	1.323 (1.9)	0.812 (-0.5)
Germany	2.115 (2.2)	1.138 (0.1)	0.367 (-3.4)	1.132 (0.7)
Switzerland	2.418 (4.0)	0.934 (-0.2)	1.186 (0.5)	0.373 (-5.5)

* Estimates of the multiplicative parameter ($b=e^1$)
 ** Freeman-Tukey deviates (between brackets). Due to the rather small data set, Freeman-Tukey deviates are more robust estimates than the ratio of the linear parameter estimates to their standard errors.
 NB : In bold type : $p < 0.05$; italics : $p < 0.10$

Discussion and Conclusion

Although exploratory in nature, due in part to our limited sample size, our results deserve some attention :

- they stress the potentiality of means-end chain analysis for studying cognitive structures on a cross-cultural basis.
- they show the flexibility of the proposed methodology for uncovering cross-cultural as well as inter-cultural differences. In that spirit, the tandem use of Multiple Correspondence Analysis and cluster analysis has proved to be very useful for determining specific means-end hierarchies.

Nonetheless, our study suffers from a certain number of drawbacks. Our approach is mainly exploratory due to the paucity of the academic (not commercial) research dealing with the **European** consumer. More grounded hypotheses should be also specified, especially to validate differences between specific European countries.

Moreover, other qualitative techniques should be compared to the one used in this study. Other graphical representation could be scrutinized as well (e.g. De Sarbo and Hoffman 1987). Finally, the data collection procedure could be expanded to get information about concepts such as involvement which has proven to be very useful

to segment European consumers (Laurent and Kapferer 1986). As most of the attributes or consequences used in this survey lead to terminal or instrumental values, more specific attention should be given to their systematic identification, mainly because all of the recent studies undertaken in France or Europe have proven the core importance of social values for studying specific or/and symbolic consumption patterns (Roehrich et al 1989).

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A CROSS-NATIONAL COMPARISON OF
SELECTED EFFECTS OF LANGUAGE AND COUNTRY OF ORIGIN ON
CONSUMERS' ATTITUDES AND INTENTIONS

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Abstract

The present investigation intends to directly compare and contrast the differential responses of French consumers to United States consumers in terms of their attitudes toward advertisements, the brands advertised, and their intention to respond. More specifically, participants from the two countries will participate in a 2x2 between subjects experiment and respond to one of four versions of advertisements for two hypothetical products. The only differences across the respective test messages are the language in which the headline and body copy are written [French-English] and the products' country of origin [United States-France]. Analyses will indicate possible interaction effects between language and country of origin as well as possible main effects for either language or country of origin as well as show comparisons between subjects from the two countries.

Conceptual Framework

Two of the most important issues likely to affect consumers' responses to product offerings are language and country of origin. Both concepts serve as external product cues (Dommermuth 1989) and therefore will likely interact with each other.

Language is an integral part of one's cultural heritage (Czincota, Rivoli, and Ronkainen 1992). Language proficiency further serves as a measure of an individual's position within society. Language goes far beyond the written or spoken word. It is symbolic. International marketers additionally must be aware of the "silent language" which bonds or separates producers and consumers (Hall 1959). Language affects information processing (Sternthal and Craig 1982). The language [native-foreign] used in the advertisement prompts the formation of attitudes, intentions, and behaviors (Dommermuth, 1989). The use of native language provides for a more literal interpretation of content, whereas foreign language contributes to brand "mystique" (Foster, Sullivan, and Perea, 1989). In either case, the advertisement's language may either add or detract from the message, the brand, and the intention to respond. Few empirical studies have directly assessed the differential impact of foreign vs. domestic language on consumers' attitudes and intentions (Gaillard 1982; Faber and O'Guinn 1991; Holmes, Shook and Carroero 1992). In each, language was treated as a single cue, the products analyzed could have been perceived as either domestic or foreign.

Products' country of origin contributes significantly to the formation of attitudes towards messages, brands, and intentions to respond (Dornoff et. al., 1974, Bilkey and Nes 1982; Yaprak 1991). Unquestionably, concern for country of origin is often both product specific and country specific. Certain products are often closely associated with a particular country. For example, wines and perfumes from France, consumer electronics from Japan, watches from Switzerland, coffee from Brazil, and Coca-Cola and McDonalds from the United States. In today's highly competitive market, many top quality consumer products are manufactured in scores of countries and sold in hundreds of different markets. Still, consumption of foreign products relative to those manufactured domestically varies widely from one country to another as do the attitudes consumers from one country hold toward another. Previous empirical studies (Krishnakumar 1974; Hong and Weyer 1989) have shown that products' country of origin exerts considerable influence on consumers' attitudes and brand choice. Certainly, then this variable should be incorporated when assessing the comparative effectiveness of messages prepared in more than one language.

Present Study

The present study focuses on consumers from two culturally distinct countries -- the United States and France. More precisely, it will identify and measure their comparative responses to four versions of advertisements for two consumer products. Demographically similar subjects from the two countries will participate in a 2x2 between subjects experiment and evaluate each of two advertisements in terms of attitudes toward the message, the brand advertised, and intention to respond. Analyses will reveal potential interaction effects between language [French-English] and country of origin [France-United States], as well as possible main effects.

The investigation considers two basic consumer products: one a generic 35 mm camera the other a generic shampoo. Both products could very readily be produced in either the United States, France, or some other country. A fictitious brand name ULTRA which has the same connotative meaning in both English and French was given to the two test items. The use of hypothetical brands precludes possible bias resulting from past advertising or prior experience with existing brands. Four versions of identical print ads were constructed. Each contained a headline, body copy, country of origin [made in U.S.A. - France or Produit Francais - Etats Unis], toll-free number, coupon, and product illustration.

Behavioral theory (Ajzen and Fishbein 1980, Petty, Cacioppo, and Schumann, 1983) combined with the previously cited empirical research prompted three hypotheses.

H1: Among consumers from each country [France-United States] there will be significant interaction effects between language [native-foreign] and products' country of origin [domestic-imported] in terms of:
(a) attitude toward the message,
(b) attitude toward the brand, and
(c) intention to respond.

H2: Among consumers from each country there will be a significant [native-foreign] language effect in terms of:
(a) attitude toward the message,
(b) attitude toward the brand, and
(c) intention to respond.

H3: Among consumers from each country there will be a significant country of origin [domestic-import] effect in terms of:
(a) attitude toward the message,
(b) attitude toward the brand, and
(c) intention to respond.

It has been noted that foreign language proficiency affects subjects' receptivity to foreign language message layouts (Holmes, Shook, and Carroero 1992), therefore, subjects from America were queried concerning their ability to read French; whereas French subjects were asked about their English language proficiency. The effects of language proficiency on both sets of subjects will be presented and compared.

Method

The questionnaire included three parts. Part one contained instructions for completing the assigned task. Part two included one version of the camera message and one version of the shampoo message. The messages were rotated within the questionnaires to prevent order of presentation bias. Part three contained manipulation verification questions, questions for measuring attitude and intention, foreign language proficiency, and selected demographics. The questionnaires for the two countries were identical, except for the language in which the instructions and questions were written. In both the U.S. and France the questionnaires were distributed in classroom settings.

Analyses

Completed interviews were obtained from 194 American subjects and 188 French subjects. The obtained data are currently being tabulated. The nine dimensions used for measuring attitude toward the message will be factor analyzed. Analyses of variance will be used in testing the three hypothesized relationships. The resulting F values and corresponding p. values which will depict possible interaction effects and main effects for the two products for both the U.S. subjects and the French subjects will be presented. The data will be adjusted to reflect differences occasioned by the effects of foreign language [French-English] proficiency.

A complete listing of references is available upon request.

RETAILING

SUCCESS FACTORS FOR JAPANESE CONVENIENCE STORES

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Abstract

Seven Eleven Japan (SEJ), a franchised convenience store chain, combines several factors to produce world-class strategy. SEJ'S success factors include their franchise arrangements; an intensive distribution system; computer technology supporting "Tanpin-Kanri" with Graphic Order Terminals and an Integrated Services Digital Network; and a combined marketing and promotion system. The corporation's continuous emphasis on customers dominates their achievement of extraordinary standards with single-item product management. SEJ represents a country-specific example of an integrated service management and marketing enterprise.

Introduction

Service management and marketing scholars agree that service quality assessments occur when customers compare their expectations with the perceptions of the service received. Service managers, in the retail sector, place considerable emphasis upon direct service to customers with the goal of meeting their expectations. This emphasis created a competitive advantage for well known service companies such as SAS Airlines, Marriott Hotels, Xerox, and Federal Express -- each of which can be described as an international service corporation. Other types of retail service operations include smaller shops such as local cafes, beauty shops, travel agencies, and similar small retail operations which may be a part of a franchise chain. Convenience stores are usually small retail operations which are one of the more intensively managed direct service, retail operations. This paper will present success factors of a franchised convenience store operation in Japan, Seven-Eleven Japan (SEJ), which is one of the country's most successfully managed franchise service businesses (Japanese Small Retailing 1993). SEJ's success in Japan has not been the case in the United States where convenience store chains have experienced substantial financial difficulty (Food Marketing Review 1992). Thus, it may be useful for other retail service managers to review the success factors of SEJ for potential improvements in their respective countries.

Seven-Eleven Japan (SEJ) opened their first outlet in 1974 and had 5,000 stores in 1993. SEJ is the largest and most profitable convenience store company in Japan. In this paper we examine the primary success factors -- mission statements, a franchise system, distribution, computer technology, and a combined marketing and promotion system -- which have contributed to SEJ's rapid growth and success. SEJ's growth and success demonstrates a corporate movement toward a marketing strategy continuum (Gronroos 1991) which requires an integrated information system to support its managerial and service strategy.

Characteristics of Convenience Stores

Convenience stores are defined as retail operations which have convenient locations, are open seven days a week with extended hours of operations (Kittaka 1987). Such stores are usually small in square footage, carry a limited line of high-priced products, and have low average sales per-person (Kotler 1991). Operating costs are low because of low inventory, low labor costs, and few employees per store. Further, convenience stores are described as providing six functions for the customer: convenience of distance; convenience of assortment; speed and efficiency for the customer; price stability; twenty-four hour a day operations; and friendly service (Kittaka 1987).

The Japanese Situation

Japan is a small nation with a population of about 123 million living on one-third of its land, the remaining land being too mountainous for ordinary life. There are several convenience store chains in Japan, with the top ten chains having about 16,850 stores throughout the country in 1991 (Ishibashi 1992). With its high population density, exorbitant land prices, and legislative protection for small retailers, Japan provides a receptive environment for retail convenience stores. Moreover, demographic trends such as the increasing number of two-career couples, the rise in number of working women, more leisure time for some individuals, and the increase in the number of nuclear families also support the growth of Japanese convenience stores. Traditional retailers have not met the needs of Japanese consumers since they have been unresponsive to changing markets and somewhat inefficient. Convenience stores have expanded outlets to meet these emerging needs without being a direct threat to supermarkets and department stores.

Organizational Mission and Success Factors

The Seven-Eleven Japan (SEJ) Corporation has a managerial and marketing strategy comprised of four factors (franchised operations, intensive distribution, integrated computer support technology, and a combined marketing and promotion system) which are supported by three mission statements (see Figure 1). The three mission statements are: (1) a corporate mission statement; (2) an operational mission statement for store management; and (3) a customer mission statement which governs the other two mission statements (Shiozawa 1988 and SEJ 1991 Internal Report).

The corporate mission statement seeks "to change existing traditional retailers into a modern retail operation to meet local customer needs" (SEJ 1991 Internal Report). This statement recognizes that local markets may differ and that the corporation must help meet those local needs.

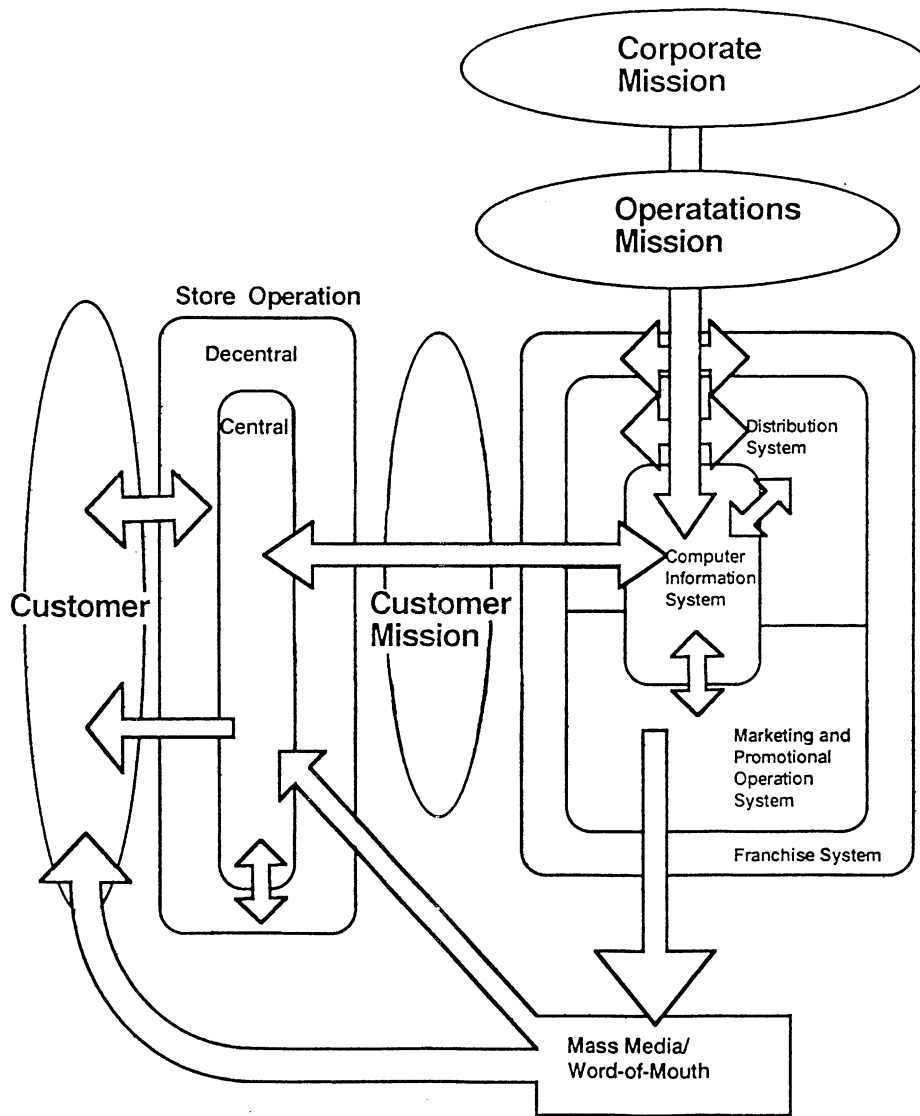
Moreover, the President of SEJ, Toshifumi Suzuki, articulated the operational store mission as one of proactive change in response to market conditions: "Society is changing all the time, so if we do not correspond to the change, we are going to be left behind" (Sakaguchi 1991). This philosophy defines the operational reality as one of continuous change in response to market shifts. Finally, the customer mission statement focuses on customer satisfaction from the accomplishment of specific objectives, for example, preparing fresh products, having desired customer products in stock, maintaining a clean and sanitary facility, and providing friendly service. This umbrella customer mission statement influences store operations from the corporate level as well as at the individual store level.

Success Factor #1: The SEJ Franchise System

The SEJ franchise system encourages and supports each store's development of a customer orientation. President Suzuki defined convenience goods as products which can be consumed within the hour (Sakaguchi 1991). The combination of customer orientation and convenient products expected to be consumed hourly (more or less) is a powerful strategy of retail service and product availability (Cross and Walker 1987).

While some franchisor managed stores are for training employees, the individual franchised stores work on differentiation with original products and independent shelf management that

FIGURE 1
SEVEN-ELEVEN JAPAN
RELATIONSHIPS BETWEEN SYSTEM
OPERATION AND THREE MISSIONS



meets the expectations of customers. The SEJ franchised-owned stores were developed from older retail operations held by SEJ, some of which were small grocery stores, liquor stores, or even "papa-mama" stores (Morishita 1991).

Market research and product development are centralized for the SEJ Corporation. It is impossible for franchisees to bear such costs without corporate assistance. However, each store's shelf management is decentralized, fostering emphasis on local market needs and their desired product assortments. SEJ believes that product assortment may be different from store to store when serving different market segments. For example, an SEJ convenience store near a college campus may carry a variety of beer brands while another store near an office building may carry an assortment of deli foods. While SEJ generates ideas for product selection and assortment, including a Point of Sales (POS) system supported by Operational Field Counselors, each franchisee retains the right to select individual products for his or her store. Stated another way, there is no line forcing by the franchisor.

The Operational Field Counselors (OFCs) work on communications between the corporation and individual franchisees. There are about six hundred SEJ OFCs working throughout Japan. Each counselor visits seven to eight individual stores per week and this means that each store is visited and given assistance about once a week (600 x 7.5 = 4,500 store visits/weekly). The OFCs inform store managers about new products; provide advice on product lines; cooperate in the review of sales data; and provide customer service advice. The OFCs attend weekly meetings in Tokyo (Kunitomo 1987) which initially seems inefficient and costly. However, SEJ [not unlike WalMart in the United States (Stalk, Evans, and Shulman 1992)] believes it is important for the franchise company to communicate frequently and minimizes, as much as possible, the distance between the corporation and the individual stores.

As might be expected, SEJ's initial franchise fee of 45% of gross profits is expensive when compared with other Japanese convenience store companies (Kunitomo 1987). Nevertheless, SEJ's expansion has been substantial due to their distribution system, their OFCs, good market research, and continuous product development. The Corporation has built a structural marketing relationship with individual franchisees that provides valuable and continuous services (Berry and Parasuraman 1991).

In turn, the franchisees provide strong testimony which makes SEJ attractive to individuals who want a small retail store. This can lead to multiple SEJ outlets which further strengthens brand and store loyalty in a market area which, in turn, brings more benefits to the franchisor and area franchisees. More importantly, customers in the area are well served by multiple outlets which increase convenience of location within a geographic area.

Success Factor #2: The Distribution System

SEJ's distribution system, another success factor for SEJ, works as both a centralized and decentralized system (see [Figure 2](#)). SEJ's

distribution system is a key factor because of its characteristics of having a customer orientation, efficiency, and intensive use of technology. This approach results in near-continuous distribution to improve freshness of products and avoids opportunity loss from waste or out-of-stock situations. Product freshness is a constant concern to SEJ stores because food products constitute seventy-five percent of their sales. Freshness of food also represents the store's quality commitment to the customer and is managed within these guidelines: (1) milk must be disposed of two days after its production date; (2) lunch box meat must be sold within twelve hours of its production date; and (3) coffee must be sold within thirty minutes of its preparation. The implications from such guidelines for food product management are enormous and likewise direct the just-in-time inventory system.

Opportunity loss is defined as being "sold out" or not having stocked a requested product. Either of these situations is regarded as serious by SEJ because if the customer intends to buy only one product which is then not available, the store does not exist for that customer (Ogata 1991). Thus, the individual convenience store must constantly balance an acceptable product assortment against a low level of inventory.

The required efficiency of distribution and low inventory could be a difficult problem for SEJ. Each store has 3,000 to 4,000 items which come from different wholesalers, for example, processed-food wholesalers, frozen food wholesalers, drug and cosmetic wholesalers, and so forth. Moreover, some of these distributors are exclusive, single-product, distributors only handling special items such as Coca-Cola. At first, the number of individual distributors was too many and a problem for some stores. In 1974, the first SEJ stores dealt with 70 different distributors each day which disrupted store operations considerably. Some distribution efficiencies have been gained, and in 1991, only about 12 distributors went to a single store per day. However, some distributors visit stores three times per day to insure freshness of perishables. The small livable geographic area of Japan and its population density support this distribution system which may not be reasonable elsewhere.

The distribution system has other operational characteristics of note. First, the system is intensive which, in Japan, means that the nearest distributor has exclusive distribution. This is complicated because many items treated exclusively by wholesalers are supported by the "keiretsu" system, otherwise described as a vertically integrated marketing system. Further, products are distributed by temperature commonalities. For example, frozen pizza and ice cream have the same temperature requirements, although each is in a different product category and usually delivered by different distributors. SEJ asks the distributors to deliver both products on the same truck, thus improving truck load levels and reducing unit transportation costs. This advanced level of intensive product distribution by temperature level also facilitates store operations and management's time and work.

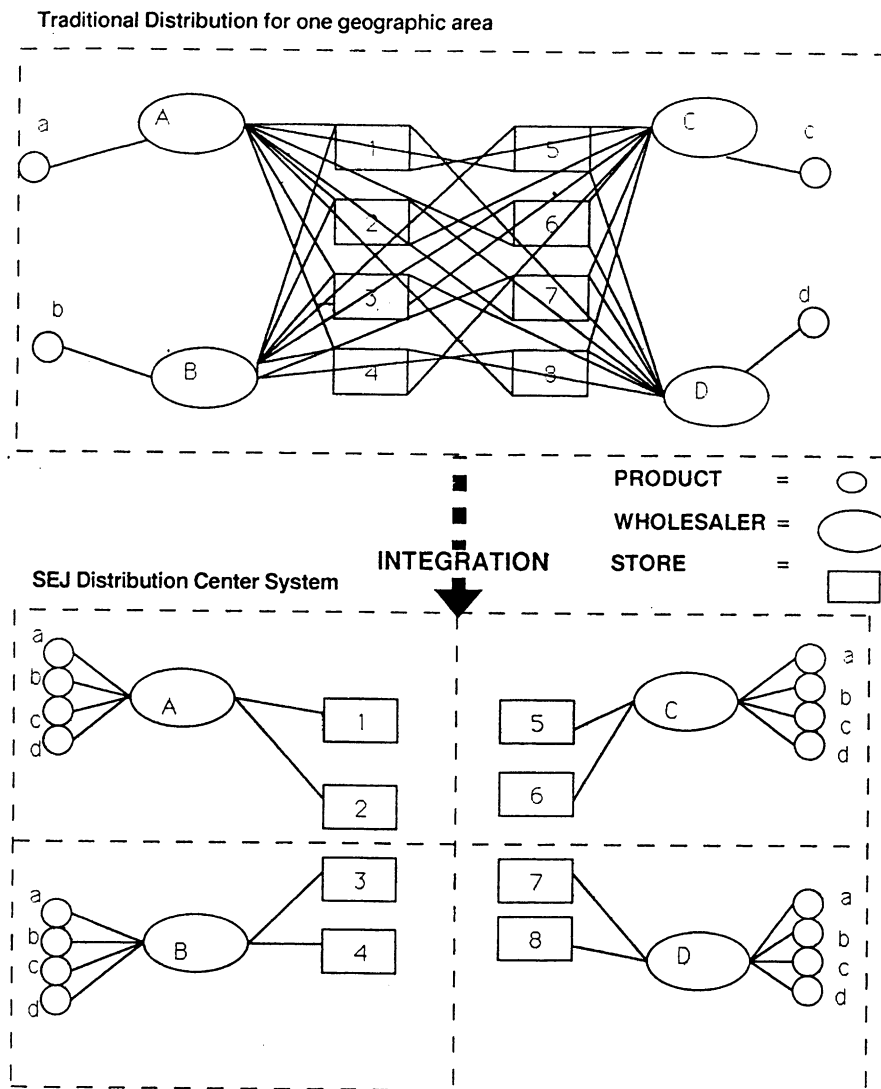
Distribution can be a serious problem for a more traditional retailer who operates, for example, a small grocery store. Such retailers do not have the channel power as is often true of chain store operations. In Japan, it is difficult for a single grocery store to acquire the level of fresh produce which is demanded by the large chains. Thus, this traditional retailer may not be able to compete with the area convenience store -- which is superbly served by this innovative distribution system. In the long run, becoming a franchise operation may be the competitive answer for small store survival.

Success Factor #3: Computer Technology

The product quality standards noted earlier, as well as SEJ's distribution system, are supported by sophisticated computer technology to create and

provide a user-friendly managerial information support system (Ogata 1991). The combined need of managerial information on product quality, distribution, and customer needs forms a system called "Tanpin-Kanri" or single-item management in individual stores. "Tanpin-Kanri" is based upon key customer questions: (1) What do the customers really want to buy? (2) How many of those items do they want to buy? and (3) When does the customer want to buy that item? SEJ's computer technology, supported by the work of OFCs, provides relative answers to these pertinent questions for each store. This store-level managerial information system is not available for United States Seven-Eleven stores, and is predicted to remain unavailable for several years (Food Marketing Review 1992). It is important for store managers to readily determine which products

FIGURE 2
DISTRIBUTION SYSTEM ALTERNATIVES



Ogata, T. (1991), Seven Eleven Japan: New Method of Distribution, Keieijuku, Tokyo. (December), P.114

are not selling well, particularly products that are subject to spoilage and waste if quality standards are not maintained.

Soft and hard goods not moving well in the store are often not recognized as slow movers because workers rarely have contact with those items. So, in order to track items in convenience stores, SEJ introduced a point-of-sale (POS) system in 1982. The POS system tracks each item, keeping meticulous records of products that sell well and those items which are not attractive to buyers. Further, the product life cycle for retail products is becoming shorter and it is not easy to determine future customer wants. This is particularly true of small stores which order merchandise based primarily on experience and intuition.

The managerial information support system built by SEJ required substantial investment to become a timely system (Sakaguchi 1991). The information system gives each store the ability to order merchandise based upon their hypotheses about current and future customer wants. When the product is received, it is inspected to determine if quality standards have been met and only then is it placed on store shelves.

The computer information system contains the following individual tools (Ishibashi 1992) to help manage individual convenience stores:

(A) An in-store computer is used to order products with specific order cycles. This computer monitors store control systems such as lighting, heating, refrigeration, and has an automated report system for ordering repairs when necessary.

(B) Stores are supplied with Graphic Order Terminals (GOTs) a small, book-type computer with a nine inch screen that displays sales trends and historic information. The GOT enables workers to order the product directly when working at separate shelf locations throughout the store. Employees ordering products are supported with data as they scan the bar codes of products on each shelf. The presence of the historic data informs the worker of what has previously occurred and increases their confidence in the task at hand, especially for food products which have strict freshness standards (Iwabuchi 1987). The GOTs are user-friendly and provide support for individualized store management.

(C) Each store also participates in an Integrated Services Digital Network (ISDN) which provides on-demand data on single product items. The ISDN network, begun in 1991, allows users to exchange substantial amounts of data between stores, vendors, and the corporate SEJ offices in real time. Previously, data was exchanged over telephone lines which were often tied up with order functions. The ISDN sends the sales and marketing data to the SEJ host computer at the time of customer purchase. Very quickly, workers can see the sales data (already analyzed by SEJ) displayed with time data analysis.

These three tools support "Tanpin-Kanri" and permit intense single-item management within each

SEJ store. The computer technology links sales, marketing, and promotional information with the distribution system. This linkage improves store productivity, provides greater efficiency, and maintains the store's customer service and product standards. The computer technology helps managers comprehend the store's individual operations as well as its relationship to the Corporation.

Success Factor #4: Combined Marketing and Promotion System

The fourth factor contributing to SEJ's success in the convenience store market is a combined marketing and promotion system, driven by a strong orientation towards achieving customer satisfaction with brand and store loyalty. This integrated system (also supported by computer technology) helps SEJ and the individual stores be competitive and well positioned in the market. Two related corporate missions are to provide friendly service and have an immaculate store. Both missions require intense service and store management and the communication of these missions to workers. These missions guide managerial efforts to build store and brand loyalty which are important, intangible assets for convenience stores in a competitive market.

A serious store or brand loyalty problem may occur when the franchise manager does not acquire and retain a strong customer franchise. For example, if the convenience store is the only one in a certain market area, it may serve many customers daily. However, if a new competitor moves into that market, the existing store may lose customers who have not developed strong store allegiance. To earn and maintain customer loyalty, the store must demonstrate customer orientation through its operating characteristics of swift service, cleanliness, friendliness, and quality products. SEJ uses centralized promotional, as well as product development strategies, to build and maintain customer patronage necessary for store competitiveness.

SEJ uses both image and product focused advertising to attract and keep the interest of targeted customers (Sasayama 1992). Image-oriented advertising, for example, is targeted at young women who work or at young married couples who both work outside the home. Such image-oriented advertisements are unusual for convenience stores and are often supplemented with a product feature.

Product-oriented advertising by SEJ focuses on their original products, such as delicatessen items and fast food, both of which are very profitable. The product-oriented advertising is designed to appeal to the consumer with seasonal scheduling of advertisements. Advertisements of processed foods feature exclusive national brands only available in SEJ convenience stores. With the image and product advertising, SEJ always includes their company logo and current campaign theme.

These types of advertising and in-store customer services (catalogs, fax and copy services, agency for bill payments) help differentiate SEJ convenience stores from others. It is not unusual for two convenience stores to operate close to each other and have similar target markets of

individuals living near the stores. Unless store and brand loyalty are achieved customers will simply switch to other nearby convenience stores.

Initially, the first convenience stores were the only retail shops characterized by long hours of operation. Such extended hours are now quite common among all convenience stores whether franchised by SEJ or not. Thus, the initial competitive advantage from the store's extended hours has been replaced by an array of services and products which must remain meaningful to customers (Sternberg 1989). For example, the bill paying services at SEJ stores permit customers to pay their gas, electric, and insurance bills anytime -- and not only when the banks are open. Customers using payment services usually purchase some product so the services offered help cultivate a competitive advantage for SEJ stores. Thus, the combined marketing and promotion system is integrated with the elements of franchising, distribution, and computer technology.

Marketing Implications

The integrated presence of these four success factors -- franchising, distribution, computer technology, and a combined marketing-promotion program -- create and support the continued success of SEJ convenience stores in Japan. This same corporate strategy has been exported to Hawaii where, in 1991, there were 58 individual, SEJ franchised convenience stores. The SEJ success in Hawaii suggests that their strategy may be successfully applied elsewhere.

It is true that the success factors of SEJ's corporate strategy are not unique. SEJ's success with this combination of factors is governed by mission statements and their constant focus on customers. The mission statements establish the franchise philosophy which, in turn, directs the more functional aspects of service management and marketing strategy. This union has made SEJ convenience stores profitable and successful. The corporate managerial perspective is to treat each store as a customer and in turn, each store treats its customers as patrons. Moreover, this union builds relationship marketing throughout the corporation and its franchised operations.

Finally, the individual system elements work together to support customer satisfaction. For example, the distribution system, with its single-item management capacity and use of distribution centers for area stores, supports extreme product freshness standards. Store managers make individual shelf assortment decisions with a continuing customer orientation. The distribution system is interwoven with computer technology which, based on the ISDN network, provides timely information reflecting the unique product/service characteristics of each store. Simultaneously, information on corporate-wide sales and profits is available along with information that profiles each store's operations. The marketing and promotion programs, designed to increase both product and store loyalty, generate appropriate advertising which is directed at specified target markets. The entire SEJ system produces world class levels of service management and marketing strategy.

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ELECTRONIC SHOPPING SERVICE: CRUCIAL CUSTOMER CONSIDERATIONS

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Abstract

The introduction of electronic shopping service in various countries failed to receive the enthusiastic response forecasted by proponents. The road to success for the service cannot depend on technology alone. Equally important is a customer driven approach. The emphasis must be on understanding potential customers and attention should be focused on their reactions early in the stage of design and development. This will ensure that the design incorporates features which will reduce or eliminate customer anxiety, difficulty or frustration. Valuable insights can be gained from research in the field of human computer interaction.

Introduction

Recent developments in information technology have made it technically possible to offer new services to customers. In marketing, the use of information technology has opened up opportunities to link the customer more closely with the organization (Gordon and Fisk 1987). As a result of attempts to broaden the use of information technology in the domestic environment, home based transactional services, often referred to as electronic services, have been introduced in many countries. The proponents of these transactional services have forecasted a rapid progression towards almost universal adoption of such new electronic services. Such predictions are often based on a technology driven perspective and on an optimistic view of customer acceptance. While it is indeed true that developments in information technology have made it technically possible for transactional activities to be conducted electronically, this does not mean that all the possibilities will happen in the way predicted. In fact, various studies done on electronic shopping have so far shown rather mixed results (e.g. Salmon 1985, Forester 1989, Greco and Fields 1991).

This paper examines the development of one such home based transactional service, electronic shopping service (ESS), and focuses attention on the reactions of customers to such an innovation. Various studies on the reactions of customers in the field of human computer interaction will be examined. In particular, the paper will discuss some of the crucial customer considerations in the implementation of electronic shopping service. Implications for marketing will also be discussed.

Electronic Shopping Service

Electronic shopping from home has become possible with videotex technology. Videotex refers to two way communication system that provides text and graphics by linking a computerized database to video terminals via cable and/or telephone lines. Initially used as a means to provide information services, the addition of transactional services to the original, menu driven information retrieval system has made videotex more powerful for a variety of commercial applications. The application of videotex technology to shopping, allows the customer to select and to order goods from home electronically by pushing appropriate keys on a keyboard. Descriptions and graphical representations of goods, rather than the actual items, may be examined and details of the transactional requirements may be transmitted to the service provider. The clear advantage is its convenience to those who are familiar with the system, although the social and entertainment elements of in-store shopping are much less prominent (Moschis et al 1985).

Marketing Efforts

The expected growth in electronic shopping service (ESS) had been assumed (McNair and May 1978, Rosenberg and Hirschman 1980) and questioned (Salmon 1985). Since its introduction, customer response to marketing efforts to launch various versions of ESS has fallen far short of expectations in countries such as the USA, UK and the Netherlands, with the exception of France where the participation of the government in demand stimulation contributed to moderate success (George 1987; Slaa 1988). In a majority of cases, the level of customer acceptance had been badly overestimated (Forester 1989).

The reasons for the lack of enthusiasm for ESS shown by customers had been traced to reasons such as high costs, limited usefulness (Moschis et al 1985; Forester 1989) and customer reluctance to shop with the use of complex technology (Greco and Fields 1991). Among these reasons, the underestimation of the problems faced by customers has contributed to the exaggeration in potential development. The response of customers to the use of ESS has remained unexplored (Urbany and Talarzyk 1983). Even though potential customers in various ESS surveys have indicated their interest to use the service, field experiments revealed that the level of customer acceptance was low (Moschis et al 1985). There is therefore a need to examine and to understand the reactions of customers to ESS. Research conducted in the field of human computer interaction may provide some insightful information to this problem.

Crucial Customer Considerations

The reactions of customers to the use of ESS will influence its success. The problems faced by customers in actual use have to be investigated but these problems may not be fully appreciated in studies which employed a hypothetical or descriptive version of ESS (Korgaonkar and Smith 1986, Greco and Fields 1991). In the actual use of ESS, demands on customers are different from normal in-store shopping. The normal shopping task, which customers find familiar and which they can accomplish with ease, has now been transformed beyond recognition. The shopping task which is represented electronically will involve the customer in unfamiliar and possibly incomprehensible transactional procedures. There are several reasons for this.

First, in normal shopping, the consumer is typically exposed to all his five senses -- sight, sound, taste, feelings, and smell. These senses, with the exception of sight, are almost removed when shopping is done electronically. The result is that the whole ambience of shopping has been discounted substantially. Second, information that can previously be processed simultaneously is now compressed into a sequential format. This makes it difficult for the consumer to make comparisons of products/prices. In fact, the shopping process may be made more complex than intended. Third, ESS assumes that the shopper is fairly competent with the use of computers. More often than not, this assumption is questionable. It is likely that without prior experience, the customer will encounter problems because he or she has to be proficient with the task as represented electronically as well as the interactive process during use. Finally, not only must the consumer be familiar with the use of the computer, he/she must also be certain of what is to be purchased. Otherwise, the whole shopping experience may turn out to be less than satisfactory.

Insights From Human Computer Interaction

There is a growing recognition of the importance of the interactive process conducted between human beings on the one side and the computer and information systems on the other. The attention given to the interactive element of information systems has led to an interest in the field of human computer interaction. Human computer interaction is the set of processes, dialogues, and actions through which a human employs and interacts with a computer (Moran 1981, Baecker and Buxton 1987).

In information systems, the design of the human computer interface can make a substantial difference in learning time, performance, errors and satisfaction of users (Shneiderman 1989). Customers of ESS must be able to communicate successfully with the system in order to request information, to locate the desired information, and to judge the information, once found, to be of satisfactory quality (Dillon and Tombaugh 1982). Considerations will have to be given to the design of the terminal, the task to be performed and the information content stored in the system (Bennett 1972).

The Interactive Process

The interactive process is conducted with the help of a keyboard and display screen. This mode of interaction, a distinctive characteristic of ESS, demands keyboard skills and an understanding of the way information is presented. Customers, who are likely to be members of the general public and not specialists in telecommunications or computer experts, will encounter several problems in the use of a keyboard and display screen. These problems are: uncertainty about how to use the keyboard; inability to locate particular letters or symbols; typing errors; not understanding the meaning of information displayed; and being unable to find information required to enter whether from a source document or from memory (Norman 1981, Brebner 1982).

The interactive process contained in ESS has been described as being easy to use. On the contrary, the videotex technology on which it is based is not easy to use, is slow and inflexible (Forester 1989). There is a fairly consistent pattern of empirical results investigating videotex services across a series of laboratory based studies which revealed that users failed to find the information they seek in about a quarter of all searches, and accessed about one and a half times as many pages as are necessary (MacGregor and Lee 1987). In a different field study of a videotex service using unobtrusive observation, forty percent of users who tried the service failed to produce a single correct response from the system (Dillon and Tombaugh 1982). A number of other investigators tested subjects who used videotex services and found that users encountered considerable difficulty in locating information on videotex database. Using widely different database and retrieval methods, these studies consistently show that users access approximately twice as many pages as are optimally necessary in finding materials (McEwen 1981).

In sum, there is a need to make the interaction process more user-friendly. In particular, the process must not only be simple to use, but to the extent possible, include elements of learning and experimentation so that the user will find it interesting and educational.

Customer Reaction

The need to interact with information systems may evoke customer responses which will influence customer acceptance. Two considerations are important: the affective and the cognitive. The

affective response relates to the formation of feelings emotions and attitude of a person. The many emotions and attitudes of people may determine the success and failure of the electronic service. Many people distance themselves from technology and often perceive it as "too complex" and "unfriendly". People without "hands-on" experience of the computer may overestimate the difficulties involved in using it or may literally be "turned off" by it. This has been the consistent finding emerging from research (Gilroy and Desai 1986). The predisposition of users may, in addition, affect the learning of, as well as, the performance on information systems (Shneiderman 1980). The unfavourable affective response may become a barrier to the trial or eventual acceptance of ESS. There is thus a need to educate and train the consumers on the use of ESS. In addition, the literature on the diffusion process (Rogers and Stanfield 1968, Robertson 1971, Rogers and Shoemaker 1971, Rogers 1976) may provide useful insights on how to design more effective strategies for the adoption of such a new service.

When customers need to use ESS, the knowledge they have about the shopping task may not necessarily be adequate or relevant to the electronic task to be performed. This is a typical problem for new users of computer systems (Carroll and Rosson 1987). The difference between the customers' everyday experience of how procedures work and the way procedures are represented in information systems may cause difficulties for the user (Allwood 1986). The normal shopping task involves the shopper in familiar spoken words, brands, packaging, physical actions and goods. In addition, as mentioned earlier, it allows all his five senses to operate in an ambience that is not only exciting, but in a three-dimensional setting as well. However, when all these elements are represented electronically, the realism and spontaneity are lost. Instead, the customer may find that the information transmitted and the instructions required as part of the shopping procedure appear unfamiliar, unfriendly, and incomprehensible.

In the use of ESS, customers need to evaluate the information presented by the system. This information on the display screen provides descriptions of goods as well as instructions to follow. The description of goods are representation of goods on the display screen rather than the actual goods. Based on the representations provided by the system, the customer must be able to evaluate the goods adequately. However, relatively condensed text descriptions and rather brief graphic representations are part and parcel of videotex services. Without an adequate representation of goods on screen and comprehensive transaction instructions for the customer to evaluate, the customer may not succeed in the completion of the transaction. Difficulties encountered in the use of ESS may lead to its rejection (Long and Buckley 1984).

Considerations given to customer response during the interactive process are crucial to the success of ESS. When ESS is perceived as easy to use, the reaction is likely to be favourable. Since customers have the discretion whether to use or not to ESS, attempts must be made to ensure that difficulties faced by customers are minimized and success in use is attainable without too much anxiety and frustration. In particular, it is important to remember that each shopper has his own way of coding and decoding information, as well as analyzing the information presented to him/her. The ability to recognise this in the design of the system would help to bring down the barrier of resistance in the use of ESS.

In order to have a better understanding of customer reaction toward ESS, and to enable policy makers to design more effective human computer interaction systems, much research are still needed. Toward this end, the literature on the adoption process (e.g. Mahajan et al 1990), consumer information processing (e.g. Bettman 1979, Sternthal and Craig 1982, Meyers-Levy and Maheswaran 1991), consumer choice (e.g. Simonson 1989, Hui and Bateson 1991) and consumer experience (e.g. Thompson et al 1989, Bitner et al 1990, Hutchinson and Alba 1991) may provide useful points of references.

Implications for Marketing

The road to success for ESS, as seen by proponents, is to obtain more information to determine customer needs and to launch promotional efforts to communicate how ESS can satisfy these needs (George 1987). Such an approach overlooks an important consideration: the customer response to ESS, which in turn is affected by the socio-cultural characteristics of the individual. Customer response will be an important determinant of customer acceptance and eventual market success. The insights gained from research in human computer interactions suggest the need to focus on the customer early in the stage of service design and development.

Developing Strategy

Potential users of ESS are unlikely to have similar experience with information technology. For those potential users who are not comfortable or familiar with information technology, efforts may have to be made to overcome the resistance to ESS. The requirement will be a change in perception or attitudes of potential customers towards the use of technology (Moschis et al 1985). The unfavourable affective response will have to be a prime consideration, given that high-tech proneness could be a key factor in facilitating customer adoption of such electronic services (Korgaonkar and Smith 1986). Customers will have to be educated on what to expect from ESS and on the demands of the system during use. The anxiety over technology may require service firms to train customers to use the electronic service in order to reduce this anxiety (Lovelock and Young 1979). These efforts will have to take precedence over attempts to persuade customers that ESS can give a better service and better value for money in comparison to shopping in the traditional way. In fact, there may be a need to defray the costs of investment and learning to the potential user so as to make the adoption process more attractive.

Service Design

For customers who are receptive to technology, the design of the service will have to ensure that the interactive process allows customers to navigate through the system successfully, with as little difficulties as possible. It is important to pretest customer reaction to keyboard instructions and information requirements to ensure that learning needs of potential customers are taken into account.

Customers' level of experience with the interactive process of information systems will vary. Customers who are inexperienced with information systems are known to encounter difficulties in operating videotex services (Long and Buckley 1984). They will feel more comfortable with simple and detailed instructions which guide them along predetermined routes during navigation through the system. However, these features may annoy experienced customers who prefer abbreviated instructions. Given such a situation, it is clear that potential customers have different requirements and these requirements

are expected to change over time (Goodwin 1987). The majority of customers will have to function at a level acceptable to the system in order for them to succeed in its use. Otherwise, the long term consequences may be inefficient use, service failures or rejection of the service. The awareness of this fact has led to the conclusion that one of the important factors on the battleground for success of electronic services in the future is the design of the interface (Thomas and Kellogg 1989).

The critical question which needs to be addressed in service design is this: how to design a service so that it satisfies both the needs of the new or infrequent customer and the individual who use the system more or less continuously day after day? This question is not answered simply by having two versions: one for the inexperienced and another for the experienced user. It is not realistic to divide customers into just these two categories because the experience of customers is more accurately represented as a continuum. Moreover, proficiency in the use of the service may be acquired over a long period of time, and skills in the use of some aspects of the service may be acquired while other aspects remain relatively unknown and unfamiliar. The entire population of customers must be accommodated whether they are first time, casual or experienced customers (Goodwin 1987). The design of ESS must therefore ensure that performance and satisfaction of customers with various levels of experience will not be sacrificed. Rather than two different versions, one for the inexperienced and one for the experienced user, the service has to accommodate customers with various levels of experience. The ideal design for an ESS must therefore be sufficiently flexible to adjust to the experience of customers. When the electronic service is designed with adequate consideration to a broad range of customer experience and capabilities, it will lead to a broader and greater degree of acceptance.

Conclusion

The potential development of ESS will be dependent on the capability of technology as well as on the attention given to the way customers react to electronic services. The road to success for ESS entails not only the identification of target customers to present and sell the service to. It is also essential that marketing efforts be more customer driven, with emphasis on understanding customers right at the moment when the service is being put together. The focus on customers accepts that affective and cognitive responses of customers are crucial considerations which must be incorporated early in the design and development stage and that considerable attention should be given to the concerns and reactions of potential customers. The aim is to build in design features to win over customers who may otherwise prefer to stick to what they have been using rather than use ESS.

In terms of research, much can still be done to understand how customers respond to ESS. The various issues identified in this paper can provide some testable hypotheses that could be verified through empirical research. In addition, non-users' response to ESS could also be studied. In particular, research efforts could concentrate on how to dissimilate the new technology to non-users, including measurement of their needs and acceptance levels.

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The Role of International Retailing in Marketing and Economic Development

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Abstract

There has been a great deal of discussion on how foreign direct investment can contribute to economic development in less developed countries. Most of the discussion however has focused on foreign direct investment in the manufacturing sector. Simultaneously there have been substantive contributions made on improving the distribution channel system. In the latter, recommendations have often been directed at how local firms can improve their effectiveness and efficiencies. Much less attention has been directed at how established international retailers can make contributions in developing countries. This paper explores how multinational retailers, through appropriate involvement in developing countries, can make positive contributions to further economic development.

Introduction

The literature on the relationship between marketing and economic development reflect three streams of thinking (Firat, Kumcu and Karafakioglu 1988). These are: (1) marketing affects economic development, (2) marketing is affected by economic development, and (3) the relationship is eclectic, where both marketing and economic development impact each other (Cundiff and Hilger, 1982). By far, the widest recognition (Savitt 1988) among scholars has been given to the hypothesis that marketing acts as a key force and catalyst in economic development (Galbraith and Holton 1955; Drucker 1958; Hirsch 1961; Moyer 1965; Riley et.al 1970; Harrison et.al 1976). Drucker went as far as to say that marketing is the most important multiplier of economic development. The early literature on marketing and economic development came from the distribution literature, where scholars and planners recognized the high costs of food marketing, notably in the developing countries and suggested that savings from improvements in that sector could stimulate economic growth and development (Holton 1953; Abbott 1964; Rostow 1965). Here the focus was on how macro changes would enhance economic development. These initial discussions led to a series of studies that advocated the need for market reforms in the food sector at the macro level as well as simultaneous supportive micro level initiatives within the private sector (Bucklin 1977; Slater 1969; Dahringer 1978; Preston 1970; Nason and White 1981). Still another group of scholars emphasized the importance of starting at the micro level whereby private sector initiatives could have a significant and positive effect in bringing the desired reforms at the macro economic level (Bretherton 1978; Cundiff and Hilger 1979; Papanek 1967; McClelland 1961). A series of studies conducted at Michigan State University supported the argument that larger scale private sector initiatives such as the development of supermarkets and chain stores had the potential to improve food distribution systems in the less

developed countries (LDCs). Goldman (1977) examined this line of reasoning and came to the conclusion that supermarkets were not successful in LDCs due to customer resistance and lack of outreach. Such discussions stimulated consideration of micro initiatives in prompting economic growth and development.

The focus of suggested initiatives in the literature has been mainly on reforms in the food production and distribution systems. Certainly this is of utmost importance; improvements in the food sector require urgent and continuing attention because of pressures to feed large and growing populations in many developing countries, who generally have limited incomes and spend significantly large proportions of their income on food. Multinational agribusiness firms have been encouraged to participate in improving the capabilities on the supply/production end of the food marketing system. Whereas recommendations have been directed at improving the efficiency and effectiveness of both food and non-food distribution channel systems, the emphasis has been on how domestic rather than multinational firms can bring about needed changes. Methods such as cooperatives, vertical and horizontal integration, larger-scale participants and coordinated linkages have been suggested as mechanisms to be considered by domestic firms (Kaynak and Cavusgil 1982; Luqmani and Quraeshi 1984; Yavas, Kaynak and Borak 1982). This is in keeping with a parallel stream in the international business literature developed by protagonists of foreign direct investment (FDI) who cite the positive influence that foreign direct investment could have in the economic development of less developed countries through the transference of technology, capital, and know how (Boddewyn 1985; Porter 1990). In contrast to manufacturing and production, where the role of foreign direct investment in developing countries has been discussed at length (Dunning 1981; Calvert 1984), less attention has been given to how distribution systems and trade channels can also benefit from the involvement of multinational firms that specialize in distributive aspects such as retailing (Kacker 1988; Aydin and Kacker 1990).

Improvements in the manufacturing/production sector brought about by foreign and local companies need to be complemented by innovation and reform through changes in both the food and non-food distributive sectors. That is the subject of this paper, specifically focusing on how, as in manufacturing, where the case is made for the participation of foreign investment, similar involvement of international retailers can spur the process of economic development.

The Role of International Retailing

Specifically, here we are referring to how established retailing groups from developed countries through participation and investments in

the developing countries, can act as change agents. These multinational retailers bring expertise and experience which can help promote economic development when appropriately applied within the context of the conditions in developing countries (See Figure 1). Some retailers, such as Sears (U.S.A), Woolworth (U.S.A), Safeway (U.S.A), Carrefours (France), Migros; Benetton (Italy), have a history of foreign participation, though limited, in developing countries. Other retailers expanding to foreign markets, such as Tengelmann (Germany), Mann (Germany), Marks and Spencer (U.K), British American Tobacco (U.K), Promodes (France), have concentrated on entering markets in other developed countries in Europe and North America (Kacker 1990).

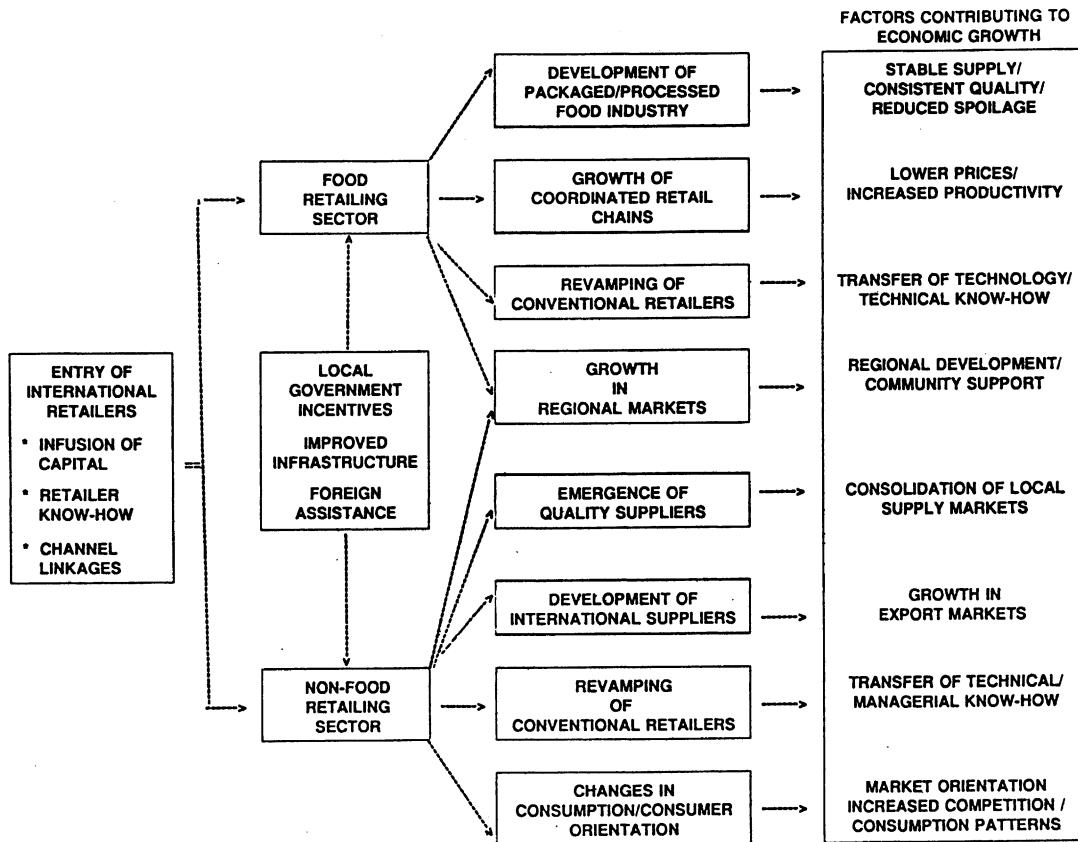
International retailing, as facilitators of economic progression, have been largely overlooked because of at least two widely held sentiments regarding conditions in LDCs:

- (1) Buying patterns, consumption habits, income levels and limited market size do not warrant the application of advanced retailing technologies notably those that depend upon large volume operations.
- (2) The infrastructure (roads, transportation systems, communications systems) are insufficiently developed to support "modern" retailing concepts.

The inhibiting effects of these circumstances cannot be discounted but these conditions are changing in many developing countries. There is a rapidly growing middle-class whose life styles are changing with the growth in multiple wage-earning families. The increased demand for convenience, greater mobility and communication developments are pressuring consumers to change their shopping and consumption habits to a pattern that is somewhat akin to western consumers. Markets are growing in size, particularly in large urban cities where population growth has been rapid and where there is a concentration of wealth, creating a growing middle class of consumers interested in shopping at modern retailing establishments. Increasing numbers of foreign customers, either as visitors or expatriates, add to the need for such outlets.

The timing now is probably more opportune; also the earlier failure of retailing technology such as the introduction of supermarkets in developing countries could also be partly attributed to the misapplication of technology and marketing rather than conceptual inappropriateness. Supermarkets, operated by domestic firms with inexperienced personnel having little background or training in the area and faced with inconsistent and limited supplies of packaged goods essential for smooth operations, often resulted in disasters. With the

FIGURE 1
ROLE OF INTERNATIONAL RETAILERS IN ECONOMIC DEVELOPMENT



growing acceptance of packaged goods and concurrent increases in manufacturing, supply is becoming more reliable and sufficient in some LDCs. Modified, scaled-down versions of supermarkets (as compared to the West) in countries such as Saudi Arabia, India, Pakistan and Mexico have been quite successful. Utility stores, which are somewhat similar to a chain-store concept, have been successful in providing quality products and reasonable prices and have in turn spawned the development of new packaged food categories, food preparations and branded products. For example, in Pakistan and India, where it was considered unlikely, packaged "chapatis" (staple breads), precooked foods and food spices are now widely available and in high demand in supermarkets.

Improvements in infrastructure, communications and transportation are occurring with the recent opening of these sectors to increased foreign and domestic participation. Where inadequate, deficiencies may be overcome by creative means. For example, a direct mail-order firm in Pakistan, recognizing that the traditional postal system is too slow and inefficient in delivering merchandise, successfully developed its own low-cost delivery system - a network of motorcycle scooters equipped with carriers and operated by well-trained personnel. High traffic volume and careful mapping techniques helped support this innovative system. The firm's overwhelming success has prompted other companies to develop their own courier system for delivery to their customers.

Concomitant political and economic changes in many developing countries have resulted in a more welcoming atmosphere for direct investment. The liberalization of economies in developing countries in Asia, Africa and Latin America and movements towards free market capitalist economies allows for more easy entry and participation by multinational retailers. The movement towards regional cooperation, such as free trade areas and common markets in these countries, also suggest that international retailers will be able to take advantage of larger regional markets, and develop supply and delivery networks with the prospect of sufficient economies of scale to rationalize their involvement. Accordingly, carefully considered participation could be an attractive proposition for multinational retailers.

Contributions to Economic Development

The participation of international retailers and retailing institutions could produce several positive effects and inducements to host countries (see Table 1).

As the table indicates, several contributions may result.

First, international retailers would bring in much needed foreign direct investment to developing countries, similar to investment in the manufacturing sector. Incidentally, such investments would be without accompanying problems of pollution that are increasingly cited as serious concerns by LDCs in manufacturing investments. This is particularly the case for

TABLE 1
IMPACT OF INTERNATIONAL RETAILERS

<u>Type of Impact</u>	<u>Positive Effects</u>
1. Product Impact	Consistent Quality/ Quality Assurance Reliable Warranties & Provisions Rise in Product Innovation Wider Product Diversity Improved Packaging
2. Local Customer Impact	Higher Customer Satisfaction Lower Prices More Choice Return Privileges Better Delivery & Service
3. Supply Impact	Cultivation of Local Suppliers Lower Costs (Economies of Scale advantages for both Suppliers and Retailers) Supplier Networks & Cooperative Arrangements Consistent Suppliers National Distribution (rather than local)
4. Philosophical Impact	Longer-term Orientation Adaption of Marketing Concepts Target Marketing Value Orientation
5. Logistical Impact	Improved Distribution Systems & Channel Linkages Innovations in Packaging & Transportation
6. International Impact	Access to other Export Markets Increase Interest of Other Investors Enhanced Image of Country Sense Needs of International Customers
7. Price Impact	Stable/Competitive Pricing Reduced "Bargaining" Fixed Prices
8. Promotional Impact	Product/Image Positioning Concepts Increased Information on Markets, Products & Services
9. Managerial Impact	Training of Personnel Increased Delegation of Authority & Responsibility

those products that are too costly for foreign investors to manufacture in their own countries due to strict environmental guidelines.

Second, successful international retailers, such as Bata, have a strong marketing orientation, cultivated because of the exacting requirements of their customers, a philosophy that is often lacking in local firms in LDCs and where demand usually exceeds supply (curbing the move towards a market-orientation). Also, conventional retailers in LDCs have traditionally attached little importance to customer satisfaction. On the other hand, retailing in the developed countries has essentially thrived on following key marketing concepts such as target marketing, segmentation, positioning and more importantly providing a high level of customer satisfaction and service. Some of these retailers, such as Sears and Benetton, who operate in foreign markets have been successful by following a similar approach. It is not unreasonable to expect that the entry of foreign retailers from the developed countries may exert pressure on traditional retailers to move towards a stronger market-orientation and trigger other business sectors to follow suit. Moreover, international retailers may be able to educate consumers to seek higher levels of customer satisfaction and service.

Third, international retailers would bring greater diversity in terms of supply of products. They may also be instrumental in generating local supplier networks for those imported products whose transportation costs or duties levied are high relative to their purchase value. This may be the case for many heavy, high-bulk or perishable products constituting a large enough category to warrant local supply. Presumably such international retailers would require larger quantity purchase and production volumes and conformance to higher and consistent quality standards. From a locational and long-term point of view, it would make sense that such retailers nurture and support the development of local manufacturers in producing the desired quality products, needed inventory and service standards. In some cases, these foreign participants may, for control purposes, either establish their own production facilities or gain equity in local firms. In some other situations, they may encourage other foreign suppliers to establish subsidiaries in LDCs or at least advise local producers. Domestic supply companies may treat foreign retailers more seriously for at least two reasons. One, they would consider the generally larger and financially stable international retailers as more significant and credit-worthy customers than local retailers. Two, they would value their connections to international retailers as conduits for selling their goods in larger foreign export markets, particularly in developed countries.

Fourth, the application of international retailing methods and concepts would contribute to a more productive retailing sector. Some evidence from studies on food distribution systems indicate that channel coordination linkages such as retail chain-stores and wholesaler-sponsored chains reduce distribution costs, spoilage, duplication

of channel activities and stabilize prices and supply (Luqmani and Quraeshi 1984). The difficulty of establishing such channel arrangements in developing countries are compounded by the inertia of traditional domestic retailers who may lack the vision or the training in building channel linkages and are reluctant in delegating authority and responsibility to their staff. This is usually not the case for international retailers, who by the nature of their business are more willing to delegate authority and train staff and personnel for distant retail operations. The entry of international retailers in developing countries may thus lead to the development of efficient channel linkages. Further, they may influence the thinking of conventional retailers to develop similar linkages and a coterie of well-trained managers with decision-making power to run retail operations.

Fifth, international retailers may play a significant role in attracting tourists who require facilities, amenities, and products and services that are similar to those available in their home countries. In particular, international retailers may be better positioned to serve the basic needs (where there is generally less room for compromise) of international consumers and expatriates. The positive experiences and satisfaction may then be communicated to others who have an interest in visiting the particular developing country but are reluctant in doing so because of concern that basic facilities, products and services are scarce.

Sixth, international retailers would be more inclined to make carefully selected long-term investments in areas of future growth. This approach may trigger the development of properly planned new market localities and regions. It is likely that the affluent and the wealthy will reside in these new localities. Yet, the establishment of these market localities may reduce the congestion in existing markets and produce a significant number of new jobs for locals. In the long-run, it may help in producing a self-sustaining area of development that would generate the requisite tax revenues to support education, health-care, housing and recreation facilities in the region. Moreover, international retailers would have the financial wherewithal to support local development programs. Such impacts and particular effects are suggested in [Table 2](#).

Finally, the interaction of international retailers with their domestic counterparts may create a better understanding between the two cultural groups - for the former, increased sensitivity to the domestic culture, and for the latter, a training ground for dealing with other international markets and businesses.

Conclusion

While this paper proposes that international retailers can play an important and significant role than hitherto, in certain developing countries, it should be recognized that there are areas of concern regarding such involvement. There are perceived and real concerns about

displacing small local retailers, the impact, at least in the short-term on, employment, possible resentment (and resistance) by traditional intermediaries such as wholesalers whose operations may be adversely impacted, and uncertainties about cultural ramifications. While recognizing these concerns, developing countries with the view that multinational retailers can assist in the development of their distributive capabilities, need to contemplate policies that are fair and reasonable in attracting and maintaining such participants. This is not unlike the consideration of mechanisms used to attract foreign direct investment in manufacturing. While there are abundant suggestions in adopting policies towards foreign manufacturing investment, there is much less discussion related to attracting foreign firms in the service sector, particularly retailing.

Governments need to articulate their receptivity to multinational retailers in much the same way as they promote the attractiveness of manufacturing within their boundaries: perceptions that retailing is merely a subsidiary activity, of

secondary importance to manufacturing, need to be discarded; it should be recognized that fiscal instruments such as taxation can be a powerful stimulus to encourage foreign participation; that it is necessary to have a legal structure that does not discourage participation by large volume retailers and is protective of their legitimate interests; government should present and encourage promotional programs that make consumers aware of the possible benefits of participation by foreign retailers; taxation benefits should be considered for multinational retailers who present educational and training programs for local retailers; similar incentives should be examined for multinational retailers that cultivate local suppliers for their retailing operations within the country and abroad; tax depreciation schedules that reward innovation in manufacturing should be examined for their application to innovations in retailing. These and other mechanisms (see Table 2) need to be explored for their strengths (and shortcomings) in bringing about effective participation by multinational retailers in developing countries.

TABLE 2
ILLUSTRATIVE POLICIES TO FACILITATE PARTICIPATION
BY MULTI-NATIONAL RETAILERS

<p>1. <u>INCENTIVES TO FOREIGN RETAILERS</u></p> <ul style="list-style-type: none"> - LOWER TAXES/TAX HOLIDAYS - PROVISION OF APPROPRIATE LOCATIONS - REPATRIATION OF PROFIT GUARANTEES - FREEDOM TO IMPORT PRODUCTS - FREEDOM FROM BUREAUCRATIC PROCEDURES AND GOVERNMENT RED TAPE. - ACCOMMODATION OF SOCIAL NEEDS OF FOREIGN MANAGERS. 	<p>3. <u>INFRASTRUCTURE SUPPORT</u></p> <ul style="list-style-type: none"> - DEVELOPMENT OF STORAGE FACILITIES/WAREHOUSES - SUPPORT FOR MARKET FACILITIES. - DEVELOPMENT OF ENTERPRISE ECONOMIC ZONES. - ADEQUATE PROVISION OF UTILITIES (WATER, GAS, TELEPHONE, ETC.) 	<p>5. <u>ENCOURAGE PARTICIPATION BY LOCAL SUPPLIERS.</u></p> <ul style="list-style-type: none"> - PROVIDE FUNDS AND ADVICE TO POTENTIAL SUPPLIERS TO SERVE THE NEEDS OF INTERNATIONAL RETAILERS. - EXPORT BONUS INCENTIVES TO INTERNATIONAL RETAILERS. - FACILITATE INTERACTION OF INTERNATIONAL RETAILERS WITH LOCAL DISTRIBUTION - SUPPLY SYSTEM. - DEVELOP TECHNICAL TRAINING AND MANAGERIAL INSTITUTES IN COLLABORATION WITH INTERNATIONAL RETAILERS.
<p>2. <u>PROTECTION OF FOREIGN RETAILERS</u></p> <ul style="list-style-type: none"> - LEGAL STRUCTURE TO PROTECT FOREIGN RETAILERS. - ELIMINATE LAWS WHICH DISCRIMINATE AGAINST LARGE SIZE RETAILERS. - EFFECTIVE IMPLEMENTATION/ ENFORCEMENT OF LEGAL ACTIONS AND PROCESSES. - POLICE PROTECTION FROM LOCAL RESENTMENT. 	<p>4. <u>ENCOURAGING LOCAL RETAILER/ CONSUMER PARTICIPATION AND SUPPORT</u></p> <ul style="list-style-type: none"> - EDUCATIONAL PROGRAMS TO CONVINCE LOCAL RETAILERS TO CHANGE. - PROGRAMS ON RETAIL INNOVATION AND ENTREPRENEURIALSHIP. - ENCOURAGE JOINT VENTURES BETWEEN MULTI-NATIONAL AND DOMESTIC RETAILERS. - EDUCATE PUBLIC ON POSITIVE EFFECTS OF MODERNIZED RETAIL STRUCTURES AND METHODS. - PROVIDE CONSUMER AWARENESS PROGRAMS. - SUPPORT PROGRAMS FOR DISPLACED LOCAL RETAILERS. 	<p>6. <u>CONDUCT FUND RAISING ACTIVITIES</u></p> <ul style="list-style-type: none"> - SEEK SUPPORT FROM INTERNATIONAL RETAILING ASSOCIATIONS. - UTILIZE ECONOMIC DEVELOPMENT FUNDS/ UN AGENCIES/FOREIGN ASSISTANCE PROGRAMS - DEVELOP CAMPAIGNS TO GENERATE LOCAL FUNDS.

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SHOPPING BEHAVIOUR OF DIFFERENT AGE GROUPS: HOW DIFFERENT ARE THEY?

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Abstract

A study of 482 shoppers of three different age groups showed that there were some differences among older, middle-age and younger shoppers. However, despite such differences, there were in fact more similarities among these shoppers in their approach toward shopping and actual shopping behaviour. In particular, except for differences caused by lower income and mobility, the older shopper behaved very much like any other shopper.

Introduction

Studies on shopping behaviour have always interested researchers. For example, numerous research were done on the elderly consumers in recent years. Some of the areas being research included the sources of information and media usage (Klippel and Sweeney 1974, Martin 1975, Michman, Phillips and Sternthal 1977, Hockings and Harris 1979, Bearden and Mason 1979a, Roedder-John and Cole 1986), communication (Cole and Houston 1987, Spotts and Schewe 1989), patronage behaviour (Mason and Smith 1974, Bernhardt and Kinnear 1975, Bearden and Mason 1978, Woodside et al 1988), complaint behaviour (Bearden and Mason 1979b, Bearden, Teel and Crockett 1980, Davis 1980, Bernhardt 1981) and special needs of the elderly (Churchill, Collins and Strang 1975, Gelb 1978, Lambert 1979).

Past research were also conducted in various forms. Studies were made to compare the elderly group with other age groups (Martin 1975, French, Perreault and Arndt 1983), to study the elderly as an independent group (Visvabharathy and Rink 1983, Ensley 1983), as well as to study the elderly as heterogeneous segments (Lumpkin 1985, Lumpkin, Greenberg and Goldstucker 1985, Merrill and Weeks 1983).

The results obtained thus far were interesting as well as conflicting, especially in the areas where the elderly age group was compared with the younger age groups. Some studies found the old to plan and economise more (Bearden and Mason 1978), spend more time and money on a single trip (Miklos 1982), make fewer trips (Martin 1975) and make greater use of information (Bernhardt and Kinnear 1975), compared to younger age groups. However, other studies revealed contrary findings that the elderly actually cut short shopping trips at least half the time because of fatigue (Gelb 1978) and make more shopping trips (Zeithaml 1985) because they have more discretionary time. Information seeking was also found to decrease with age as the elderly relied more on their experience than on external sources (Reid, Teel and Vanden 1980). Non-monotonic relationships existed on the expenditures on groceries when the younger and oldest groups of shoppers were found to spend much less per week than the age groups in the middle (Zeithaml 1985). In Zeithaml's (1985) study, the oldest and youngest were also found to agree more than the middle age groups that shopping is fun. Other research (Martin 1975), however, suggested that the elderly enjoyed shopping less than other age groups.

The general assumption underlying all these studies is that different marketing strategies should be adopted if elderly shoppers are different from the other age groups. However, despite the numerous research in this area, the general view is that these research are still insufficient to predict and explain that the older shoppers would behave very differently from the younger ones (Bernhardt and Kinnear 1975). In fact, the need to further understand whether such differences exist has led researcher like Lumpkin (1985), to advocate, "Today, there is still a

need for comprehensive research on the marketplace behaviour of the elderly, as well as on their particular problems and needs, in order to establish retail strategies." The question is: Are old shoppers really different from the age groups?

Purpose

The purpose of this study is to determine empirically whether the shopping behaviour of older shoppers differ significantly from other age groups. The comparison will be based on general shopping behaviour in terms of individual differences toward shopping as well as actual shopping behaviour. Past research that studied the shopping trips and dollar variables tended to use the total number of trips and the total amount of dollar spent as a basis for comparison between older and younger shoppers. Little attempt, however, was made to analyse the mode of transport used, with whom they shopped with, and where do they usually shop in. Comparing the distribution of shopping trips and dollar spent in various areas, through different modes of transport and by different companions would be more informative than comparing total shopping trips and dollars spent per se. In this respect, this study is an improvement over past studies as the actual shopping behaviour in terms of trips and dollar spent is examined in greater details.

The Study

Research Site

A city in Southwestern Ontario was used as the research site. The size of the city (population of 300,000) plus its traditional role as a test city for many market research studies makes it ideal for the nature of the study.

Data Collection and Response Rate

The data for this research were obtained as part of a large scale survey designed to obtain various information that helped to provide a better understanding of consumer spatial shopping behaviour.

The survey required the respondent to complete an eight-page questionnaire that asked various aspects of shopping and keep a two-week diary that recorded information on shopping trips and expenditure. Dillman's (1978) "Total Design Method" was closely followed in designing and implementing the survey. Initial contact letters, personally addressed to the heads of households whenever possible, were mailed to 2070 randomly selected residences in the city. A telephone call followed a few days after the letter. Of the 1269 principal shoppers reached by telephone, 823 agreed to participate in the study. A total of 679 returns, representing 82.5% of those who agreed to participate, were received. Of these, 482 respondents completed both the questionnaires and diaries and they formed the usable data-base sample. The return rate was equivalent to 58.6% of those who agreed to participate or 38.0% of those reached by telephone. Considering the level of difficulty of the survey instruments, the return rates were considered very satisfying.

Non-Response Rate

Owing to the use of two research instruments in this research, non-response bias was determined in two ways. For those people who refused to participate in the study, three demographic questions on age group, educational level and

years living in the city were asked over the telephone. The results of the difference of means test of the non-participants against the data-base sample showed that there were no significant differences with regard to the length of residence in the city and the education level. The only significant difference was that of age. Considering the nature of this study, the results were not surprising as older people tend to have more difficulties with their seeing and writing capabilities and thus tend to shun away from participating (Dillman 1978, p.53). In fact, the refusal rate was 42.1% for those people over 55 years of age.

As this study involved completion of both the questionnaire and diary, non-response bias was further assessed between those respondents who completed only the questionnaire and the data-base sample. Comparison between these two groups were made along 7 criteria -- age, education, Siegel's (NORC) job prestige scale, income, years living in the city, years living at the present address, and the number of shopping areas visited over the last three months. The only significant difference, using the difference of means test, between these two groups, at the conventional 5% level of significance, was that of educational level. Again, this result was not expected. It was possible that those participants with lower level of education had more difficulty to responding to both the questionnaire and diary.

Taking into account that there were hardly any significance differences within each of the two sets of comparisons that were discussed above, it was concluded that non-response bias was definitely not a problem in this study.

Classification of Age Groups

In this study, the classification of the sample into the various age groups was largely based on the classification used in French et al's (1983) study with one exception. In their study, four groups were used : early adulthood (18-34 years of age), mid adulthood (35-54 years of age), and two groups in late adulthood, labelled as fully mature (55-64 years of age who have not yet retired) and late mature (65 years and older who are no longer in the workforce). For this study, the two older age groups as suggested by French et al had to be lumped as one group as the response rate for the older people was much lower, resulting in a smaller usable sample size. However, this was considered to be not a major problem as the study was concerned with differences in shopping behaviour across various age groups, and the older consumers were but one of such groups. In addition, this age group made up 27% of the total sample which approximated the city population data. Thus, the three samples used for comparison were:

- a. Younger age group (Below 35 years of age) with 150 respondents
- b. Middle age group (35 - 54 years of age) with 201 respondents
- a. Older age group (55 years and above) with 131 respondents

Variables of Interest

The comparison of shopping behaviour among the three age groups was done basically on two sets of variables -- general approach toward shopping, and actual shopping behaviour.

Individual Differences in Approach Toward Shopping

Several attributes were studied in this section. First, the usage and source of information were examined. Respondents were asked to indicate whether they read catalogues or consumer reports, whether they used yellow pages frequently for

shopping information of whether they were always browsing in stores to see what the stores had.

Second, respondents were also measured on their extent of economy consciousness via the use of discount coupons, sales and flea markets or look for what was "on special" each week to make their purchase.

Third, the extent of planning before shopping was examined. Respondents were asked if they prepared a list before going shopping, if they bought early for Christmas, if they had regular time for shopping or whether they perceived themselves to be careful shoppers.

Fourth, the extent of novelty seeking was examined and respondents had to indicate if they were frequently looking for new things, wore fashion clothes or visited fancy restaurants. Fifth, patronage behaviour was examined to determine if the various form of shopping through mail-order, telephone or door salespeople were common.

Sixth, the respondents' "peripheral" shopping habits like going to the theatres and museums were also examined. Finally, respondents also answered questions that reflected their shopping attitudes: whether they hated shopping, talked about shopping experiences, enjoyed talking to salespeople, shopped in a hurry, shopped in the evening and whether they liked shopping alone.

All the variables were measured on a scale of 1 to 5, with "1" indicating "Describe me perfectly" and "5" indicating "Does not describe me at all".

Actual Shopping Behaviour

The respondents' actual shopping behaviour was measured in several ways, including number of trips made, amount of dollar spent shopping and the number of shopping areas visited, the shopping partner involved, the type of shopping trips (grocery and non-grocery), the different modes of shopping (at home, out-of-town, and in-town), and new shopping areas visited.

Past studies had shown that the older consumer spent considerably less and made less shopping trips than the other age groups (eg. Martin 1975, Bearden and Mason 1978). However, it would be useful if the analysis could be extended to determine if the proportion of total trips in relation to other variables vary for the different age groups.

Specifically, the variables that were examined in relation to the total trips factors were mode of transportation, companions shopped with, and shopping areas visited. To examine if the elderly made more trips by a particular mode of transport such as travelling by bus compared to the other age groups, the use of absolute number of trips as a measure did not seem appropriate. Past studies had generally found older consumers to shop less than the younger age groups. Thus, if the total number of shopping trips was distributed into number of trips by modes of transportation, there would be a likelihood that the number of trips by each mode of transport would also be lesser for the older consumers when compared to the younger age groups. To overcome this bias in comparison when the total trips were used, this study made comparison by using proportions instead. The use of proportions takes into account the differing total number of trips made by the different age groups. In other words, although the total number of trips had been found to differ among different age groups, the percentage of total trips in relation to a particular mode of transport such as travelling by bus may not differ. Thus, where appropriate, proportion of data were computed so as to allow more accurate comparisons.

Findings

Multiple discriminant analysis (MDA) was used to analyse the data as the variables were highly correlated. The determinants of the correlation matrices for general approach toward shopping was 0.00263 and that of actual shopping behaviour was 0.0000. In addition, one-way ANOVA using Scheffe statistic was used to support the findings.

In assessing the relative importance of the variables generated, researchers who used MDA often resorted to standardised coefficients. One major shortcoming of standardised coefficients is their lack of stability caused by the variability and intercorrelations among the variables. Pedhazur (1982) recommended the use of structure coefficients which measure the correlation between an independent variable and the discriminant score. As a rule of thumb, Pedhazur (1982, p.704) suggested that structure coefficients greater than or equal to 0.30 be treated as meaningful for discriminating variables. For this study, Pedhazur's (1982) approach was adopted.

Results and Discussion

Comparison of Individual Differences in Approach Toward Shopping

Table 1 shows the results of the MDA and the corresponding Scheffe statistic that was obtained from one-way ANOVA. It is important to point out that Scheffe statistic supported the results of the MDA in almost all cases. Using the first discriminant function (Wilks' Lambda = 0.6967, chi-square = 160.48, significant at 0.0000), the older age group (55 years and above) was found to differ from the younger age group (below 35 years of age) and the middle age group (35-40 years old) along 6 variables (see Table 1, DF 1). For purposes of clarity, the items will be discussed as shown in Table 1.

Of the four items on usage of information (items 1 to 4), only one was found to be discriminating. The older age group showed a more negative response in the use of catalogues (item 1 with mean of 2.42) -- that is, catalogues did not form a very important source of information for the older shoppers as compared to the younger ($x = 1.90$) and middle age ($x = 2.06$) groups. Their lesser reliance on catalogues could be attributed to their weaker reading ability caused by poorer eyesight. However, despite poorer eyesight, they enjoyed browsing in stores like any other shopper. Overall, older shoppers did not appear to engage in greater or lesser information search when compared to other shoppers.

For economy consciousness (items 5 to 10), the older age group ($x = 3.45$) did not enjoy going to garage sales and flea markets (item 10) when compared to the younger shoppers. This could be due to the nature of the products sold through such places. In addition, since the products were second-hand goods, the older shoppers might not want to risk buying something that would not function well. Another reason could be because they did not have the necessary product knowledge to do a repair if the goods did not function. It was interesting to note that with the exception of grocery (item 9 which showed significant differences when Scheffe statistic was used), none of the other variables showed any economy consciousness on the part of older shoppers.

In terms of extent of planning before shopping, all three items (items 11 to 13) showed no significant differences. By and large, all shoppers did not plan their shopping and perceived themselves as careful shoppers.

In the area of novelty-seeking (items 14 to 16), the older age group tended to be more conservative on one aspect. They did not look for new and

TABLE 1
INDIVIDUAL DIFFERENCES IN APPROACH TOWARDS SHOPPING

Variables	Structure Coefficients		Total Means	Group Means*			Scheffe**
	DF1	DF2		1	2	3	
1. Read catalogues even when not buying	0.2814+	0.1784	2.11	1.90	2.06	2.42	1,3
2. Read consumer reports and guides	-0.1827	0.1099	3.45	3.65	3.37	3.31	n.s.
3. Use yellow pages for shopping	0.1316	-0.0450	3.19	3.12	3.22	3.24	n.s.
4. Always browsing in stores	-	-	2.31	2.16	2.40	2.35	n.s.
5. Seldom use discount coupons	-	-	3.23	3.25	3.31	3.10	n.s.
6. Do not go for sales & specials	-0.2269	-0.1593	3.33	3.44	3.32	3.24	n.s.
7. Buy many things on credit	-	-	3.02	2.90	3.05	3.12	n.s.
8. Never go to auctions	-	-	2.86	2.86	2.73	3.07	n.s.
9. Buy food after seeing specials	-0.2590	0.2286	2.80	3.12	2.66	2.63	1,2,1,3
10. Enjoy garage sales and flea markets	0.3033+	-0.3160+	3.32	3.06	3.44	3.45	1,2,1,3
11. Usually prepare list before going shopping	-0.0986	-0.1722	2.36	2.42	2.41	2.19	n.s.
12. A careful shopper	-	-	1.93	2.04	1.86	1.93	n.s.
13. Have regular times for shopping	-0.1554	0.2364	3.57	3.75	3.41	3.60	n.s.
14. Look for new or unusual things	0.3311	0.0880	2.52	2.34	2.47	2.80	1,3
15. Wear latest fashion clothes	-	-	3.41	3.28	3.42	3.55	n.s.
16. Like going to fancy restaurants	-	-	2.38	2.23	2.34	2.63	1,3
17. Like mail-order shopping	0.1002	0.1857	3.94	3.95	3.86	4.04	n.s.
18. Shop in enclosed mall when possible	-	-	2.48	2.40	2.53	2.51	n.s.
19. Dislike buying from door salespeople	0.2738	0.3136+	2.11	1.99	1.93	2.65	1,3,2,3
20. Phone-shopping only if can't visit store	0.1721	0.2141	2.81	3.05	2.68	2.74	n.s.
21. Do not like going to live theatres	-0.1170	-0.2134	3.84	3.84	3.97	3.65	n.s.
22. Enjoy going to museums and galleries	0.1122	-0.1110	3.19	3.10	3.24	3.22	n.s.
23. Enjoy talking to salespeople	-0.5431+	0.2117	2.52	3.01	2.38	2.15	1,2,1,3
24. Always in a hurry when shopping	0.3787+	-0.0121	3.22	2.95	3.22	3.68	1,3,2,3
25. Often talk about shopping experience	-	-	2.91	2.83	2.88	3.08	n.s.
26. Generally hate shopping	-0.2316	0.1093	3.86	4.06	3.78	3.73	n.s.
27. Prefer evening shopping	0.5738+	0.1374	3.44	3.05	3.42	3.94	1,2,1,3,2,3
28. Prefer shopping alone when possible	-	-	3.39	2.39	2.37	2.42	n.s.
29. Buy Christmas gifts early	0.0188	-0.3585+	3.33	3.22	3.50	3.21	2,3
Wilks' Lambda	0.6967	0.9281					
Chi-square	160.48	33.14					
Significance **	0.0000	0.0180					

* Group 1: Younger age group (below 35 years) + Meaningful Structure Coefficients
 Group 2: Middle age group (35 - 54 years)
 Group 3: Elderly age group (55 years & above) ** Significance at 0.05

unusual things as often as the younger and middle-age shoppers. The lower novelty-seeking trait in the older age group could be because they were more risk-averse and preferred to rely on past experiences to make future decisions. Some studies had also found the older shoppers to be more brand loyal than the younger shoppers. This implied that they would tend not to try new products or new brands in the market.

Of the four items intended to measure their preferences to various forms of shopping (items 17 to 20), there were again more similarities than differences. If any, shoppers across all age groups did not like mail-order shopping, but preferred shopping in an enclosed mall. They would not only rely on the phone if they could not make it to the store. The only shopping form that was less disliked by the older shoppers was that of buying from door salespeople. This was probably because door salespeople possibly helped older shoppers overcome part of their mobility constraint.

In terms of social shopping (items 21 and 22), there were no basis to suspect that older shoppers would engage less in such activities. On the contrary, they participated equally actively (or inactively) in going to live theatres, museums and galleries.

Of the seven dimensions investigated under individual differences in approach toward shopping, shopping attitudes perhaps showed the most differences among the three age groups. Among the 7 variables tested (items 23 to 29), the older shoppers were found to be different on three variables. First, they enjoyed talking to

percentage of their total shopping trips (13% compared to 6% for the younger and middle age groups). They also travelled as car passengers (item 4) significantly more often than the younger and middle age groups (33% compared to 20% for the younger age group and 28% for the middle age group).

From these two variables, it can be concluded that older shoppers relied more on public transportation for their shopping. Although they did drive to shop, the percentage recorded was much lower than the younger and middle-age shoppers (Scheffe statistic showed significant differences -- see item 3 of **Table 2**). In fact, given a choice, it appeared that they preferred to be driven (item 4). These findings could explain why the older shoppers showed less preference to shop in the evening (see item 27 of **Table 1**). Their higher reliance on public transportation would make shopping in the evening rather inconvenient. This is worsened by their deteriorating eyesight (Visvabharathy and Rink, 1983). However, it is also significant to note that despite differences in preferences over mode of transportation, the largest percentage of trips was still done through self-driving. This was true for all age groups although the older shopper had the lowest (but still the highest percentage among all modes of transport) percentage of 40% (see item 3).

In terms of shopping companions, the older shoppers made significantly more shopping trips with their partners (30%) than the younger (13%) and the middle age shoppers (16%). Besides, they shopped significantly less with their children (2% compared to 15% for the younger age group and 12% for the middle age group).

In a related vein, they also shopped significantly less with their family (2% compared to 9% for the younger age group and 7% for the middle age group).

The fact that the older people shopped most with their partners and relatively less with their children and family should not be surprising. This is because most of the older people tend to live alone or with their spouse rather than with their children or other family members. Thus, it would not be surprising that the elderly shopped most with their partners. What was worth noting, however, was that for all the three age groups, about 50% of all shopping trips were taken alone (see item 6).

In terms of types of trips, the older shoppers made significantly less non-grocery shopping trips -- 9.09 compared to 11.71 for the younger and 11.66 for the middle age shoppers (see item 12). In contrast, they made significantly more grocery trips than the younger shoppers -- 4.05 trips compared to 3.05 (see item 11) -- but not much more when compared to the middle age group (3.89).

The above finding illustrated one very important aspect of understanding shopping behaviour across all age groups -- there is a need to distinguish between grocery and non-grocery shopping. Otherwise, significant differences may be obtained by chance. There are several possible reasons why older people made more grocery trips and fewer non-grocery trips. One reason could be that older people tend to belong to the lower income group, leading to a lower level of discretionary income, and resulting in a lower purchasing power for discretionary goods. Shopping trips were thus restricted to basic necessities such as groceries while non-grocery trips were taken less often. A second reason could be due to the role older people perceived themselves to play. Zeithaml (1985), in her study on demographic changes, found that the older the shopper, the more likely he/she would have grown up in a traditional household and developed the role expectations of the husband-

father and housewife-mother. These role expectations could also have been reflected in the types of products purchased by the elderly. A third reason could be that most grocery stores (and supermarkets) are conveniently located and hence pose lesser constraints on the less mobile older shoppers. In contrast, malls and large departmental stores are often not located near to residences, and hence make them less accessible to older shoppers.

Using the second discriminant function (Wilks' Lambda = 0.9118, chi-square = 43.63 and significance = 0.0000), the middle age shoppers were found to differ along the three variables (see **Table 3**, DF 2). First, the middle-age shoppers spent significantly more on non-grocery items (\$404.67 in two weeks) than the elderly (\$259.29) and the younger age group (\$310.14) -- see item 19. This non-monotonic relationship could be because the middle age group might have a higher consumption of non-grocery items as they have children staying with them. In most instances, they are also likely to be peaking in their careers, and hence enjoy a higher income level. This higher income means higher discretionary income which would allow for more consumption of non-grocery items.

Second, like the older shoppers, the middle-age shoppers made more grocery trips (item 11) than the younger shoppers. Again, this could be due to their higher household needs.

Third, in terms of new areas visited in the last two weeks, the middle-age group visited relatively fewer areas compared to the younger shoppers (see item 28). The younger age group appeared to be more adventurous and novelty-seeking as they shopped in the most number of new areas in the past two weeks. When novelty-seeking was examined in the previous section, it was also noted that the younger age group showed a higher tendency to seek for novelty (see **Table 1**, item 14).

Other than the differences highlighted, there were no significant differences among the three groups in their shopping behaviour. For example, in terms of the proportion of trips made to various areas such as major shopping areas (item 14), non-major shopping area (item 15), and downtown (item 16), no significant differences were noted. On the whole, major shopping areas were much more attractive as about 65% of the shopping trips were done there. In terms of dollars spent in the various areas, again, no significant differences were found. About 76% of the total expenditure were spent in major shopping areas. Thus, it would appear that there were no spatial differences among shoppers of different age groups in non-grocery shopping. If any, the older shoppers would travel to any mall or departmental store like anyone else although they may make fewer trips (item 12).

With regards to at-home-buying and out-of-town shopping, low means were noted for all the three groups, that is, they seldom did their buying at home and most of the time, shopping was done within the city. The dollar spent out-of-town was also low (about \$18.72 on the average). This was much lower when compared to the major shopping areas in town (average of about \$85.61). Total dollar spent through home-buying was also low (\$20.70).

Implications and Conclusion

This study has found that the older shoppers did differ from other age groups in some aspects which might have implications to marketers. First, the elderly seemed to prefer a more personalised form of shopping. They generally enjoyed talking to salesmen and preferred buying from door salespeople.

salespeople (item 23 with mean = 2.15). One possible reason for this could be because they wanted to feel valued as shoppers (Gelb 1978). In other words, they sought attention from salespeople in an attempt to establish a closer and more personal customer-salesperson relationship.

Second, they tended to shop in a more leisurely pace (item 24 with mean = 3.56) compared to the younger (x = 2.95) and middle age (x = 3.22) shoppers. This could be attributed to a greater amount of discretionary time that the older shoppers possessed since most of them were either full-time homemakers or retired people.

Third, older shoppers chose the least preference to evening shopping (item 27). In fact, the younger shoppers (x = 3.05, as compared to x = 3.42 for the middle age group and x = 3.94 for the older age group) expressed a higher preference to shop in the evening. This was probably due to their work commitments which would restrict shopping activities till the evening. From the study data, about 68.5% of the younger age group and 57.5% of the middle age group were working people. The older age group, on the other hand, would have a choice to shop in the day if they wanted to, since most of them were already retired with more time. In fact, they would prefer to shop in the day because of their deteriorating eyesight which would make evening shopping rather inconvenient. This is especially so if the elderly did not have their own means of transportation (Visvabharathy and Rink 1983).

In addition to the first discriminant function, the second discriminant function (Wilks' Lambda = 0.9281, chi-square = 33.14, significance = 0.0160) showed that the middle-age shoppers were different along three variables. First, they did not enjoy going to garage sales and flea markets (item 10) when compared to the younger shoppers. Interestingly, in this aspect, they behaved very similar to the older shoppers. Interestingly, in this aspect, they behaved very similar to the older shoppers. Second, they disliked buying from door salespeople (item 19). Third, they preferred to buy Christmas presents early (item 29).

While item 29 showed a non-monotonic relationship when the respondents were compared by age -- that is, the older and younger age groups exhibited similar preference and both differed from the middle-age group -- the reasons behind their preference could be different because of the different set of conditions each faced. For example, the probable reasons why the older age group shopped early for their Christmas gifts could be to enable them to shop at a leisurely place, to avoid the festive crowd group and also to allow them to shop around for the best buys. The young age group, on the other hand, shopped early for their Christmas gifts as they could be more time-conscious than the elderly. This group could also view shopping as fun and thus, would like to shop around during the festive season.

Besides the differences mentioned above, the rest of the variables were not found to be meaningful in discriminating the shopping pattern among the three groups. Examination of the means of the three groups using Scheffe statistic revealed only two additional differences. While older shoppers did not differ in their preference for sales and specials (item 6), they did however, pay attention to food offers (item 9). This could be due to the fact that the bulk of the older shoppers' purchases tended to be on groceries than non-groceries. Their lower mobility and lower income also accounted for their lesser patronage of fancy restaurants (item 16).

What was revealing about the pattern of results is that out of the 29 variables investigated, differences were found only in 8 variables when

MDA was used (item 10 was loaded on both DF functions). Even using the more liberal criterion of one-way ANOVA, differences were found in only 10 variables. More interestingly, the greatest differences in approach toward shopping was found between the younger age group (below 55 years) and the older age group (over 55 years) -- there were 9 such differences using one-way ANOVA. There were only 4 differences between the below 35 age group and the 36-45 age group, and another 4 differences between the 35-54 age group and the 55 and over age group. Only in one instance -- prefer evening shopping -- were differences found among the 3 groups.

Thus, the data seemed to suggest that if any, there were more similarities than differences in terms of the general approach toward shopping among various age groups. Any attempt to use different strategies to reach out to these three groups of shoppers must therefore be proceeded with care.

Comparison of Actual Shopping Behaviour

Based on the first significant discriminant function (Wilks' Lambda = 0.7023, chi-square = 167.12, significance = 0.0000), the older shoppers were found to differ along seven variables (see Table 2, DF 1), which would be discussed under three main categories of mode of transportation, shopping partners and type of trips.

In terms of mode of transport, older shoppers shopped by bus (item 1) for a significantly higher

TABLE 2
ACTUAL SHOPPING BEHAVIOUR

Variables	Structure Coefficients		Total Means	Group Means*			Scheffe**
	DF1	DF2		1	2	3	
1. Proportion of trips by bus	0.4114+	-0.2620	0.08	0.06	0.06	0.13	1,3 2,3
2. Proportion of trips by foot	-	-	0.14	0.16	0.12	0.14	n.s.
3. Proportion of trips by self driving	-	-	0.52	0.68	0.84	0.40	1,3 2,3
4. Proportion of trips as car passengers	0.3658+	0.1982	0.27	0.20	0.28	0.33	1,3
5. Proportion of trips by other means	-	-	0.00	0.00	0.00	0.00	n.s.
6. Proportion of trips with no one	-	-	0.81	0.50	0.52	0.52	n.s.
7. Proportion of trips with partner	0.6491+	-0.1218	0.19	0.13	0.16	0.30	1,3 2,3
8. Proportion of trips with friends/relatives	-	-	0.13	0.13	0.13	0.14	n.s.
9. Proportion of trips with children	-0.6805+	0.0951	0.10	0.15	0.12	0.02	1,3 2,3
10. Proportion of trips with family	-0.4814+	-0.0460	0.06	0.09	0.07	0.02	1,3 2,3
11. Total no of grocery trips	0.3250+	0.3669+	3.67	3.05	3.89	4.05	1,2 1,3
12. Total no of non-grocery trips	-0.4333+	0.2212	10.98	11.71	11.66	9.09	1,3 2,3
13. Proportion of non-grocery trips - non major shopping areas	-	-	0.36	0.38	0.35	0.33	n.s.
14. Proportion of non-grocery trips - major shopping areas	-	-	0.65	0.62	0.65	0.68	n.s.
15. Proportion of non-grocery trips - non downtown most shopped areas	0.0492	-0.0896	0.25	0.26	0.26	0.21	n.s.
16. Proportion of non-grocery trips - downtown most shopped areas	-	-	0.21	0.19	0.20	0.25	n.s.
17. Out of town shopping trips	-	-	0.19	0.21	0.19	0.18	n.s.
18. At-home-buying	-	-	-	-	-	-	n.s.
19. Total \$ spent for non-grocery items	-0.0803	0.5674+	336.74	310.14	404.87	259.29	1,3 2,3
20. Proportion of \$ spent - non groceries - non major shopping areas	-	-	0.23	0.25	0.25	0.20	n.s.
21. Proportion of \$ spent - non groceries - major shopping areas	-	-	0.76	0.75	0.75	0.78	n.s.
22. Proportion of \$ spent - non groceries - non downtown most shopped areas	0.0817	-0.0325	0.25	0.26	0.26	0.21	n.s.
23. Proportion of \$ spent - non groceries - downtown most shopped areas	-	-	0.28	0.28	0.28	0.33	n.s.
24. \$ spent out-of-town shopping	-	-	18.72	21.14	20.51	13.18	n.s.
25. \$ spent at-home-buying	-	-	20.70	15.17	28.65	14.18	n.s.
26. No of shopping areas visited in downtown	-	-	3.47	3.42	3.84	3.32	n.s.
27. No of areas visited last three months	-0.2261	0.2399	6.48	6.38	6.61	6.30	n.s.
28. New areas visited last two weeks	-0.1798	-0.4247+	0.19	0.29	0.13	0.17	1,2
Wilks' Lambda	0.7023	0.9118					
Chi-square	167.12	43.83					
Significance **	0.0000	0.0000					

* Group 1: Younger age group (below 35 years) + Meaningful Structure Coefficients
 Group 2: Middle age group (35 - 54 years)
 Group 3: Elderly age group (55 years & above) ** Significance at 0.05

Second, older shoppers preferred to shop more leisurely than other age groups. Thus, it is possible that the elderly might spend more time in any particular store. This provides opportunities for retailers to use more in-store promotions to capture the attention of the elderly shopper and encourage purchases. Third, they were also found to make more trips by bus and as car passengers. Both modes of transportation are, however, not very convenient to the elderly considering their reduced mobility and lower income levels. There are two possible ways of solving the transportation problem for the elderly. One way is to bring the elderly to the goods, and the other way is to bring the goods to the elderly.

In North America, some supermarkets have already provided transportation to the elderly to bring them to the stores. However, this is a very expensive method as it adds to the costs of the retailers. Hence, a better method would be to bring the goods to the elderly. This can be done through mail-orders, telephone shopping or through door salesmen. However, from the findings, it was observed that the elderly generally preferred buying from the door salesmen than through other indirect means such as mail-orders or telephone shopping. Thus, using door salesmen would be more feasible. In addition, personal deliveries and mobile stores are also viable means of bringing the goods to the elderly.

For new retail outlets that intend to target at the elderly segment, location may be one factor of consideration. The choice of a suitably located store is important as the elderly are restricted in their mobility. Hence, such stores should site their location where the elderly segment is concentrated.

However, besides responding to such differences, marketers must also resist the temptation of over-reacting to "self perceived differences" of older shoppers. In other words, while recognizing that older shoppers do differ in some aspects toward shopping -- which are created largely by mobility and lower income factors -- such differences must not be over exaggerated to the extent of believing that older shoppers are so distinctly different that they require entirely different marketing approaches and strategies. The findings of this study showed that, if any, there were more similarities among shoppers of all age groups than differences. For example, despite their mobility problems, older shoppers still made the bulk of their shopping trips by self-driving, they shopped alone most of the time, they visited an equally number of places in their shopping, they had many similar approaches toward shopping like the younger and middle-age shoppers. Thus, while recognizing physical differences that might arise as a result of aging, marketers must also pay close attention of other aspects -- benefits sought, lifestyle differences, and so on -- as additional ways to understand the shopper.

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**UTILIZATION OF DISTRIBUTION CHANNELS FOR MARKET ENTRY:
The Case of Turkish Textiles and Apparel in Germany***

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Abstract

One of the most fundamental decisions in international marketing revolves around the selection of the market entry strategy based on various distribution alternatives available in the foreign market. The basic concern of this paper is to outline (1) the distribution channel network in Germany for textiles and apparel, (2) the channels used for the distribution of Turkish apparel in this export market.

Introduction

Competition with various companies to reach different segments in many foreign markets makes it more and more difficult for firms to contact the end users directly. Distributors become the direct link of a firm in export market operations. Well informed about the expectations and needs in the market to be served, as well as about the capacities and requirements of producers, they serve as a bridge between the two groups and match the needs of both parties.

As stated by Toyne and Walters (1989), companies involved in foreign market operations develop distribution arrangements and strategies for "each" of their foreign markets since the channels through which the goods flow and the roles of the channel members vary from one country to another and among industries depending on sectoral and customer characteristics. The variations may range from the direct, producer to consumer ones, to the elaborate, multilevel channels (Jain 1990, Czinkota and Ronkainen 1990, Toyne and Walters 1989). Furthermore, the functions of channel members may also change over time as a result of changing socio-economic values affecting demand and channel organization (Rehmann and Gierl 1985, Walters 1977).

The obvious implications of these findings is the the need for improvement and understanding of distribution activities on a country by country basis (Burt 1989, Terpstra 1987).

In the channel literature, there are two major approaches to examine distribution channels: The structural, or economic approach covers the channel structure, design, flows in the channels, and differentiated functions of channel members. The behavioral approach views the channel as a social system and concentrates on different types of interactions (Frazier and Kale 1989, Leonidou 1989, Rosenbloom 1987, Johanson and Vahlne 1977, Walters 1977). For firms involved in export marketing activities, it is most essential to accumulate detailed knowledge about the structural factors .

* The empirical part of the study has been conducted in the former Federal Republic of Germany.

This paper tries to give detailed information about functions and utilization of the distribution channel members operating in the chosen sectors of textiles and apparel in Germany.

The comparative advantages in the production of cotton based industry goods make exports of textiles and apparel attractive for Turkey. Textile-apparel exports constitute 35 % of total exports of Turkey. The analysis of Turkey's foreign trade figures since 1980's indicate that exports of textiles and apparel to EC (European Community) countries have improved considerably. Turkey remains at third place in volume of textiles and apparel exports to EC countries behind Hong Kong and South Korea (Balaban and Güllü 1990). The statistical data compiled from Prime Ministry Undersecretariat of Treasury and Foreign Trade (1991) reveals that the major customer for Turkish textile-apparel products is Germany (58.8 % of total exports to EC; 46.7 % of total textiles and apparel exports of Turkey).

In view of recent trends in globalization of fashion market, Tietz (1990) identifies four marketing zones in Europe. Based on similarities in each zone, he proposes standardization within regions only. Germany falls within the same zone as Austria, Switzerland and Benelux countries. Expectations of the German market are also relevant for the other countries within this zone, since many German textile-apparel firms also operate in these countries.

The trends in textile-apparel sectors in the world show that more and more developed countries prefer to import from countries characterized by low wages, relatively cheap raw material's sources and high product quality. This structural change is also relevant for the German market. Besides purchase of collections, channel members also prefer ordering and cutting making-trimming (CMT) abroad (Engel 1985, Adler and Breitenacher 1984, Schulz 1983, Lanner 1981, Breitenacher 1975). The distribution structure outlined helps Turkish firms to position their export marketing activities properly in the German market.

Channel Structure for Textiles and Apparel in the German Market

The distribution structure for textiles and apparel is highly complex in Germany. The multi-stage channel network is composed of three main levels; Producer stage, wholesaler stage and retailer stage (Figure 1):

Producer Stage

At Producer Stage are domestic/German manufacturers, the representatives of manufacturers abroad, as well as sourcing firms and franchising firms. Sourcing firms develop collections and order for production in Germany

or abroad. Many companies prefer sourcing because of lower costs of production (MMT 1989). In line with the United States case stated by Hester (1987), more and more German retailers act like manufacturers making use of sourcing activities abroad. On the other hand, franchisors provide licence privileges and offer assistance in marketing and managerial activities to the franchisee on a continuous and contractual basis (Mannhardt 1984, Rosenbloom 1987). Benetton, Stefanel, Boss, Esprit Marc O'Polo are the major ones in Germany. They also present their products through shop in the shop system in department and chain stores (MMT 1989, Mannhardt 1984).

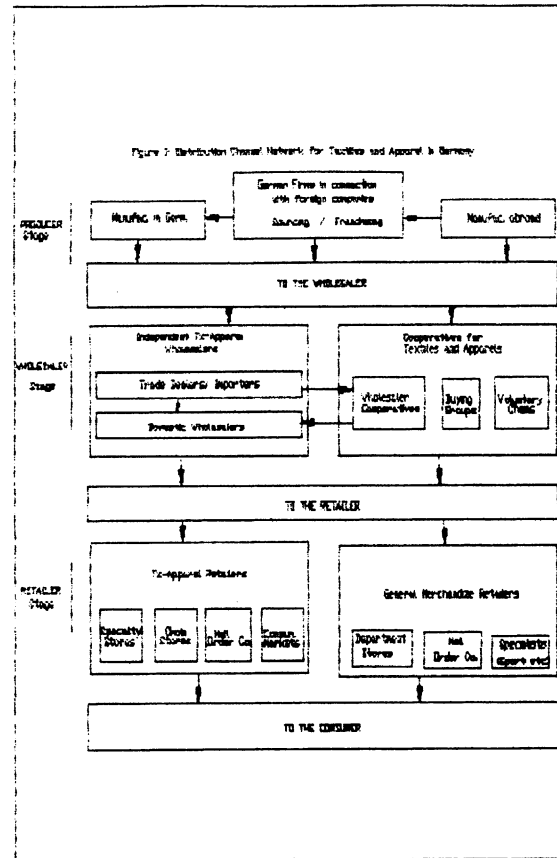
Mannhardt's (1984) study reveals that channel members at wholesaler and retailer stages operate either as full line, or as specialists carrying only textiles and apparel. The distribution takes place through direct marketing or through various channel members in the network.

Besides the trade dealers located in fashion centers or trade fairs, wholesalers include two other groups: Independent textile-apparel wholesalers and cooperatives. Cooperatives among textile wholesalers (Zentral-grosshandel) and cooperatives among textile retailers such as buying groups (Einkaufsverbände) constitute the horizontal link among units of the same level. At wholesaler stage are also voluntary chains (Freiwillige Ketten), where wholesalers and retailers work together under a unique organization like SELDIS (Mannhardt 1984). Combining resources to realize economies of scale in purchasing was the initial aim of cooperatives. They provide services for purchasing, distribution and other marketing activities to independent retailers and small chains. They contribute to the expansion of a centralized distribution system (Burt 1989, Marketing in Europe 1988, Rosenbloom 1987). Today, 25 big sized buying groups with 6000 member firms and 20 voluntary chains exist in Germany. The most important buying groups are Kaufring, Katag, KMT Rheintextil (MMT 1989, TW Poster 1989, Marketing in Europe 1988). It was the trade dealers' efforts which led to the establishment of fashion centers in big cities like Hamburg, Düsseldorf. Merchants, agents, brokers, sales representatives work at different channel directly or indirectly (Jain 1990, Czinkota and Ronkainen 1990, Fitzpatrick and Zimmermann 1985).

Retailer Stage

Retailer Stage covers a variety of channel members in Germany. Redinbaugh (1976) stated that in the textile-apparel sector, in-store retailers like department stores (Warenhaus), chain stores (Filialist) consumer markets (Verbrauchermarkt) such as discount retailers, and mail order firms (Versender) are the important ones. Department stores are increasingly building direct links with producers (Marketing in Europe 1988). The major ones are Kaufhof, Karstadt, Hertie, Woolworth with more than 100 outlets. The first shop in the shop application was introduced by Hertie and Horten (Robinson and Clarke-Hill 1990, MMT 1989, TW Poster 1989, Taylor 1988, Aschenbach 1986, Rehmann and Gierl 1985, Mannhardt 1984). Around 60 % of German mail order market is controlled by Quelle,

Otto Versand and Neckermann. The geographical expansion of Otto Versand was followed by Quelle, which also initiated tele-marketing for new product lines (Robinson and Clarke-Hill 1990, MMT 1989). Consumer Markets offer not fashionability, but low price. EDEKA is the major one in this group. They also organize in the direction of chain stores (MMT 1989). Moreover, retailers specialized in food (ALDI), furniture, sport articles (Mannhardt 1984) carry textile-apparel goods (Branchenfremder Einzelhandel).



At the retailer stage, one can observe a trend toward diversification and internationalization like the case for ALDI, Quelle, Otto Versand and Neckermann (Treadgold 1990, Jain 1990, Robinson and Clarke-Hill 1990, Hollender 1977). In the latter efforts, some firms such as Benetton and Laura Ashley have chosen a standardization strategy as a globalization route; others such as C&A have opted for adaptation (Salmon and Tordjman 1989).

An overview of the channel structure indicates that the most important institutional member is the retailers. They are followed by cooperatives of wholesalers and buying groups, and independent textiles-apparel wholesalers in that order (Taylor 1988). Among retailers an expansion of market share is observed for consumer markets, chain stores, department stores and mail order firms (MMT 1989, Rehmann and Gierl 1985).

Research Methodology

The purpose of this study is to outline (1) the structure of distribution channel network for textile apparel sectors in Germany, (2) the channels utilized for the distribution of apparel exported from Turkey.

The network developed based on the review of various secondary sources is further used to design the sample for primary data collection. The exploratory study conducted helps to identify the product flow among channel members.

The population of the study is defined as firms selling apparel imported from Turkey in the German market. The unit of analysis is the firms at various stages in the channel network; primarily producers, sourcing firms, wholesalers, and retailers.

Judgmental sampling was utilized to select firms representative of the population. The basis for their identification was interviews held with Turkish commercial attaches in Hamburg and Bonn, and with representatives of various associations of the sector. The sample firms were purposively selected. For the expansion of the sample size, snowball effect was utilized. The sample size was planned to be 60 firms; but owing to company problems, or a reluctance to spare time for interviews, the number of usable responses dropped to 45. The chosen firms are among the largest ones in terms of sales turnover and import volume. Among them Kaufring, Triangle, Cartoon, Kaufhof, Hertie, Horten, Peak and Cloppenburg, Neckermann, Otto Versand are worthy of special mention.

The primary data were obtained through questionnaires administered to the managers of importing firms in Germany. The questionnaire was composed of structured undisguised questions. The data was collected during the summer of 1989 via face to face or mail questionnaires. This paper encompasses only some sections of this broad study and probes in detail (1) the position of the firm in the channel network, (2) suppliers and customers for Turkish apparel products, (3) types of manufacturing activities for imported goods. After receiving the mailed questionnaires, respondents were contacted by telephone in order to eliminate the non-response errors and to clarify unclear points.

The product flow relations of the channel members were then determined by the use of SPSS PC+ Analysis.

Findings

Based on the findings, a product flow chart for the distribution of apparel imported from Turkey into the German market is developed (Figure 2).

Channel Position

Channel Position of the contacted firms was defined on the basis of their main activity areas. As given in **Table 1**, among the 45 firms contacted, sourcing firms constitute the largest group (56.5

%) at producer stage. At wholesale stage, cooperations like purchasing associations constitute the largest group. At retailer stage, chain stores are the largest group with 41.7 %. Some of these firms are involved in more than one channel activity: Among producers some operate as merchants, or are engaged in wholesale and retail activities as well, justifying Mannhardt's (1984) study about the channel structure in Germany.

Table 1
Channel Position of Firms Contacted

<u>Categories</u>	<u>n</u>	<u>%</u>	<u>n</u>	<u>%</u>
Producer :	23	51.1		
.own plant in TR	8	34.8		
.own plant in Ger	2	8.7		
.sourcing firm	13	56.5	23	100.0
Wholesalers:	10	22.2		
.cooperatives	6	60.0		
.independent WS	4	40.0	10	100.0
Retailer:	12	26.7		
.chain store	5	41.7		
.department st.	3	25.0		
.mail order	2	16.7		
.indep. ret.	1	8.3		
.non-specialized	1	8.3	12	100.0
Total:			45	100.0

Customers by Channel Types

Customers by Channel Types analyzed shows that the firms contacted sell their product lines to various channel members. The major customer group is retailers, followed by wholesalers. Among the respondents, 14 firms stated to be in direct contact with end users.

When customers of the four major channel members are examined using the cross tabulation, following results are obtained (**Table 2**):

- All producers with own plant sell their goods directly to retailers.
- Among the 13 sourcing firms contacted, 12 sell directly to retailers; six of them also sell to wholesalers.
- Wholesalers do not have a direct product flow to consumers. They all sell to retailers and three of them sell also to other wholesalers.
- All retailers reach consumers. Only one retailer also sold to other retailers.

Suppliers by Channel Types

Suppliers by Channel Types analyzed show that multiple sources are used to procure the purchase of Turkish apparel. Except for one sourcing firm, all have direct contact with Turkey. In addition, nearly 47 % of the firms (21 out of 45) purchase Turkish apparel from suppliers in Germany. Among the latter, German import merchants are most preponderant; they are

Table 2
Customers by Channel Types

Customers	Channel Types				
	(1)	(2)	(3)	(4)	(5)
.Producer	1	2	-	-	3
.Wholesaler	8	6	3	-	17
.Retailer	10	12	10	1	33
.Consumer	1	1	-	12	14
.Column Tot.	20	21	13	13	67
.Number of Resp.Firms	10	12	10	12	44
.Firms Contact.	10	13	10	12	45

X = 53.73 d.f. = 9 p = 0.005
Significance should be interpreted with care since cells with Expected Frequency (EF) < 5 = 62.5 %

(1)Prod., (2)Sourcing Co., (3)Wholesaler
(4)Retailer, (5)Row Total

followed by Turkish export merchants. The major reasons for direct contacts with Turkey were stated as reasonable prices, good personal relations, and a high degree of cooperation. Those firms preferring to work with suppliers located in Germany do so primarily because of these suppliers' better sense for fashion and creativity, and their ability to offer collections that are easy to coordinate.

Table 3
Suppliers by Channel Types

Suppliers	Channel Types				
	(1)	(2)	(3)	(4)	(5)
Prod. in TR	2	12	10	12	36
Plant in TR	8	-	-	-	8
Turkish Exp. located in Ger.	2	1	2	5	10
Import Merch.	2	2	4	7	15
Wholesaler	-	1	-	3	4
Column Total	14	16	16	27	73
Number of Respon.Firms	10	12	10	12	44
Firms Contact.	10	13	10	12	45

X = 45.81 d.f. = 2 P = 0.005
Significance should be interpreted with care since cells with Expected Freq. (EF) < 5 = 70.0 %

(1)Prod., (2)Sourcing Co., (3)Wholes.
(4)Retailer, (5)Row Total

The types of suppliers for Turkish apparel were cross tabulated with channel members. The findings as presented in Table 3 reveal:
a. Out of ten producer firms, eight have their own plants in Turkey and import directly from this source.

b. Sourcing firms mainly purchase Turkish apparel directly from Turkish producers.
c. For the wholesalers the major supplier is again the Turkish producer.
d. Retailers demonstrate a quite different pattern for importing Turkish apparel. Although they all utilize the Turkish producers as a source of supply, they also contact several suppliers located in Germany.

Procurement Types

Procurement Types for Apparel utilized by channel members shows variations. The majority of the firms deals with more than one type of procurement alternatives such as own production, ordering, purchase of collections and/or CMT (Cutting-Making-Trimming).

The last column of Table 4 reveals that nearly 87 % of the contacted firms chose "ordering" as the main type of production for supplies. All firms ordering abroad do order from Turkey. About half of the sample purchased collections; among these 68.2 % did so from Turkey. Nearly 27 % preferred CMT; within this group 75 % operated in Turkey. "Own Production" was mentioned only by 24.4 % of the firms.

Besides Turkey and Germany, Far East Region, Mediterranean Region, Asia, and East Europe constitute further targets for ordering; England, Italy, other EC countries and again Far East Region are contacted for purchase of collections, in descending order. If and when purchase of collection is done in Germany, it is not distinguishable whether the manufacturing took place in Germany or the product was imported based on ordering or CMT contract and sold as own collection of the German firm. For CMT, contacts are primarily built with south East Asia or with Thailand.

Table 4
Apparel Procurement Types Utilized

Proc.	Location *			
	Turkey	Germany	other	Respon. count. Rate
	<u>n</u> <u>%</u>	<u>n</u> <u>%</u>	<u>n</u> <u>%</u>	<u>n</u> <u>%</u>
(1)	39 100.0	15 38.5	34 87.2	39 86.7
(2)	15 68.2	12 54.5	12 54.5	23 51.1
(3)	9 75.0	2 16.7	8 66.7	12 26.7
(4)	8 72.7	3 27.3	- -	11 24.4

*The allocation of responses exceeds sample size since multiple responses observed.

(1)Ordering, (2)Collections Purchase, (3)CMT, (4)Own Production

The replies reveal that six out of ten producers are involved in ordering activity. All Sourcing firms order their product lines in Turkey and in other countries. Wholesalers mainly purchase collections or are involved in ordering activity.

Retailers obtain their supplies through ordering in Turkey and in other countries. In short, ordering is the most pervasive production activity for apparel supplies for sourcing firms, retailers, and wholesalers in descending order.

Conclusion and Implications

Export market entry primarily necessitates a clear understanding about the structural aspects of the distribution channel network. Since channel configurations show variations from one industry to the other, it is deemed important to analyze the distribution network of the export market on a sectoral basis. Availability of such information helps firms to operationalize the channel alternatives in the most efficient manner.

The findings were helpful in designing Figure 2 which shows the flow of Turkish apparel in the German market:

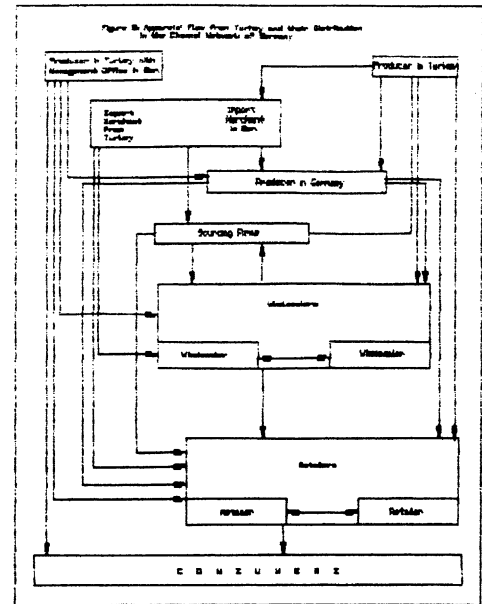
Nearly all sourcing firms, and all producers and wholesalers sell their apparel to retailers directly. This supports Taylors' (1988) view that retailers are of utmost importance in the German distribution channel network. Hence, firms exporting apparel have to first recognize retailer expectations and evaluations, for this group provides the feedback related to the changes occurring in consumer attitudes and behavior.

Suppliers of Turkish apparel are located in Turkey or in Germany. Following the producers in Turkey, merchants constitute the second largest source. Nearly all sourcing firms have a direct contact to producers located in Turkey, or they work with merchants. This fact supports the MMT (1989) study. All wholesalers and retailers in the sample have also exhibited a direct contact with producers located in Turkey. Hence, it is recommended that Turkish firms visit fashion centers and fashion fairs in Germany, and contact German retailers' and wholesalers' associations through the help of Turkish commercial attaches in Germany.

Producers in Turkey have a direct contact with German producers, import and export merchants, sourcing firms, wholesalers, and retailers individually. The different contact offices located in Germany assist in reaching the German producers, wholesalers and retailers directly. Other major apparel flows are observed between wholesaler-sourcing firm, wholesalers, and retailers.

Among the four alternative procurement types for the supply of Turkish apparel, ordering is the most widely utilized one, followed by the purchase of collections.

Supporting MMT (1989) study and Hester (1987), many German producers and retailers prefer ordering, and hence act like sourcing firms. In order to be competitive, Turkish apparel producers have to increase their efforts in developing collections appealing to the export market. In this respect, it is highly important for



firms to invest in creativity, hiring designer teams and following the fashion trends by attending international textile fabrics and fashion fairs on a more frequent basis.

Through the distribution channel network developed for textiles and apparel sectors in Germany, and the stated functions the channel members perform, the study aims to help firms from different countries in their export activities to visualize the sector in great detail. Through the product flow detected based on supplier and customer relations of the firms contacted, the study also will help apparel exporting firms from different countries at which channel stages to concentrate the efforts in Germany, considering the different procurement activities utilized. Having this perspective will make it easy for the firms involved in international operations to detect channel member needs in detail from the behavioral, interactional aspect in the long run.

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REACTIONS TO DISSATISFACTION IN MARKETPLACE: COMPLAINT STYLES OF OPTIMIST AND PESSIMIST CONSUMERS

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Abstract

A conceptual analysis indicates that the learned helplessness paradigm is a promising explanatory framework to study consumer complaint behavior. The major proposition of this model is that consumers with pessimistic attributional styles choose passive means of dealing with dissatisfaction experiences in the marketplace. In addition, the study investigates differences in reactions to dissatisfaction with services versus tangible products. Initial empirical findings generally support the learned helplessness proposition. Results also identify significant differences between complaint actions of those who are dissatisfied with a service versus a product. Practical implications and future research needs are discussed.

Introduction

Consumer complaints are critical forms of feedback from the marketplace to businesses. They offer unique opportunities to correct problems, provide constructive and innovative ideas to improve products and services and help modify promotional efforts and product information (Sanders 1981). Evidence suggests that satisfactory complaint resolution strengthens consumer brand loyalty and increases favorable word of mouth activity which is valuable promotion for the seller's products and services (Richins 1983a; TARP 1979, 1986). It has been estimated that, on the average, it costs five times more to attract a new customer compared to the cost of retaining an existing customer (TARP 1979). Therefore, a viable marketing strategy is to "maximize the number of complaints from dissatisfied customers" and resolve them satisfactorily to reduce "customer turnover" especially in highly competitive industries (Formell and Wernerfelt 1987, p338).

While it is important to have data on dissatisfaction in the marketplace, few consumers communicate dissatisfaction publicly. Most dissatisfied consumers either do nothing, or engage in negative word of mouth to express dissatisfaction (Richins 1983a, b; Singh 1988; TARP 1986). Unfortunately, such activities can be very damaging to the retailer or the manufacturer due to lack of opportunity to take corrective action. In addition, public and private agencies are deprived of information about the potential problems in the market.

The purpose of this paper is to examine consumer complaint behavior within a theoretical framework known as the Learned Helplessness Paradigm (Abramson, Seligman, and Teasdale 1978). While there are a number of research traditions under the umbrella term "learned helplessness," the key proposition of the theory is that people (and animals) learn to expect response-outcome independence after successive failures as a consequence of uncontrollable events. Consequently, a passive behavioral pattern is developed and no attempt is made to respond and change outcomes even when response-outcome independence no longer exists.

The usefulness of this paradigm has been demonstrated in clinical psychology, mostly within controlled experimental environments. Recently, this theoretical framework has found applications in applied and uncontrolled real world settings (Seligman and Schulman 1986). In consumer behavior literature, learned helplessness explanations have been offered for information processing deficits and passive reactions to marketing communications efforts (Hart 1983; LaForge 1989; Motes 1982). However, empirical studies based on this paradigm are lacking (see Bush and Babakus 1992 and Little 1984 for exceptions).

In the present study, it is proposed that passive reactions to product and service failures, and more generally responses to dissatisfaction, can be adequately explained by the Learned Helplessness Model. Furthermore, passive behavior to market dissatisfactions can be predicted based on consumers' attributional styles. Those who attribute market failure to their inability (internal) are learned helpless consumers. In addition, the study examines potential differences between services and tangible products with regard to complaint behavior.

Conceptual Framework & Research Hypotheses

Consider a hypothetical consumer who is in need of auto repair. After some information gathering effort, the consumer selects a repair shop. The auto is repaired and the consumer picks up the car. The car's performance does not meet our consumer's expectations. He/she goes back to the shop and requests further service. After an exhaustive and fruitless struggle, the consumer takes the car to another shop but the results are still unsatisfactory. After repeating this cycle several times the consumer begins to develop expectations that no matter what, he/she cannot control the outcomes despite efforts and complaints to control the situation.

Consumers may frequently face situations similar to the one above, and learn to develop expectations of response-outcome independency across various market transactions. As a result, coping skills with market transactions deteriorate and passive response patterns to marketing stimuli may develop, including passive response to market information and dissatisfactory purchase experiences. The model suggests that learned helplessness phenomenon develops as a stable trait early in life as a general tendency and can explain passive responses in a marketing environment as a consequence of market specific failures along with other types of uncontrollable events.

The Learned Helplessness Paradigm

Learned helplessness phenomenon has its origin in animal learning experiments (Overmier and Seligman 1967; Seligman and Maier 1967). This phenomenon received great attention as a potential explanatory mechanism in various human behavioral deficits, including loss of self-esteem and depression (Garber and Seligman 1980). Al-

though the theoretical underpinnings have been reformulated (Abramson, Seligman, and Teasdale 1978), the major component of the paradigm remained the same: uncontrollable events - expectation of response-outcome independency - passive behavior and coping skills deficits.

The reformulated learned helplessness model incorporates an individual's attributional style as an important component. Based on the new model, people develop attributional styles to explain failure or bad events (Seligman and Schulman 1986). Those individuals with a "pessimist" explanatory style are more prone to the development of learned helplessness. A pessimistic style of explanation of failure has three distinguishing components. First, individuals who are pessimists attribute bad events to themselves as opposed external forces. Secondly pessimists have expectations that bad events are stable and continuing forever. Finally, pessimists develop expectations of response-outcome independency transferred across different contexts. That is, a pessimist considers a bad event as his/her fault, will repeat itself no matter what response is given, and will happen in other situations as well (Seligman and Schulman 1986).

In the context of consumer dissatisfaction and complaint, this translates into a pessimist consumer who interprets product/service failures as his/her inability, no matter what he/she does the consequences will not change, and failure is unavoidable across product/service categories. Therefore consumers with a pessimist attributional styles are expected to respond dissatisfaction in the market place in a passive way such as doing nothing or engaging negative word of mouth as opposed to any action against the seller.

Research on Consumer Complaint Behavior

One of the key outcomes of the extensive research in consumer satisfaction is that satisfaction is a function of the confirmation or disconfirmation of the consumer expectations (eg., Oliver 1980; Woodruff, Cadotte, and Jenkins 1983). If a purchase experience is perceived dissatisfactory consumers may engage in a number of alternative behaviors. These alternatives range from a very passive one such as "doing nothing and forgetting about the problem" to a very active and involving complaint process such as "resorting to courts" for redress. Engaging in negative word of mouth, complaining to the retailer or manufacturer, and complaining to third parties such as the Better Business Bureau, state and federal consumer protection agencies, and private consumer groups constitute an array of actions between the two extremes.

While consumer researchers have generated a large volume of literature on the antecedents of satisfaction/dissatisfaction perceptions of consumers, there has been less focus on the consequences of dissatisfaction (Richins 1983a). the recent trend in consumer complaint behavior research, however, is such that this area of inquiry is now moving from a descriptive stage to a more theoretically grounded area of study.

An area of major theoretical concern in consumer complaint research has been conceptualization, measurement, and classification issues related to the concept of complaint. In

order to adequately investigate the complaint process, proper conceptualization and measurement of the concept is necessary. Recently Singh (1988) reviewed this area of inquiry and developed an empirically supported classification scheme for consumer complaint behavior which appears to be superior to those of earlier efforts (i.e., Day 1980; Day and Landon 1977). His taxonomy of the underlying structure of responses to dissatisfaction is a three dimensional measurement model with "voice," "private," and "third party" response components. Voice dimension of complaint construct includes the no action or "do nothing" aspects as well as seeking redress from the seller. Private responses include word of mouth communications. Finally, the third party responses dimension includes actions such as complaining to the Better Business Bureaus and taking legal actions. The present study uses this classification scheme in the course of testing the learned helplessness paradigm.

Another theoretical development in complaint research has been the utilization of the attribution theory as an explanatory framework. In this research stream, various hypotheses have been derived from attribution theory to investigate issues such as responses to dissatisfaction when product failure is attributed to the buyer or seller (Richins 1983a), control over failure, and the stability of failure (Folkes 1984; Folkes and Kotsos 1986; Folkes, Koletsky, and Graham 1987). The attributional approach to complaint behavior is a viable framework (Folkes 1988). Although studies using the attributional framework have not incorporated the learned helplessness model, the concept of the attributional style is a common variable connecting the learned helplessness and attribution theories. The major distinguishing factor between the two approaches to study complaint behavior is that learned helplessness paradigm focuses on consumers' prior experiences leading to the development of a "trait" as opposed to situation specific application of the explanatory styles of consumers.

Complaint behavior researchers have long recognized the role of the type of product or service in question (Day and Landon 1977). Recently, type of industry has been identified as an important factor in explaining complaint behaviors (Singh 1991). The current study extends the current literature by examining differences between reactions to service and product dissatisfaction experiences. Due to the intangible nature of services, it is reasonable to expect less complaint activity when dissatisfied with a service relative to a tangible product. In particular, services that require substantial effort to switch from one provider to another may create a psychological (if not financial) barrier, thereby limiting responses to dissatisfaction.

Research Hypotheses

Based on the preceding overview of the literature, the following hypotheses were developed and tested:

- H1: Dissatisfied consumers with a service are less likely to engage in public complaint (voice and third party) activities compared to consumers who are dissatisfied with a product.
- H2: Dissatisfied consumers with pessimist attributional styles are less likely to engage in public complaint (voice and third party) activities than those with optimist attributional styles.

Sampling Procedure

The study was conducted using the Arkansas Household Research Panel (AHRP) in the United States. The panel consists of 600 households selected on the basis of a proportionate stratified sampling method covering the state of Arkansas. The panel was randomly divided into two equal groups. Each group received a version of the measurement instrument which dealt with a variety of consumer behavior issues including the research issues addressed in this paper. The two versions of the questionnaire differed only on the type of product/service investigated. One group received a version that was built around a dissatisfactory TV purchase experience (hereafter called the TV sample), and the other dealt with dissatisfaction with a bank service encounter (hereafter called the bank sample). Of the 600 questionnaires mailed 389 were returned, providing 65% overall response rate. The response rate was 66% for the TV sample and 64% for the bank sample. The two samples were not significantly different from each other on the basis of demographic characteristics of the respondents.

Study Variables

Learned helplessness was measured using the Attributional Style Questionnaire (ASQ) developed by Peterson et al., 1982. This instrument contains 12 hypothetical events, six of which are negative and the other six are positive. The respondent is asked to name a cause for each event and then explain the cause on three dimensions: internal, stable, global. A rating from 1 to 7 is requested from the respondent where a higher score indicates the attributional style is more internal, stable or, more global. An example of a negative event is "You meet a friend who acts hostile towards you." Then the respondent explains the cause of this event whether he/she is the cause, if this cause will be present in the future, and if such a situation is pervasive. A measure of learned helplessness is derived by taking the differences between the summated scores for positive events and summated scores for the negative events (Seligman and Schulman 1986).

Complaint behavior was assessed using the behavioral intentions scale developed by Singh (1988). Two additional items were added to the original 10-item scale. The scale has been shown to be a reliable and valid predictor of actual complaint behavior on the basis of three distinct dimensions: voice, private, and third party actions. A hypothetical dissatisfaction scenario, followed by a series of Likert-type statements was used to determine the behavioral intentions of the respondents in terms of the likelihood of taking various actions. For the TV sample, the scenario was as follows: "Consider that you just purchased a TV set. The product does not meet your expectations and you are dissatisfied. How likely is it that you would: "(followed by 6-point scales with anchors "most likely=6 and least likely =1"). Similarly, a dissatisfactory experience with bank services was described and the same set of items was presented. Examples of items from the scale are "Definitely complain to store (branch) manager" (voice), "Decide not to use that store (branch) again" (private), and "Take some

legal action against the store/manufacturer (bank)" (third party dimension).

Results

Properties of Measures

The measurement scales were subjected to reliability analysis, separately for each sample. Reliability coefficients (alphas) for attributional styles regarding positive events were .792 (TV sample) and .736 (bank sample). Reliability coefficients for the negative events were .666 (TV sample) and .687 (bank sample). These values are consistent with those previously reported (e.g., Seligman and Schuman 1986). Reliability coefficients for the voice, private, and third party components of the complaint intentions scale were .558, .794, .780 (TV sample) and .624, .873, .771 (bank sample) respectively. These estimates are also consistent with those reported previously (Singh 1988).

Tests of Hypotheses

The two research hypotheses were tested using a multivariate analysis of variance (MANOVA) framework. Mean scores of items representing each of the three dimensions of complaint intentions (voice, private, and third party actions) were used as the dependent variables. Product type (service vs. tangible product) was used as the independent variable to test the first hypothesis. Results of the first hypothesis test are in Table 1.

TABLE 1
Complaint Intentions as a Function of the Nature of Product
(Bank services versus TV purchase): MANOVA Results

Dimensions of Complaint Intentions*	TV		Bank		Multivariate Significance	Univariate Significance
	X	S	X	S		
VOICE	5.19	1.01	4.13	1.24		.000
PRIVATE	3.97	1.13	3.55	1.38	.000	.002
THIRD PARTY	2.56	1.17	1.95	.94		.000

*Summated scores (reduced to a 1 to 6 scale) of items were used to represent each dimension. A higher score indicates a more likely intention to complain.

MANOVA results indicate significant differences between the two groups (bank and TV groups) on public complaint dimensions of complaint intentions (voice and third party). Results support the first research hypothesis. In addition, while no hypothesis was advanced, there is also a significant difference between two groups on the "private" dimension of complaint intentions. These findings suggest that consumers may find easier to complain and articulate dissatisfaction when the experience has tangible aspects such as the case with a TV set.

To test the second research hypothesis, respondents in both samples were classified as either "optimists" or "pessimists" using the overall median score on attributional style. Attributional style scores for the purpose of identifying the pessimists (learned helpless) and optimists were computed as the difference between composite scores for positive and negative events (i.e., composite positive - composite negative) as suggested by Seligman and Schulman (1986). A separate MANOVA was conducted for each sample date. Results are in Table 2.

Results in **Table 2** provide support for H2 in the case of TV sample. Optimists had significantly higher scores than pessimists on voice and third party dimensions of complaint intentions. No significant difference was obtained for private complaint intentions. H2 was not supported by bank data. There were no significant differences between optimists and pessimists on any dimension of complaint intentions. In fact, a subsequent two-way MANOVA indicated the existence of a main effect due to the type of product/service along with the main effect produced by learned helplessness (optimist vs pessimist).

TABLE 2
Complaint Intentions as a Result of Learned Helplessness:
MANOVA Results

Dimensions of Complaint Intentions*	Optimists		Pessimists		Multivariate Significance	Univariate Significance
	X	S	X	S		
TV Sample:						
VOICE	5.38	.91	4.89	1.07		.004
PRIVATE	4.09	1.28	4.06	.88	.016	.883
THIRD PARTY	2.75	1.28	2.35	1.09		.056
BANK Sample:						
VOICE	4.09	1.24	4.08	1.21		---
PRIVATE	3.68	1.42	3.56	1.25	.912	---
THIRD PARTY	1.93	1.01	1.97	.88		---

*Summated scores (reduced to a 1 to 6 scale) of items were used to represent each dimension. A higher score indicates a more likely intention to complain. Not reported since the overall test (multivariate) did not detect significant differences between optimists and pessimists.

Discussion and Implications

The usefulness of the learned helplessness model was explored within consumer complaint behavior context. In addition, complaint behavior was examined within a service-product dichotomy. It was found that, perhaps due to its intangible nature, dissatisfaction with a service encounter would less likely lead to a complaint action compared to a tangible product.

Findings from this initial exploration suggest that the learned helplessness paradigm is a promising framework to understand and explain complaint behavior. Further research is needed to develop a comprehensive model of complaint behavior based on this theoretical perspective. Such a model may incorporate some critical demographic variables such as age and gender, related personality variables such as anxiety, and actual behavioral variables. The major implication of the learned helplessness perspective is that businesses and public policy agencies can help remove perceptions of effort-outcome independencies by educating consumers and communicating responsiveness.

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HONG KONG RETAILERS: THE EFFECTS OF PERCEIVED ENVIRONMENTAL HOSTILITY
ON OPERATIONAL AND STRATEGIC PLANNING PROCESSES.

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Abstract

The purpose of this paper is to explore how Hong Kong retailers who do formal planning, versus those who do not do formal planning, perceive the present and post-1997 marketing environments. Planning implementation is also analyzed against several demographic factors. Camillus and Datta (1991) posit that organizations have felt the impact of unprecedented environmental uncertainty and how organizations cope with increasing dynamism and turbulence is probably the most important determinant of future success.

Three-hundred questionnaires were distributed in either English or Chinese to accommodate Hong Kong's Chinese/English-speaking society. The six-page, 119-item survey was distributed to managers and owners of both small and large-scale retailers. Data collection occurred during Fall/Winter 1991-92 in both major and minor retail locales of Shatin, Tsim Sha Tsui, Central, Wan Chai, Jordan, Ya Mei Tai, Causeway Bay and Tseun Wan. Of the 300 questionnaires distributed, 76 were returned. Seventy-two questionnaires were deemed usable, yielding a 24 percent response rate.

In 1997, Hong Kong will become a Special Administrative Region (SAR) of the People's Republic of China. This political change, from one of the most highly capitalistic markets to a centrally planned economy, creates a great deal of uncertainty for retail store owners. Previous studies have found that perceptions of environmental uncertainty are related to both short-term and long-term planning; the greater the perceived environmental uncertainty the more likely firms are to engage in planning. This study did not support previous findings. There was no difference in the views of the current or post-1997 environmental hostility between those firms doing long-term planning versus no long-term planning. The only significant difference was between the perceptions of environmental hostility in the current Hong Kong environment and the retailers who did short-term planning versus those who did not do short-term planning. Short-term planners viewed the environment as less hostile than those who did not do short-term planning. Chinese cultural values may help explain these findings and lack of support for the literature.

Analyses of planning implementation strategies, while controlling for locus of control internality, revealed several interesting findings and directions for future research. Inconsistent with the literature, however, no significant differences in planning implementation on various environment and demographic factors were found to exist. Specifically, no differences were found in perceived environment hostility, age and gender. These findings lend some credence to Bond's (1991) premise that the Chinese are more influenced by external events. Unfortunately, no measure of respondent origin was included in the study, making a comparison of the locus of control orientations of Hong Kong-Chinese with non-Chinese groups not possible.

When the owners/managers were asked to identify the extent to which specific environmental circumstances have affected their competitiveness, significant differences were found to exist between businesses of Chinese origin and businesses of Western origin (U.S., U.K., France and Italy). More specifically, Hong Kong retailers perceive both labor shortages and emigration as more detrimental than do the Western-based retailers. Broadly speaking, analysis of sample descriptives reveals that rising retail rates is the circumstance of paramount concern, followed by the 1997 transition, labor shortage, emigration and Hong Kong's relationship with China.

ETHICAL PERCEPTIONS OF RETAIL MANAGERS IN AUSTRALIA, SINGAPORE, SOUTH AFRICA AND ZIMBABWE

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Abstract

This study examines the ethical perceptions of retail managers in four countries; Australia, South Africa, Singapore and Zimbabwe. A literature review of retailing ethics and cross-cultural studies of ethics was completed. The questionnaire used for this study was developed from previous studies. The results of this study suggest that retail managers are more ethical than retailing students, and that retail ethics perceptions differ in the four countries studied.

Introduction

There has been a rise of interest in business ethics amongst ethicists and businessmen during recent years (Cooke 1986). Many academics and practitioners have justified the need for proper ethical conduct in business (Beverluis 1986; Laczniak, 1983; Lombard, 1985; and Martin, 1985). Several chief executive officers have reached the conclusion that ethical business is good business (Tsalikis and Fritzsche, 1989). In spite of this, it has been suggested that the business community is troubled by ethical problems and ethical standards have declined over the last decade (Herman and Cullen, 1986; Touche Ross 1987).

According to Dubinsky and Levy (1985), the retail sales environment is particularly susceptible to the development of troublesome ethical situations. Retail salespeople must satisfy both the customer and their management. They thus have a 'front-line' and 'boundary-spanning' role (Donnelly and Ivancevich, 1975). They thus have to perform a variety of tasks in order to satisfy both customer and management.

Relatively little research has been focused on retailing ethics and no cross-cultural retail ethic studies have been undertaken, and thus there is a reason to conduct this study. The objectives of this study were first, to investigate the perceptions of retail managers of potentially troublesome retailing situations, and secondly to compare the perceptions of retail managers in South Africa, Zimbabwe, Singapore and Australia.

Literature Review

Retail Ethics

Few studies have been reported until recently with regard to ethical considerations of retail practices (Gifford and Norris, 1987). Ethical perceptual differences between speciality, discount and department store managers were examined by Dornoff and Tankersley (1975-76). This study was replicated by Gifford and Norris (1987). They found that speciality, discount and department store managers are more

'consumer-oriented' or 'ethically minded' today than were their counterparts a decade ago. Dubinsky and Levy (1985) investigated a number of potentially troublesome retail situations, and found that retail sales people did not consider a large number of the situations to reflect problems of ethical policies. Burns and Smith (1990) investigated ethical perceptions of retail students. They found that the ethical perceptions of retail students varied from that of retail practitioners. Students were 'less ethically minded' than practising retailers.

Cross Cultural Studies

Academic literature addressing the topic of ethics has paid little attention to cross-cultural studies. International business and marketing textbooks, however, often cite the impact of culture on beliefs and behavior. Prasad and Rao (1982) state that although certain ethical norms such as honesty, integrity, self-discipline, loyalty and compassion are widely proclaimed and are part of any civilization, the level of adherence to these standards varies greatly among people.

A study of achievement incentives prompted McClelland (1961) to conclude that culture has an effect on business practices. According to England (1975), people raised in different cultures hold different values and ethical beliefs.

In a major study in cross-cultural ethics, Lee (1981) examined the impact of culture and management level on ethics in marketing practices. The study compared the ethical beliefs of British managers working in Hong Kong with the ethical beliefs of Chinese managers. Lee (1981) concluded that the evaluation frameworks of British and Chinese managers were extremely similar and attributed this finding to a possible acculturation of the British Managers. The results of the study therefore contradict those of England (1975) and McClelland (1961). Lee's (1981) findings have been supported by the result of later cross-cultural studies. Comparisons of the beliefs of American and Israeli business managers (Israeli, 1988), black and white business students (Tsalikis and Nwachukwa, 1988), and Greek and American business students (Tsalikis and Nwachukwa, 1989), all found that ethical beliefs varies little from culture to culture.

The Retailing Industry

It is necessary to look at the retailing structure of the sample countries because it may influence the ethics of managers.

Retailing in Australia

Retailing in Australia is an amalgamation of European and American practices. It is a highly concentrated industry, with the top twenty retailers accounting for 44 percent of total retail turnover. There are however, a large number of small retailers. The departmental stores have lost market share over the past decades as discount departmental stores and speciality chains have expanded. Supermarkets in Australia are mature and now threatened by rapid expansion of Food 'Barns'. Australia has only one hypermarket (in Queensland), no warehouse type retail outlets and very few off-price outlets.

Regional shopping centres dominate but are in the mature stage. The central business districts are being rejuvenated with retail developments and traditional strip shopping is struggling. Increased penetration by international retailers including the Japanese is occurring.

The major players in Australian retailing included the dominant Coles Myer group. They include departmental stores Myer and Grace Bros., Target and K Mart discount stores and speciality store Katies and Red Rooster. The largest supermarket chain is Woolworths. Total retail sales in 1989/90 amounted to A\$79313.7 mil (ABS, 1991)

Retailing in Singapore

Retailing in Singapore is influenced by United States and Europe mainly due to its dependence on foreign trade. It has one of the world's highest population densities. As a result of the lack of land, multistorey shopping centres are dominant (Sim and Way, 1989). There are many small retailers in the country as well as large departmental stores and supermarkets. According to the retail trade census of 1986 there was 15503 retail establishment doing a turnover of S\$9,581,209,000. Departmental stores had a market share of 20 percent, supermarkets 14 percent and the remaining market taken by mainly single-line retailers (Retail Trade International, 1989). Many international retailers have branches or franchises in Singapore, including McDonalds, Burger King and Toys R Us.

Retailing in South Africa

Retailing in South Africa compares with the best in Europe and the United States of America. It is an industry dominated by large chain store groups and therefore is highly concentrated. There are many smaller independent retailers as well. In the food business the top five percent of stores account for 61 percent of the business (Financial Mail, April 26, 1991). Shopping centres have grown over the last twenty years and new regional centres have been built recently. There are also projects to revitalise the central business districts of the major cities, Johannesburg, Cape Town, Durban and Pretoria. Departmental stores have not

grown in recent years, but discount stores, hypermarkets and speciality goods chains have gained market share.

The clothing chains that dominate the market are Edgars, Truworths and Foschini. Dominant food retailers include Pick n' Pay, Checkers and the O.K. Bazaars. The furniture industry is dominated by Amrel, Rusfum and Joshua Doore. The market size in 1990 for food was R21921 mil, for clothing R6008 mil, furniture R2209 mil, appliances R1011 mil and toys

R171 mil (Financial Mail, April 26, 1991). The future of retailing in South Africa is good mainly due to the increase in income of the numerically superior black consumer.

Retailing in Zimbabwe

Retailing in Zimbabwe follows South African trends. It is concentrated with a few dominant retailing groups but there are a large number of small retailers. The central business districts of the major cities and towns are the dominant retailing areas but shopping centres do exist. Retailing is characterised by stock shortages due to the lack of foreign exchange to purchase imported items. The department stores are dominated by the O.K. Bazaars, supermarkets by the T.M. Group and clothing by Edgars.

The retailing structure of all the countries studied, with the possible exception of Singapore, are very similar. Retail concentration prevails in all countries.

Methodology

Questionnaire

The questionnaire used for this study was developed from previous studies relating to retailing ethics. It is comprised of a list of situations or practices which are viewed as potentially ethically troubling for retail salespeople. The list was developed by Levy and Dubinsky (1983) and Dubinsky and Levy (1985) via the nominal group technique (Delbecq, van de Ven and Gustafson, 1975). One item not included in the above mentioned studies was included and taken from the Burns and Smith (1990) study. For each of the situations and practices, respondents were asked to answer the following question : Does the situation present an ethical question for you? (Do you feel that the situation pressures you into taking actions that are inconsistent with what you feel is right?).

Each question was scored using a seven-point Likert Scale on which 1 represented highly wrong and 7 represented not wrong at all.

The data was analysed using multivariate analysis of variance (MANOVA). Multivariate analysis provides for the simultaneous analysis of two or more response variables. Multivariate analysis parallels univariate analysis in many respects, but differs from repeating univariate analysis, because it accounts for the

correlation and covariances among the dependent variables. If the dependent variables are uncorrelated, then the results of multivariate analysis are identical to those obtained by separate univariate analysis. A strength of MANOVA is that it can identify a difference in a set of response data that is not detected by separate univariate analysis. The response for each question was assumed to approximate a continuous variable, an assumption that is typically made in social science when analysing ordered response categories.

Sample

The research was carried out by means of a mailing to senior retailing executives in department and/or chain stores in four countries, South Africa, Zimbabwe, Singapore and Australia. A list of the top two department chain stores (by sales volume) was obtained from each country. Fifteen questionnaires were sent to the chief executive of each organisation with a covering letter requesting senior executives to complete and return them to the authors. Thirty-two usable replies were received from South Africa, twenty-three from Zimbabwe, five from Singapore and twenty-two from Australia. A profile of the respondents is shown in [table one](#). The sample conforms to the profile of chain store retail managers in the four countries.

TABLE 1

PROFILE OF RESPONDENTS

AGE	SOUTH AFRICA n = 32	AUSTRALIA n = 22	ZIMBABWE n = 23	SINGAPORE n = 5
20 - 29	1	9	1	
30 - 39	19	5	14	1
40 - 49	12	7	7	4
50 +		1	1	
Gender				
Male	30	6	21	1
Female	2	16	2	4

Limitations

The sample consisted of managers from two major chain store groups in South Africa, Australia and Zimbabwe, as well as one chain store group in Singapore. Only five managers responded from the one chain store group in Singapore. It was decided to include the respondents from the Singapore group as it represents the largest chain store group in that country. The chain groups chosen for this study were the two largest groups (by sales volume) in each country. They are therefore successfully retail organisations. The results may be biased because it is unknown whether these groups represent typical retailers in the respective

countries. There could be some difficulty therefore to make generalisations about the results, as they are applicable to professional chain store managers only.

The instrument used in this study has not been clearly validated. As this research was based on previous studies, the same problem existed in those applications. Interstudy comparisons can be made. Another limitation concerns the situations or practices. Many

items contained normative issues and therefore socially desirable responses could have been made.

Findings

The results of this survey are shown in Table 2 (raw scores) and [Table 3](#) (means). The result of the Burns and Smith study (1990) are presented for comparison in [Table 3](#). It is clear from these findings that the students in the Burns and Smith study are 'less ethical' than practising managers in South Africa, Australia, Zimbabwe and Singapore. The four countries studied, generally speaking, all view the situation/practices the same way. Singapore differs in situation/practices numbers 4, 12, 13, 15, 17, 21, 22, 30, 32 and 36 when compared to other countries in this study. These differences may be due to the relatively small sample obtained. However, the result of the multivariate statistics show that the four countries differ in terms of ethical perceptions at the 99 percent confidence interval.

Discussion and Implications

The similarity or difference in the ethical perceptions of retail managers in the four countries studied (with the obvious exceptions noted above) cannot be determined conclusively from the present study. Australia, South Africa and Singapore have capitalistic economic systems with a reasonable level of free markets. Zimbabwe, although officially a socialist state, has a reasonably free market economy and many capitalist ideals still prevail. So one reason for any similarity is that English is one of the official languages of all four countries and all were British colonies at some time. Thus past cultural tradition could have been handed down from generation to generation.

The results of this study support the view that we need world-wide ethical conduct and codes of ethics in retailing. In English speaking countries, at least, a code of conduct for retailers can be, and should be drawn up. As reported in the Dubinsky and Levy (1985) study, salespeople wanted ethical issues to be covered in company policies. It is essential for retailers to draw up ethical codes to maintain ethical standards.

The code should deal with a few major areas, customer service, merchandise, price and personnel policy.

As far as customer service is concerned, the following should be included:

- All customers must be assisted even if they are less likely to buy. (This may not be applicable to self service retailers).
- No customer returns should be refused if you think that it should be accepted.
- Telephone customers should be assisted at all times.

The following merchandise issues should be included:

- No merchandise may be hidden in order to take advantage of a markdown later.
- Samples may not be hoarded that were meant for customers.
- All units available for sale must be sold to customers and not kept for personnel.
- All customers are entitled to the truth about the characteristics of a product.

Pricing issues that should be included are:

- No customer must be given the incorrect change.
- No people, including friends or family not entitled to a discount, must be given employee discounts.
- Full price must not be charged for a sale item without the customers knowledge.

Personnel policy should include:

- Time sheets must be signed correctly for time worked.
- All thefts must be reported even though there may be pressure from other employees not to do so.
- All salespeople must work to their full potential even though this may offend other employees.

This list is by no means exhaustive. However, as these issues were said to be wrong by retailers in all the sample countries they should be included in all codes in all retail organisations. This does not stamp out unethical behavior in retailing, but clearly defines the boundaries for retail personnel. Thus, in turn, retail organisations can apply sanctions more effectively when this ethical code is breached.

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TABLE 2
RAW SCORES OF ETHICAL PERCEPTIONS

Situation/Practice	Country	1	2	3	4	5	6	7
1. Don't offer information about upcoming sales that will include merchandise the customer is planning to buy.	South Africa	6	7	3	2	4	1	
	Australia	1	1	6	3	4	3	4
	Zimbabwe	3	11	1	1	1	3	3
	Singapore	-	2	-	-	-	1	1
2. Have to sell non-sale items at full price when the items were accidentally placed with the sale merchandise.	South Africa	5	9	3	1	2	8	4
	Australia	17	5	-	-	2	4	7
	Zimbabwe	2	4	1	1	1	3	4
	Singapore	1	1	-	-	-	2	-
3. Don't assist customers you believe are less likely to buy.	South Africa	17	12	-	-	-	-	-
	Australia	17	5	-	-	-	-	-
	Zimbabwe	14	4	3	2	-	-	-
	Singapore	3	2	-	-	-	-	-
4. Make excuses to customers about unavailable merchandise that is not yet in stock or sold out.	South Africa	11	9	3	1	5	2	4
	Australia	6	6	1	3	3	3	-
	Zimbabwe	5	6	2	1	2	6	1
	Singapore	2	2	-	-	-	1	-
5. Sell a more expensive product when a less expensive one would be better for the customer.	South Africa	7	12	5	2	1	5	-
	Australia	4	8	2	1	1	5	1
	Zimbabwe	4	10	3	-	2	3	1
	Singapore	2	-	2	-	1	-	-
6. Ignore a prospective customer for one you believe will be a better one.	South Africa	12	16	-	1	1	2	-
	Australia	11	9	1	-	-	-	1
	Zimbabwe	8	7	5	-	1	1	1
	Singapore	3	2	-	-	-	-	-
7. Use of a sales contest for sales people in order to generate sales to customers.	South Africa	-	-	1	2	1	11	16
	Australia	-	1	-	1	2	7	11
	Zimbabwe	-	1	1	1	1	10	9
	Singapore	-	-	2	1	1	1	1
8. Hide merchandise that you want and are waiting for the store to mark down.	South Africa	20	8	1	1	1	1	-
	Australia	20	2	-	-	-	-	-
	Zimbabwe	15	7	-	-	1	-	-
	Singapore	5	-	-	-	-	-	-
9. Charge markdowns price to customers for similar full-price merchandise.	South Africa	13	8	4	3	2	2	-
	Australia	15	4	-	1	1	-	1
	Zimbabwe	8	7	2	3	1	1	1
	Singapore	2	2	1	-	-	-	-
10. Make a promise you cannot keep regarding the time when something will be ready.	South Africa	20	12	-	-	-	-	-
	Australia	18	3	-	-	1	-	-
	Zimbabwe	17	6	-	-	-	-	-
	Singapore	2	3	-	-	-	-	-
11. Give preferential treatment to certain customers.	South Africa	5	10	3	3	3	6	2
	Australia	6	3	2	2	4	1	4
	Zimbabwe	4	6	2	2	2	7	-
	Singapore	1	2	-	-	-	1	1
12. Sign time sheet incorrectly for time worked.	South Africa	26	6	-	-	-	-	-
	Australia	20	2	-	-	-	-	-
	Zimbabwe	20	3	-	-	-	-	-
	Singapore	4	-	-	-	1	-	-
13. Customer damages a product in the store and wants a markdown.	South Africa	18	8	5	1	-	-	-
	Australia	13	5	2	-	-	-	-
	Zimbabwe	17	3	-	1	1	1	-
	Singapore	2	-	2	-	-	-	-
14. Make excuses when merchandise is not ready for customer pickup.	South Africa	9	16	4	-	2	1	-
	Australia	7	7	5	1	1	1	-
	Zimbabwe	6	11	3	-	2	1	-
	Singapore	1	3	-	-	-	-	-
15. Buy merchandise before it is available to the customer.	South Africa	10	9	4	5	3	1	-
	Australia	7	6	3	2	3	1	-
	Zimbabwe	9	1	-	3	1	1	1
	Singapore	2	3	-	-	-	-	-
16. Perform your job with inadequate job information or training.	South Africa	9	17	6	-	-	-	-
	Australia	5	8	4	-	2	1	2
	Zimbabwe	7	8	5	1	2	-	-
	Singapore	1	4	-	-	-	-	-
17. Sell a product as an exclusive, when it is in fact available in other stores.	South Africa	16	11	2	3	-	-	-
	Australia	16	6	-	-	-	-	-
	Zimbabwe	10	10	-	2	1	-	-
	Singapore	1	3	-	-	1	-	-
18. Pressure from fellow sales people not to report theft.	South Africa	21	5	-	1	-	-	-
	Australia	21	1	-	-	-	-	-
	Zimbabwe	21	2	-	-	-	-	-
	Singapore	4	1	-	-	-	-	-
19. Hoard free samples that are meant for customers.	South Africa	24	5	3	-	-	-	-
	Australia	17	4	1	-	-	-	-
	Zimbabwe	17	6	-	-	-	-	-
	Singapore	6	-	-	-	-	-	-
20. Give incorrect change to customers on purchases.	South Africa	27	3	2	-	-	-	-
	Australia	22	-	-	-	-	-	-
	Zimbabwe	21	2	-	-	-	-	-
	Singapore	5	-	-	-	-	-	-
21. Peer pressure not to say anything to managers about other sales people's personal problems.	South Africa	8	7	6	7	3	1	-
	Australia	5	3	8	3	1	1	1
	Zimbabwe	3	9	5	4	2	-	-
	Singapore	-	2	-	2	-	-	-
22. Don't sell the last unit because you want to purchase it yourself.	South Africa	16	12	2	2	-	-	-
	Australia	14	6	-	1	-	-	-
	Zimbabwe	13	6	2	2	-	-	-
	Singapore	5	-	-	-	-	-	-

23. Refuse returns by customer when you think the item should be accepted.	South Africa	14	15	2	1	-	-	-
	Australia	17	3	1	-	-	-	1
	Zimbabwe	15	6	2	-	-	-	-
	Singapore	3	2	-	-	-	-	-
24. Take returns from customer when you think the item should not be accepted.	South Africa	1	9	2	6	10	3	1
	Australia	3	4	2	2	6	5	1
	Zimbabwe	3	4	3	5	5	3	-
	Singapore	-	2	-	2	1	-	-
25. Pressure from a friend or family member not entitled to a discount to give him or her your employee discount.	South Africa	17	8	4	1	2	-	-
	Australia	19	3	-	-	-	-	-
	Zimbabwe	19	3	1	-	-	-	-
	Singapore	1	4	-	-	-	-	-
26. Don't give the complete truth to a customer about the characteristics of a product.	South Africa	20	9	1	-	-	-	-
	Australia	16	4	1	-	1	-	-
	Zimbabwe	10	10	1	1	1	1	-
	Singapore	2	3	-	-	-	-	-
27. Charge full price for a sale item without the customer's knowledge.	South Africa	20	9	1	-	-	-	-
	Australia	22	-	-	-	-	-	-
	Zimbabwe	17	4	1	-	-	-	-
	Singapore	4	1	-	-	-	-	-
28. Offer to give a friend (or family member) not entitled to a discount your employee discount.	South Africa	18	9	5	-	-	-	-
	Australia	22	-	-	-	-	-	-
	Zimbabwe	20	2	1	-	-	-	-
	Singapore	2	2	-	1	-	-	-
29. Take sales from a fellow sales person.	South Africa	6	9	7	5	2	2	1
	Australia	14	3	4	-	1	-	-
	Zimbabwe	7	7	-	4	4	1	-
	Singapore	2	2	-	1	-	-	-
30. Pressure customers into making a sale.	South Africa	4	11	7	5	2	2	1
	Australia	6	11	1	1	3	-	-
	Zimbabwe	4	8	4	1	5	1	-
	Singapore	2	3	-	-	-	-	-
31. Don't get a cheque authorization when required.	South Africa	9	12	4	2	2	2	1
	Australia	13	6	3	-	-	-	-
	Zimbabwe	6	15	-	1	1	-	-
	Singapore	2	3	-	-	-	-	-

TABLE 3
ETHICAL PERCEPTIONS (MEANS)

SITUATION NUMBER	BURNS AND SMITH (USA)	SOUTH AFRICA	AUSTRALIA	ZIMBABWE	SINGAPORE
1	3.8	3.969	4.545	3.087	4.200
2	4.0	3.813	4.364	4.913	3.600
3	3.8	1.563	1.364	1.696	1.400
4	3.7	3.188	3.045	3.478	2.400
5	4.6	2.781	3.091	2.957	2.600
6	4.0	2.125	2.000	2.391	1.400
7	3.3	5.938	5.864	5.957	5.200
8	3.9	1.719	1.136	1.478	1.000
9	4.2	2.219	1.727	2.522	1.400
10	4.5	1.531	1.545	1.304	1.500
11	4.1	3.281	3.409	3.522	3.600
12	5.0	1.219	1.136	1.130	1.800
13	4.7	1.719	1.727	1.696	3.400
14	4.5	2.125	2.364	2.261	2.200
15	3.1	2.438	2.636	2.435	1.600
16	4.4	1.906	2.727	2.217	1.800
17	4.7	1.688	1.227	1.870	2.400
18	5.4	1.188	1.045	1.087	1.200
19	4.3	1.406	1.273	1.261	1.000
20	4.9	1.219	1.000	1.130	1.000
21	3.9	2.719	2.818	2.652	3.600
22	3.7	1.688	1.682	1.696	1.000
23	4.4	1.688	1.455	1.522	1.400
24	4.6	3.844	3.682	3.522	3.400
25	4.2	1.844	1.364	1.217	1.800
26	4.8	1.563	1.409	1.826	1.600
27	5.1	1.563	1.045	1.478	1.200
28	3.8	1.594	1.000	1.174	2.000
29	4.8	2.688	1.682	2.696	2.000
30	4.4	3.000	2.273	3.043	1.600
31	4.2	2.563	1.545	2.087	1.600
32	4.5	1.594	1.182	1.565	1.000
33	5.0	2.531	2.136	3.913	1.600
34	4.4	1.750	1.455	1.870	1.800
35	3.4	3.563	4.136	1.870	4.600
36	3.1	4.031	4.909	4.000	5.200
37	4.7	2.156	1.818	2.391	5.200
38	4.9	2.094	2.136	2.348	2.200
	n = 109	n = 32	n = 22	n = 23	n = 5

Scale : 1 Highly Wrong 5 Maybe Acceptable
2 Wrong 6 Acceptable
3 Maybe wrong 7 Not Wrong At All
4 Neutral

MANOVER RESULTS

Statistic	Value	d.f.	F. Statistic	Prob.
Wilks' Lambda	0.0001	114	10.761	0.000
Pillai's Trace	2.688	114	9.739	0.000
Hotelling - Lawley Trace	33.903	114	11.797	0.000

AN ANALYSIS OF THE RETAIL SECTOR IN THE RUSSIAN FEDERATION

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Abstract

Changes in Russian retail capacity and productivity are reviewed, and comparisons are made with members of the Commonwealth of Independent States and other nations. The data suggest that the Russian retail sector will require substantial new investment to meet the increased consumption demands anticipated from the market reforms that have been initiated. Such investment is unlikely in the foreseeable future.

Introduction

The formation of the Commonwealth of Independent States and ongoing market reform efforts have significant implications for marketing. Former Soviet republics, now national states, will develop according to their individual characteristics rather than in response to Soviet planning authorities. Although CIS members currently are in the midst of a severe economic decline, and living standards have fallen dramatically, it is assumed that market reform programs eventually will be successful. Subsequent economic development will depend in part on the existing distributive structure; an understanding of the distributive systems of individual CIS members is needed before future economic progress can be estimated.

This paper examines the distribution system of the largest CIS member, Russia, which has over one half of the total population and occupies over three quarters of CIS territory. Because of vast uninhabited areas in the far north and eastern plains, Russia's population density, 22.4 persons per square mile, is among the lowest in the world. Russia also accounted for 62% of CIS retail sales in 1990, the latest date for which Soviet data were published, and had the highest per capita sales, except for Belarus. (Table 1)

Table 1

Retail Sales and Retail Sales Per Capita,
Commonwealth of Independent States, by State, 1990*

States	Retail Sales		
	(Million rubles)	Share (Percent)	Per Capita (Rubles)
Russia	264,079	61.7	1,781
Ukraine	79,806	18.7	1,538
Kazakhstan	21,899	5.1	1,308
Belarus	19,145	4.5	1,866
Uzbekistan	18,605	4.3	907
Moldova	6,604	1.5	1,513
Armenia	4,790	1.1	1,436
Kirghizia	4,697	1.1	1,069
Tajikistan	4,326	1.0	815
Turkmenistan	3,904	0.9	1,065
Total	427,855	100.00	

Source: Narodnoe Khoziaistvo SSSR, 1990, pp. 121-122.

* These data include the sales of both retail establishments and public catering facilities. The latter represent approximately 8% of total retail sales.

Russia's retail structure is a legacy of the Stalinist planning model which emphasized investment in heavy industry and allocated very limited productive resources to agriculture, light industry and consumer goods. Consumption was considered an obstacle to economic objectives because resources used to produce consumer goods reduced those available to heavy industry; worker motivation was achieved by political exhortation rather than by a rising standard of living. Because of planning emphasis on heavy industry, the Soviet economy always was characterized by chronic shortages of consumer goods, and the situation deteriorated after Gorbachev came to power. A Soviet study estimated that unsatisfied demand increased by nearly one third in 1990. (Schroeder 1991, p. 4)

In many cases critical goods simply have been unobtainable. In early 1991 the Soviet Health Minister estimated that only thirty percent of the medicine needed would be available during the year. (Clines 1991) Labor unrest among Russian medical workers in May 1992 was linked in part to shortages of medical supplies. (Erlanger 1992) Chronic shortages also have forced Russian shoppers to accept substitute goods and services. One Soviet author argued that:

No ordinary Soviet citizen would plan to walk into a state store and buy a choice cut of meat. At best they would have a contingent plan to buy it if, by chance, it is available and the queue is not too long. (Alexeev 1988, p. 20)

Under the Soviet system some goods and services were available from sources outside the official distribution system. Managers and employees of state enterprises selling consumer goods set aside newly arrived stock for their use, for special customers, or for sharing with others. Some workers benefitted from enterprise supply schemes which supplied goods to workers at their place of employment, directly from producers. The privileged classes also purchased imported goods and scarce items at stores that were closed to the public. Moreover, a vast network of unofficial markets, constituting a "second" or peripheral economy, was available to all. Estimates of the size of the second economy vary widely, but survey and anecdotal evidence suggests that it represents a substantial part of the economy. A Soviet survey conducted in 1989 indicated that 63% of the responding families made purchases in unofficial markets. (Schroeder 1990, p. 61) An official Soviet publication reported that income from the "Shadow Economy" totaled nearly one hundred million rubles in 1990. (Narodnoe Khoziaistvo RFSFR 1990, p. 50)

Russians have acquired many durable goods that are common in Western nations; households generally have television sets, radios and refrigerators, and three quarters have washing machines. However, the holdings of other durable goods are meager. (Table 2) The CIA estimated that consumption of durable goods in the USSR increased at a rate of 6-7% during the 1960's and 1970's, but fell to half this rate in the 1980's. (CIA 1991, p. 69)

Simply expanding the ownership of basic goods will require an increase in retail output, but the need to increase the quality of goods and services will further increase the demand for retail services. Quality has been a serious problem for many years;

Table 2

Durable Household Goods, per 100 families, Russia,
1965 - 1990

	1965	1970	1975	1980	1985	1990
Television	27	52	79	91	103	111
Radio	53	74	86	92	101	99
Refrigerator	10	30	62	89	95	95
Washing Machine	21	52	70	76	76	77
Sewing Machine	51	58	64	67	67	61
Bicycle	39	50	53	46	51	54
Tape Recorder	-	9	-	28	40	58
Vacuum Cleaner	7	11	19	32	43	51
Camera	21	30	29	33	36	35
Motorcycle	6	8	9	11	15	21
Automobile	-	2	-	10	15	18

Source: Narodnoe Khoziaistvo RFSFR 1975, p. 378; 1980 p. 247; 1990, pp. 172-173.

the Russian Ministry of Trade reported that in the first quarter of 1989 the proportion of goods inspected and rejected, or given a lower quality rating, was two or three times as high as in 1988. This was not a new problem: "The number of washing machines and vacuum cleaners rejected in quality inspections was more than 1.5 times as high in 1988 (a time of shortages) as in 1985, and one out of every four television sets in 1988 required repairs under warranty." (Konareva 1991, p. 15) Consumer concern with quality and changing technology will increase the demand for wider assortments as well as the volume of retail services. The next section of the paper considers the question of the capacity of the Russian distribution system to provide retail services.

Retail Capacity

The capacity of Russian retailing, measured by the relative number of retail establishments, has not changed appreciably since 1950. The number of establishments per 10,000 persons rose more rapidly than the population in the 1950's and early 1960's. However, the absolute number of establishments fell between 1975 and 1980, only returning to the 1975 level a decade later. Thus the number of establishments per 10,000 persons fell during the 1980's. (Table 3)

Table 3

Population, Number of Retail Establishments,
and Retail Sales, Russia, 1950-1990*

	Population		Establishments		Retail Sales	
	Total (Million)	Total Number (Million)	per 10,000 persons	Total (Billion rubles)	per Establishment (rubles)	
1950	101.4	246.7	24	20.6		83,502
1960	118.9	311.5	26	44.5		142,857
1965	125.8	344.7	27	57.1		165,651
1970	130.1	357.2	27	82.4		230,683
1975	133.8	361.1	27	111.0		307,394
1980	138.4	358.9	26	141.2		393,424
1985	143.1	361.1	25	168.7		467,183
1990	148.5	367.4	25	243.9		663,854

Source (Sales): Narodnoe Khoziaistvo RFSFR, 1965, p. 427; 1978, p. 228; 1980, p. 263; 1990, p. 156. (Establishments): Narodnoe Khoziaistvo RFSFR, 1965, p. 417; 1978, p. 227; 1990, p. 154. (Population): Narodnoe Khoziaistvo RFSFR, 1965, p. 11; 1978, p. 5; 1980, p. 5; 1990, p. 76.

* These data exclude public catering establishments and sales.

With the increase in total retail sales at current prices, and the relative stability in the number of establishments, average sales per establishment increased rapidly. However, the rate of increase has been declining since 1970, and this decline is more apparent when inflation is taken into account. Problems with Soviet price indexes make the calculation of real sales problematic; the CIA consumer price index for the USSR will be used to estimate changes in constant prices. (CIA 1991, p. 42) These data suggest an annual inflation rate of less than one percent during the 1960's, an annual price increase of nearly two percent in the 1970's, and four percent in 1988. As a rough approximation, real sales per establishment rose at an average rate of six percent during the 1960's and 1970's; in the 1980's real growth ceased as the rate of inflation exceeded the growth in sales in current prices.

The number of retail establishments and total retail sales provide only limited measures of retail capacity because retail establishment data include both retail stores and kiosks. The number of kiosks has fallen from 30% of total retail establishments in 1950 to 22% in 1990. The absolute number of kiosks began to fall in the 1970's but rose in the late 1980's as shortages of retail goods became more severe. (Table 4) Despite their relatively small numbers, kiosks represent an important source of convenience goods, at least in the large cities.

Table 4

Number of Retail Establishments, Retail Stores and
Kiosks, Russia, 1940-1990, (Thousands)

	Establishments	Stores	Kiosks
1940	227.4	166.1	61.1
1950	246.7	172.4	74.3
1960	294.1	217.0	77.0
1965	344.7	259.1	85.6
1970	357.4	269.9	87.5
1975	361.1	275.7	85.4
1980	358.9	277.8	81.1
1985	361.1	282.5	78.6
1990	367.4	288.1	79.3

Narodnoe Khoziaistvo RSFSR 1965, p. 417; 1980, p. 277; 1990, p. 183.

The number of retail stores has increased steadily since 1950, but the growth has not kept pace with population; the number of stores per 10,000 persons rose in the 1950's and early 1960's, but has decreased since 1980. (Table 5) In contrast to the lack of growth in the relative number of stores, total sales area more than doubled between 1965 and 1990; the size of the average store, measured by sales area, increased by 95%. Thus the average shopper has fewer, but larger stores available than in the past.

An increase in store size would be anticipated because of the growth of self service stores in the 1970's and 1980's. Self service stores represented only 11% of total retail establishments in 1970, but grew to 43% by 1980 and 50% by 1990. An increase in store size also would be anticipated because of increasing urbanization; the urban population grew to nearly three quarters of the total in 1989; between 1965 and 1990 the number of rural stores fell from 58.1% of the total to 51.6 %.

The increased size of stores has been accompanied by an increase in the average number of employees per store, from 3.2 in 1950 to 7.5 in 1990. However, since 1975 the total

Table 5

Number of Retail Stores and Sales Area, Russia, 1950-1990

	Retail Stores		Sales Area (Square Meters)		
	Total (000)	per 10,000 persons	Total (Million)	per Store	per 10,000 Persons
1950	172.4	17	-	-	-
1960	230.0	19	-	-	-
1965	259.1	21	14.2	55	1114
1970	269.9	21	17.7	66	1357
1975	275.7	21	22.6	79	1626
1980	277.8	20	25.4	92	1829
1985	282.5	20	28.6	101	1986
1990	288.1	19	31.8	110	2143

Source (Stores): Narodnoe Khoziaistvo RFSFR 1965, p. 417; 1975, p. 392; 1978, p. 237; 1990, p. 183. (Selling Space) Narodnoe Khoziaistvo RFSFR 1975, p. 392; 1978, p. 238; 1980, p. 276; 1990, p. 185.

number of retail employees has grown at the same rate as the population, so that the number of employees per 10,000 persons has stabilized. (Table 6) This stability, which may be attributed in part to the growth in self service retail stores, suggests a potential increase in productivity, an issue that is examined in the next part of this paper.

Table 6

Population and Number of Employees in Retail Establishments, Russia, 1970-1990

	Population		Employees	
	Total (Million)	per 10,000 Persons	Total (000)	per 10,000 Persons
1950	101.4	79	79	79
1960	118.9	1371	115	115
1965	125.8	1784	142	142
1970	130.1	2158	166	166
1975	133.8	2498	187	187
1980	138.4	2602	189	189
1985	143.1	2711	189	189
1990	146.2	2768	187	187

Source (Employment): Narodnoe Khoziaistvo RFSFR, 1960, p. 450; 1965, p. 446; 1975, p. 388; 1988, p. 106; 1990, p. 183.

Productivity

Productivity in retailing may be analyzed in terms of sales per establishment, sales per employee, or the ratio of inventory to sales. A detailed analysis of sales per establishment is inappropriate in the absence of an adequate retail price index, and information about types of stores. The design of some stores limit productivity; those provided on the first floor of apartment buildings fail to reflect customer requirements. When specialized stores were constructed, their size was determined by the anticipated number of workers rather than the number of potential customers. Self service stores were built, but their operation has been limited in part because many goods still are not packaged. There also is a lack of equipment such as refrigeration units and cash registers, and available equipment is often obsolete and unreliable. Finally, with the severe shortages and rapidly rising prices of recent years, self service operation has ceased because of the threat of shoplifting.

Changes in sales per employee represent a potentially useful measure of productivity. Between 1970 and 1988 retail sales in current prices increased by 130%, while the number of employees increased by 29%. (Table 7) Although sales per employee in current prices increased between 1970 and 1990, the rate of growth decreased from an annual rate of over 4% in the 1970's to 3% in the 1980's. If this rate of growth is adjusted for inflation, using the CIA price index for the USSR, real output per employee did not increase during the 1980's.

Table 7

Retail Sales, Number of Employees and Sales per Employee, Retail Establishments, Russia, 1970-1990

	Sales (Billion Rubles)	Employees (000)	Sales per Employee
1950	20.6	799	25,782
1960	44.5	1371	32,458
1965	57.1	1784	32,007
1970	82.4	2158	37,712
1975	111.0	2498	44,436
1980	141.2	2602	54,266
1985	168.7	2711	62,228
1990	243.9	2768	88,114

Source (Employment): Narodnoe Khoziaistvo RFSFR, 1970, p. 380; 1980 p. 106, 1990, p. 183.

Another measure of productivity is provided by the ratio of inventory to sales. Inventories rose rapidly from 1960-1985, at roughly the same rate as retail sales. (Table 8) The relative stability of the inventory/sales ratio during this period, reflecting inventory norms of the central planning authorities, offers no indication of changes in productivity. Similarly, the fall in the inventory/sales ratio after 1985 probably reflects increased shortages of consumer goods rather than conscious decisions to adjust inventory holdings.

Table 8

Retail Sales, Inventory and Inventory Sales Ratio, Russia, 1960-1990

	Retail Sales (Billion Rubles)	Retail Inventory (Billion Rubles)	Inventory/ Sales Ratio
1960	44.5	10.9	.245
1970	82.4	20.1	.244
1980	141.2	30.7	.217
1985	168.7	41.9	.248
1986	172.2	38.2	.222
1987	176.5	35.3	.200
1988	189.6	34.8	.184
1989	210.5	34.7	.165
1990	243.9	29.8	.122

Source: Narodnoe Khoziaistvo RFSFR 1988, p. 106; 1990, p. 176.

Despite the relatively large inventory holdings of the distributive system Russian consumers faced substantial shortages of consumer goods throughout the period under study. Thus inventory either consisted of goods that did not meet consumer needs, or goods were held in inappropriate locations. The latter possibility is suggested by the channel stage at which inventory was held. Soviet planners traditionally placed little emphasis on wholesaling, so that the largest part of trade

inventories has been held by retailers; throughout the period under study less than twenty percent of total trade inventory was in transit or held at wholesale or manufacturing levels. (Table 9) This concentration of inventories at the retail level suggests that system efficiency is relatively low because it conflicts with the principle of postponement; inventory shipments to retailers should occur at the latest possible time, in part to limit the risk that retailers will hold goods that are unsuitable for their customers. (Alderson 1957, p. 424)

Table 9

Trade and Retail Inventory, and Retail Inventory as a Percent of Total Inventory, Russia, 1950-1990

	Inventory (Million Rubles)		Retail
	Total	Retail	(%)
1960	13.2	10.9	83
1965	16.7	15.5	93
1970	24.4	20.1	85
1975	31.1	25.5	81
1980	35.6	30.7	86
1985	49.8	41.9	84
1990	35.6	29.8	84

Source: Narodnoe Khoziaistvo RFSFR 1975, p. 386; 1978, p. 227; 1980, p. 262; 1988, p. 106; 1990, p. 154, 176.

Other factors affecting retail inventories have been the production of unwanted goods that was characteristic of central planning, and the practice of planning authorities to establish physical volume goals without regard to demand. Planning goals assigned to individual retail establishments also discouraged retail price adjustments to reduce inventories.

A Comparative View

It remains to consider the capacity and productivity of the retail trade sector in Russia in a comparative context. Compared to the other CIS members, the capacity of the Russian retail sector, measured by sales area per 10,000 persons, is the third highest. (Table 10) The divergence from the Central Asian

Table 10

Sales Area in Stores and Number of Retail Establishments, per 10,000 Persons, Commonwealth of Independent States, 1990, by State

Republic	Sales Area (Sq. M.)	Number of Establishments
Russia	2143	25
Ukraine	2166	28
Uzbekistan	1371	22
Kazakhstan	1997	26
Belarus	2307	28
Moldova	1924	26
Tajikistan	1206	19
Armenia	2047	28
Kirghizia	1497	21
Turkmenistan	1422	23
Total	2041	25

Source: Narodnoe Khoziaistvo SSSR 1990, pp. 67, 146, 148.

states is substantial. On the other hand, if retail capacity is measured by the number of stores per 10,000 persons, Russia's retail sector is only average; the figure of 25 stores per 10,000 persons is exceeded by that of five CIS members.

Russian retail capacity also can be compared to that of nations outside the CIS. It is generally recognized that the Stalinist legacy has resulted in under investment in the trade sector. Distribution in the USSR has received only three percent of total investment, compared to four to nine percent in France, Germany, the United Kingdom, and the United States. (IMF, et. al. 1990, p. 38) One Soviet writer noted that: "In our economy today, there are only half as many workers in this sector as there are in the developed countries of Europe, and we have only one-fourth to one-seventh as much retail store space per 10,000 inhabitants." (Kiryukhin 1990, p. 25) A comparison of the USSR with some other nations is available from a Soviet statistical publication. (Table 11) A ranking of countries by the number of employees per thousand persons places the USSR next to last; only Poland had a smaller number of employees. Comparisons must be made with great care because of questions regarding data comparability, but the order of magnitude is suggestive. For example, the ratio of retail employees to population in the former Soviet republics would have to increase by more than fifty percent to match the median number in Table 11. To match the number given for Japan, the number of retail employees per ten thousand persons would have to be nearly three times as large.

Table 11

Number of Employees in Retail Establishments, and Share of Total Employment, Selected Countries

	Number of Employees		Share of Total Employment
	Total (000)	Number per 10,000 Persons	%
Japan (1987)	9,590	785	16.2
USA (1987)	18,812	772	16.7
Norway (1986)	205	492	9.9
Switzerland (1986)	299	460	9.3
Czechoslovakia (1987)	663	425	8.4
Finland (1986)	204	415	8.4
Sweden (1986)	305	364	7.1
Hungary (1987)	314	296	6.4
USSR (1988)	7,693	269	8.6
Poland (1987)	802	213	4.5

Source: Torgovlya USSR (1989), p. 12.

Other data lead to similar conclusions. Russia has the least number of stores and employees per 10,000 persons in a list of European countries for which data are available. (Table 12) Russia has less than one half the median number of establishments per 10,000 persons and approximately one half of the median number of employees per 10,000 persons. On the other hand, Russia has the largest number of employees per establishment.

The Potential for Structural Change

Perhaps the most striking result of an effort to analyze the capacity and productivity of the Russian retail sector is the limited data available. Nevertheless, some tentative findings are evident. First, despite substantial growth, the retail sector provides an inadequate foundation for an expansion of consumer services when compared with that of other nations.

Table 12

Number of Retail Establishments and Retail Employees
Per 10,000 Persons, and Number of Employees Per
Retail Establishment, Selected Countries

	Establishments	Employees	Employees Per Establishment
Belgium (1987)	115	248	2.2
France (1989)	93	207	2.2
Portugal (1987)	87	226	2.6
United Kingdom (1987)	61	408	6.7
Hungary (1988)	60	321	5.4
Sweden (1988)	57	339	5.9
Yugoslavia (1989)	40	224	6.0
Russia (1990)	25	187	7.5

Calculated from European Marketing Data and Statistics 1991, pp. 110 and 289 and Narodnoe Khoziaistvo RFSFR 1990, p. 183.

Moreover, since a very large amount of retail service has been provided by the second economy and by other means of distribution, a significant increase in service will be demanded if market reform is to make alternative distribution methods unnecessary. The problem will be accentuated by increased demand for product assortments and retail services that have not been available in the shortage economy. Second, an increase in productivity will require investment, not only in retailing, but also in wholesale warehouse space to shift the balance of inventory holdings in the distribution channel. Third, retail employment must rise if the output of service is to match that expected in developed market economies.

The current statistical publication of the Russian Federation (Rossiiskaya Federatsiya v Tsifrakh 1992) contains no information regarding retail structure. However, it is unlikely that significant structural changes have occurred in the tumultuous conditions of the past two years. As prices have risen much more rapidly than wages, living standards have fallen dramatically and demand for non-food goods has been significantly reduced. In September 1992 the Russian Minister of Economics reported that the incomes of over one third of the population were insufficient to "provide the necessary subsistence minimum." (Khbulava 1992) The incomes of another one third of the population are so low that these families are spending 78-80% of their income for food. Conditions worsened as prices continued to rise during the remainder of 1992 and early 1993.

This situation has led to divergent developments in retailing. First, the small number of wealthy customers with access to dollars is being served by new Western boutiques such as those in Moscow's renovated GUM department store and Petrovski Passage, a restored arcade. On the other hand, the more average purchaser finds informal food markets and street bazaars, where private sellers offer food products at prices that most people cannot afford. Other products, such as cigarettes, sodas, and candy bars are available in street kiosks, and flea markets where long lines of people simply stand holding up small items waiting for someone to buy. It is probably the latter situation that Russia's new Prime Minister, Viktor S. Chernomyrdin was referring to in his statement that he wanted the country to move to a real market and not a "bazaar." Increased efficiency is expected from Privatization; retail stores and other small enterprises are to be sold by sealed bids or auctions. However, sources of investment funds are limited. Inflation has destroyed private savings, so that market-directed investment funds must be obtained from retained earnings or foreign investment. The unsettled political and social situation does not encourage domestic investment; the flow of funds abroad has become a substantial economic

problem for Russia. Furthermore, the expansion of expensive boutiques and private kiosks, which do not address the need for retail establishments selling staple goods, shows how current investment is distorted by the current pattern of demand. The acquisition and modernization of existing state stores, and the construction of modern stores to sell wide assortments of goods is not anticipated in the foreseeable future.

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MARKETING AND DEVELOPMENT

**AN EVALUATION OF
THE ROLE OF MARKETING PROGRAMS
IN THE DEVELOPMENT PROCESS:
THE CASE OF EASTERN EUROPE**

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Abstract

Marketing has a vital role to play in the economic and social changes of a nation. In this paper, the focus is on the relevance of marketing in establishing the national economic and social goals in the context of the Eastern European economy. Furthermore, the attempt is made to demonstrate the usefulness of the marketing approach to solving the macroeconomic social problems facing the region. Several barriers to marketing in Eastern European countries are enumerated, and emphasis needs to be placed on removing the barriers and promoting changes that will allow marketing to best perform its critical function of stimulating economic growth.

Introduction

The relationship of and the role played by marketing in the economic development of a country has long been a subject of debate. Some researchers feel that as a country develops economically, its marketing skills are forced to develop at the same time. This indicates that marketing skills area is a function of economic development. Others, however, feel that as a country's marketing skills become better, the country's economy will improve. Therefore, economic development, in the latter's view, is a function of marketing skills and application competence.

Barksdale and Anderson (1982) feel

that marketing is an important component in economic growth and that it should be given more study. However, there is not sufficient evidence to indicate exactly what role marketing does have in influencing and shaping the development processes.

Leslie M. Dawson (1980) feels that the old theory, which holds that the central task of all developing countries is to use money, equipment, and technology through corporations to become more developed, is becoming obsolete. The developing countries are not more developed for three main reasons. First, advanced nations are progressing at a faster rate than the developing nations. Second, although the United States has less than six percent of the world population, it consumes one-third of the world's goods and services. It would not be feasible for the rest of the world to catch up with the living standards of the United States. Last, the consequences of economic development such as environmental pollution, etc. have made the unbridled pursuit of economic growth and development less desirable.

Marketing and economic development are directly related. Therefore, a misguided or unorganized marketing strategy could lead to further underdevelopment. Wood and Vitell (1986) summarized the basic relationship between marketing and economic development, as well as gave some direction to where

research within this field should be directed in the future. Marketing within this context was referred to as "the creation and delivery of a standard of living."

Marketing plays a significant role in bringing economic and social changes in the country. According to one researcher, "production may be the door to economic growth of the underdeveloped countries, but marketing is the key that turns the lock" (Woodruff 1958, 70). The developing countries' economics are characterized by low marketing and distribution efficiencies. The reviewed marketing literature attests that insufficient attention of marketing thought and methodologies were applied to the social and economic problems facing the developing nations. "The role of commodity distribution in economic growth of pre-industrial areas has been almost ignored in the growing body of literature devoted to nascent field of economic development of underdeveloped countries" (Holton, 344). Consumption efficiency is vital to reach economic stability. To reach full development within less-developed countries (LDCs), target markets must be identified and marketing strategies set within the cultural guidelines presented. Varadarajan (1984) points out the importance of government intervention in accomplishing economic development. Well directed action strategy with governmental intervention allows marketing to stimulate economic growth and, at the same time, work within the social guidelines set by the government. Furthermore, such strategy can both improve the degree of information awareness within a society and can assist in creating a set of standards by which success can be measured (Varadarajan 1984).

In a study by Olsen and Granzin (1988), the findings have empirically shown the interdependence of marketing structure and economic development. The authors have also recognized the significant role that public policy planners can play in anticipating change and facilitating evolution in the country's economy to a state

characteristic of greater economic development (e.g., through appropriate tax measures and regulatory/deregulatory legislation).

The Case of Eastern Europe

In some respects the Eastern European countries resemble Less Developed Countries (LDCs). First, their economies are still in the take-off stage. Furthermore, as in many LDCs, the government controls the economy in a system of socialism; it forecasts demand and then plans to produce products and services accordingly. In this process, however, the individual choice is restricted. Often basic commodities such as meat, milk, and bread or durable goods such as cars, telephones, and refrigerators are scarce or unavailable.

Second, exports are the major source for foreign exchange earnings. The exchange reserves are usually in short supply. Thus, most Eastern European countries barter with each other and with the rest of the world. In addition, the currencies may not be convertible to purchase goods in international markets.

Finally, government policies and procedures are somewhat similar to the democracies of the less developed countries where mixed economies exist. Due to lack of profit incentive, these industries often become inefficient and burdensome to their national economies.

The U.S. Trade with Eastern Europe at a Glance

A cursory glance at the 1988 U.S. trade with Eastern Europe, as shown in Table 1 (U.S. Foreign Trade Highlights 1988), reveals that the U.S. exports to Eastern Europe were less than a billion dollars while the imports were over one-and-a-half billion dollars. In fact, the U.S. trade with China and the U.S.S.R. was slightly more than the trade with Eastern Europe during 1988.

Table 1. U.S. FOREIGN TRADE WITH EASTERN EUROPE, CHINA, AND RUSSIA - 1988 (f.a.s. Value - IN MILLIONS OF DOLLARS)

	Exports	Imports
EASTERN EUROPE	882	1,580
Bulgaria	127	27
Czechoslovakia	55	88
East Germany	109	110
Hungary	78	294
Yugoslavia	531	847
CHINA	5,033	8,512
U.S.S.R.	2,767	578

Transition to Market-oriented Economics

Transition to market oriented economics can be challenging. The transition problem can be three-fold. First, the people must "unlearn" the past ways of life, then adjust to the free market system. Under the planned economic system education, employment, health care, etc. are usually provided free by the state. Second, it is difficult to persuade the well-entrenched bureaucrats to move from a state-controlled economics to market-oriented economics. The entire governmental administration may require restructuring. Third, incentives for acquiring private property, wealth, and income need to be established. Also, procedures to collect taxes by the federal, state, and city governments need to be defined. The elected members must develop new laws and gain majority approval before they are implemented. Similarly, a host of policies and programs need to be adopted for the institution of tax revenues (income tax, sales tax, excise tax, custom duties, etc.) and a balanced budget.

Barriers to Marketing

Marketing practices, in Eastern Europe, might not reach the level of sophistication of market driven economies due to the following barriers:

1. **Lack of education about market orientation.** It might not

feasible to realize full benefits of marketing efforts without first establishing an education program about market driven systems.

2. **Lack of infrastructure and legal and contractual framework.** Potential consumers are not tangible because of a poor or nonexistent distribution network. A legal and contractual framework for business is totally absent. These deficiencies must be addressed.

3. **Lack of convertible currency.** Generally, the convertible feature of a country's currency depends on the trade balances, internal budget deficits, and other factors including how its currency is regarded by other countries. In the absence of convertibility, Eastern European countries will have to resort to the barter system (Matthews 1987). This means of trade is an inefficient method for realization of economic progress.

4. **Lack of entrepreneurs appropriate for market-driven economies.** In the controlled economies of Eastern Europe, people may not be familiar with business practices that are necessary for conducting trade. A population struggling for survival tends to overlook the importance of private ownership of personal property. Business needs standards (e.g., expertise and quality) for expansion to occur (Cateora 1990).

5. **Lack of demand forecasting mechanisms similar to market-oriented economies.** Researching the potential market in centrally planned and developing countries' economies is difficult. Common problems include limited contact with and knowledge of the market (i.e., the ultimate consumer). Another hindrance involves the lack of available data regarding the target market (Cateora 1990). In Eastern Europe, the demand for commodities and services is estimated by the centrally planned government. The government attempts to satisfy demand based on availability of products and services. Since consumption is subject to production in these economies, people learn to live in a seller's market. Furthermore, because of centralized planning, most trade is conducted by various

government-owned-and-operated trading organizations rather than by individual, profit-oriented end-users (Cateora 1990).

6. Difficult to conduct market research. People are either unaware of the significance of marketing research or may consider consumer surveys as methods in which the government tries to collect derogatory information about the citizens. Because of these fears, it is difficult to expect cooperation from the people in gathering valuable marketing research information. Although such fears might have lessened somewhat, suspicions about the role of marketing practices continue to exist.

7. Lack of minimum level of technology. Low levels of technology prevent the collection, storage, retrieval, and analysis of information which is vital for marketing effectiveness.

8. Lack of legal mechanisms for rapid expansion of businesses. There is a need to develop business laws and legal systems to stimulate successful implementation of market driven economies.

9. Lack of consumer orientation. The consumer is in itself still in a stage of infancy. For rapid market-orientation, the presence of a reasonably sophisticated consumer is essential.

10. Lack of basic resources to produce needed consumer products. Basic resources such as capital, skilled labor, and technology are very limited in these countries.

11. The prevailing attitudes of other countries in the region may not be favorable for economic development. The European Community (EC) is busy protecting markets from the U.S. and Japanese competitors (Quelch, et. al. 1990). Thus, in an environment of nationalism, it is difficult to expect assistance from other countries.

12. Competition from Multinational Corporation (MNCs) can prevent the formation and growth of independent Eastern European firms. MNCs from the U.S., Japan, and Europe have vast resources. They quickly establish subsidiaries and joint ventures preventing the formation and development of independent Eastern European firms.

With enormous capital at their disposal, some large MNCs are able to play political games to achieve their selfish objectives. Also, MNCs that have mastered the four P's (product, preparation, persistence, and patience) quickly succeed in other socialist countries like China (Larson 1988). For these MNCs, Eastern Europe is another testing ground.

13. Global markets are already flooded with goods from DCs, LDCs, and NICs. To generate capital, Eastern European economies need to sell their products to other countries. However, they may fear fierce competition in global markets from the developed countries, less developed countries, and newly industrialized countries.

Conclusion

Unfortunately, the democratization of Eastern Europe did not arrive at an opportune moment in the global economy. The U.S. and other Western democracies are faced with an economic dilemma to balance their internal and external budgets by reducing spending and cutting imports. Also, the simultaneous demand for economic assistance from numerous countries limits the availability of economic aid. Eastern European countries must quickly learn how the market-driven economies operate. In order to do so, the role that marketing plays to stimulate rapid economic development must be understood. Countries of Eastern Europe must ensure that their citizens understand the concepts of a market driven system. These concepts must be explained to the consumer via education.

It is clearly evident from the experiences of many LDC democracies such as India and Brazil that high corruption and/or public debt have been the primary reasons for lack of economic progress. Thus, there are lessons for the Eastern European countries to learn from the experiences of LDCs. The extent to which these lessons are learned and applied will determine the extent to which the economic development takes place. Marketing must play a

significant role in the economic development, and emphasis should be placed on removing barriers and promoting changes that will allow marketing to best perform its critical functions.

Policy makers need to be aware of the link between economic development and the marketing system. In the public sector, planners would do well to provide advisory, extension, assistance, and research programs to help the business sector operate their business at higher levels of output and performance. For example, business managers must be provided with services for business risk reduction and access to modern communications and transportation systems. Public policy makers need to assist in eliminating barriers to international trade, sponsoring modern education and training programs, constructing new market areas and modernizing existing ones, and using such means as government management or financial subsidies to private sector (Olsen and Granzin, 1988).

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WINDWARD ISLANDS' MARKETING AND DEVELOPMENT: IMPLICATIONS FOR
CANADIAN TRADE

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Abstract

Marketing should be at the forefront of development in all nations including the Windward Islands, West Indies. There is a desire in these small islands to emulate Singapore, which appears to be a shining example of marketing and development. However, an important obstacle to their achievement appears to be the decline in developed countries' aid and attention to them. This is happening at a time when Developed countries are exerting pressures on them to maintain democratic governments and practices. The attitudes and actions of those developed countries present Caribbean leaders with great barriers and challenges for charting courses in marketing and development.

Introduction

Acceleration in technology, speed in communication, and the demonstration effect have helped to raise questions about the Windward Islands' ability to emulate Singapore's rapid growth and development. Most business people and government officials in small, countries know little about marketing. Economic planning decisions are made largely by government economists. And yet, social and environmental criteria should play a central role in economic planning in Third World countries, but are often ignored by economic planners (Webb et al. 1986, p.262). Marketing can help to eliminate some of the inefficiencies which sap the economies of underdeveloped countries and help to increase the size of existing markets (Cateora 1990, ch.9).

Marketing and development in the Caribbean should go beyond the traditional organizing framework of the 4 P's and deal with politics, political events, conflict resolution, negotiation, different leaders self-interest, existing social structures, value systems and administrative procedures. The importance of politics in marketing and development is only just beginning to be understood by the Windward Islands as small, newly independent states (Mitchell 1991).

There is a substantive literature on development referenced in the West Indian Commission report (1992, p. 554 -575). However, most of that literature does not cover the dual treatment of marketing and development and their interactive effects. Moreover, in spite of the growing global awareness of marketing (Kumcu and Firat 1988), there is an absence of appropriate studies of

marketing and development to guide Caribbean countries actions and decision making (Wood and Vitell, 1985). About seventy percent of the more than 50 Commonwealth countries are very small with populations under five million. Sixty percent of them have populations under one million. Their governments should be tapping the tools and techniques of marketing to devise competitive strategies to promote their total assets and capabilities.

Objectives, Research Approach And
Methodology

This study is one of a multi-phase on-going research by the author. The objectives are to develop theories of marketing and development and to increase the exposure to, and use and understanding of marketing in the Caribbean. The research approach is a chain linking one that goes from the Windward Islands to the Organisation of Eastern Caribbean States (OECS), made up of the Windward Islands and Leeward Islands, and finally to the Caribbean Community and Common Market (CARICOM), comprising the OECS countries plus the Bahamas, Belize, Guyana, Jamaica and Trinidad & Tobago). CARICOM was established in 1973. The research methodology consisted of personal interviews and case studies conducted during 1991 and 1992. More than 150 business people, non-business executives, civil servants, union leaders, politicians, and embassy officials completed taped personal interviews. An interviewer's guide was used and the interviews averaged approximately one hour. It covered twenty-one questions dealing with such subjects as objectives, goals and outlook of organizations; the influence of environmental factors on marketing and development; the roles of government and the civil service; countries' trading and attractiveness factors; relationship between Canada and Caribbean countries; and understanding and use of marketing in the Caribbean.

Defining Marketing and Development

National development is a blending of the economic, social, and political processes within a specific framework and environmental context. Development concept and practice include many similar factors applied to marketing. This might be an indication of both marketing's recency, as well as, its ability to

borrow from other disciplines.

Demas (1991) captures the essence of marketing and development in Towards West Indian Survival. He acknowledges that economic growth is a necessary but not sufficient condition for achieving a broader kind of development, and that marketing and development include broader societal aspects of political awareness, human growth and social well-being of the people (p.22).

The Windward Islands, OECS, And CARICOM

Grenada (133 sq. miles) is the smallest and most southerly of the Windward Islands. It gained independence from Britain in 1974. Dominica (289 sq. miles) is the largest and most northerly. It gained its independence in 1978. St. Lucia (238 sq. miles), the second largest, achieved independence in 1979. Finally, St. Vincent (150 sq. miles), located between St. Lucia in the north and Grenada in the South, became independent in 1979. The Windward Islands have had a history of being linked together by Britain for administrative purposes.

Although it is the largest, Dominica (81,000) is the least populated of the Windward Islands. Its present government has only a one seat majority, but it has been able to operate without any difficulty. St. Lucia (142, 000) is the most populated and is perceived as the most politically and economically stable of the group of islands. It has the longest serving elected prime minister in the region. St. Vincent (113,000) has a one party government as all but one seat was won by the governing party. Grenada's 94,000 people are ruled by a government made up of a coalition of parties.

The 810 square miles Windward Islands of the OECS are more than two and one half times larger than the 310 square miles Leeward Islands of Antigua, Montserrat, and St.Kitts-Nevis-Anguilla. Their population of 435,000 is also more than three and one quarter times greater than the 143,000 population of the Leeward Islands. The tax burden in OECS countries, that is, ratio of government revenue to gross domestic product (GDP) in 1988 was the highest in St. Lucia at 39.5% and lowest in Montserrat at 20.6%. The average for the Leeward Islands was 24.2%, compared to 31.3% for the Windward Islands.

The OECS was established in 1981 to enhance economic, political and functional cooperation among the countries of the Leeward Islands and Windward Islands. Although very much smaller than almost all the other CARICOM countries, the OECS countries, with the

exception of St. Vincent, had higher GNP per capita in 1987 than Guyana and Jamaica. Their Eastern Caribbean Currency is much stronger and more stable than the other larger and more populated CARICOM countries.

The OECS Secretariat has been attempting to bring about an economic and political union of its member countries. However, there have been resistance to more formal integration by the Leeward Islands. The Windward Islands have been proceeding as the vanguard of the movement toward an integrated Caribbean, much like the EC when it began. They have made substantial progress including holding Constituent Assemblies in each island in the past four years.

Many West Indians believe the Caribbean countries should be able to replicate Singapore's developmental success. However, Griffith (1987) maintains that CARICOM countries cannot replicate it because of differences in the environment, timing, and other factors. Griffith's study reinforces Mitchell's (1991) comparative case study of Grenada and Singapore.

Windward Islands Marketing: Implications For Canadian Trade.

When the British Caribbean countries were perceived as one, West Indies, there was greater attention and more trade (in real terms) between them and Canada. There was a synergistic effect. This was lost with the demise of the West Indies Federation in 1962. This should not have been unexpected with the break up of the territories into small independent countries. The Windward Islands' weak economy, and doubtful social and political maturity, plus their low average per capita gross national product (US \$1142) could hardly meet the country attractiveness measures of most foreign investors.

Those countries need a uniquely attractive proposition (UAP) that they could communicate to investors. A UAP does not appear to be on the horizon as independent units, but combined they could probably develop a strong one. Yet, because they have such a short history of political freedom and power they are reluctant to give up any of this to a regional body. Moreover, the regional organizations are weakened by the continued economic and implementation problems confronting them.

The windward Islands economies are based mainly on agriculture and tourism. However, all of them are simultaneously trying to diversify their economic base. If instead of competing against each

other, they would pool their resources, they could achieve greater economies of scale and thus have greater marketing impact. They could accumulate the broader base for more effective and efficient development of ideas, products, and services, and be better able to implement and market them. Integrated agricultural and tourism programs should compliment rather than compete against each other. They should be better focused and better targeted.

The windward Islands have for a long time been dependent on aid for growth and development. Donor countries have through the years been providing less and less. This has exacerbated their debt burden, and now they complain about IMF and World Bank imposed program. The total public debt of the islands in 1991 was EC\$1,050 million, whereas total estimated revenue was EC\$786 million and debt servicing allocation was EC\$99 million. Yet, almost without exception all respondents preferred trade to aid.

Trade between Canada and the Windward Islands has been on the decline for a number of years. Canada's ranking dropped from third in the 1970s to last or next to last, measured by the dollar value of trade, in every one of the islands in the last decade. Everyone interviewed desired a greater balance and more trade with Canada. The Canadian trade decline may be just one symptom of a broader problem and a reflection of Canada's lost of 20% world market share during the last five years. Its world exports fell from 5% to 4% (Gherson 1990). This could also indicate that Canada should perhaps now pay more attention to what was considered lesser markets.

Canadian Exports To The Windward Islands declined steadily from \$24 million in 1988 to \$23 million in 1989; \$16 million in 1990; and \$15 million in 1991. Comparable Canadian imports were \$6 million in 1988; \$2 million in 1989; \$10 million in 1990 (nine of which was accounted for by St. Lucia); and \$1 million in 1991. Thus, the Windward Islands had serious balance of payments problems. This may account for some of the decline in trade between them and Canada and the negative attractiveness as a market.

Nonetheless, Canada has retained some links with the Commonwealth Caribbean. CARICOM citizens have strong positive feelings for and ties with Canada. They effuse appreciation for the aid and support Canada has been providing, although it has been at a decreasing rate. Against this background, they have been wondering and questioning the decrease in trade and support from Canada. They believe that Canada has very significant goodwill that it can

capitalize upon in the region.

Factors In Development In The Windward Islands

Marketing and development in the Windward Islands require a knowledge and information base as well as a plan and program to overcome the limitations imposed by an unfavourable ratio of population to natural resources. The windward Islands possess very fertile and a fair amount of arable lands. Their percentage of arable lands is almost four times that of Singapore. However, although densely populated, the Windward Islands density of 540 persons per square mile is only about one fifth the density of Singapore which has more than two and one-half million people on 224 square miles of land.

Good health and a positive mental attitude of a people are motivating factors in their development, growth and performance. A healthy populace and positive attitude are essential for attracting other people and resources to a country. This is also true of the Windward Islands which aspire to growth and development similar to Singapore. Many of the respondents in the islands decry the health system and disparaging refer to the necessity to go abroad for even the most basic treatment. One wonders whether those governments are fully aware of the importance to investors of social, economic, and political factors as countries' attractiveness characteristics.

The Windward Islands in 1987 had more live births, deaths, and infant mortality per 1000 of 26, 7 and 20 respectively than Singapore 17, 5, and 7 respectively. However, life expectancy in the Windward Island is less, 70 years, compared to Singapore's 73 years. Unemployment is more than twice as high in the Windward Islands as in Singapore. The continuing high unemployment in the region means "the capacity of the Caribbean economies to provide higher standards of living for their peoples must be considered against the constraints that are imposed on economic growth by the small size of these territories" (Levitt and McIntyre 1967). This size factor has played a large role in the attempt to form larger units such as the Windward Islands, OECS, and CARICOM.

Mitchell (1991) found treatment of underdeveloped and developing countries by developed ones quite often depended on hemispheric location, size, politics, ideological association and leadership. In turn, these factors were important to those countries in their marketing and development. For example, they were significant in ASEAN's concept of ZOPFAN

(Zone of Peace, Freedom and Neutrality) which provided the banding together and the environment for the growth of those countries (The Financial Post, May 1982, p.3). West Indian islands, however, have not been able to demonstrate the same unity and strength. For example, During Maurice Bishop's regime in Grenada, 1979-1983, Dominica and Jamaica were anxious to derive benefits from siding with the United States which was hostile to Grenada.

Inadequate infrastructure in the Windward Islands add to the difficulty of achieving good export and growth performance because of damage to produce. The roads, hydro-electric, and telecommunication systems should be brought up to required standards to attract investors. Quality products and guaranteed supplies are important elements in maintaining exports, but the business people have no concept of this. Griffith (1987) describes the gravity of the situation: "the greatest constraint is the lack of an adequate social infrastructure and the clinging to an educational system that is inappropriate to a technologically dynamic world" (p.75-76).

This shortcoming is now recognised by the CARICOM Heads of Government who declare: "All institutions of education and training have to gear themselves for an accelerated effort to equip the peoples of the region with the knowledge and skills necessary to function in a highly competitive and technology-driven world" (Demas 1991, p.24).

Ross and McTavish (1987) make reference to education, knowledge and technology transfers as more promising means of stimulating development in Third World countries. The 1987 literacy rating of 95% in the Windward Islands is somewhat above Singapore's 85%. However, the nature, content, and focus of education should be examined in light of existing circumstances and performance in the economy. Singapore, for example, has devoted a great deal of attention to its education, particularly to keep abreast in the new areas of technology.

Most of the managers and executives interviewed in the Windward Islands point to the brain drain from each of their islands. However, the islands are establishing broadly based vocational schools, but in Grenada the government has refused to listen to the Board, whose members were chosen by government itself. Saint Lucia has just opened Sir Arthur Lewis Community College.

Conclusions And Recommendations

There are certain pre-requisites for

attracting foreign investments. These include the type of government and its policies, the size and development potential of the country, the infrastructure, and the potential for returns on investment. Some of these elements might make certain segments of the population uneasy at different times because of natural self-interest above the overall interest of the particular country. Nevertheless, while these pre-requisite remain absent in the individual islands, and there is no indication from the foreign investors' viewpoint of intelligent and strong leadership, the future will not be much brighter than the past for them.

However, if there could be complete cooperation and coordination both among the islands as well as among the various segments in the economy, then the chances for the growth and development should improve. It would make a lot of difference with respect to the determination of the strategy to be employed, perhaps, for example, one of dual import substitution export drive (IS/ED). This would require a proper determination of tasks and allocation of resources in accordance with objectives.

Marketers must be brought into more levels and areas of decision-making in both profit and not-for-profit organizations in the Windward Islands. This will reduce the risks and enhance the chances for maximization of short and long-term satisfaction, and therefore, achieve macro and micro objectives. This has been mainly a background, "situational analysis" and "problem definition" phase of the study. Alternatives and suggested implementation will be similarly developed in another report. However, it should be noted that implementation has always been a major weakness of the islands and the organisations to which they belong. This has hindered their growth and development in the past and will continue to do so. The lessons from Singapore's experience include, for example, determination of objectives and developing plans and programs for achieving them. More importantly, Singapore has demonstrated excellent execution and implementation of plans. If the islands truly wish to emulate Singapore they must give serious attention to these aspects of operation.

The formulation of theories of marketing and development based on empirical research in the Caribbean should contribute toward better decision making in business and governments. These countries need to assess their strengths and weaknesses, opportunities and threats when developing plans for the cultural, economic, political and social development of their people. Generally, they should keep monitoring the external

environment, scouting for attractive economic and marketing opportunities. Given the past history and relationship Canada has had, there might be opportunities for mutual benefits in revival of trade between the two.

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THE EFFICIENCY OF CHANNELS OF DISTRIBUTION IN A DEVELOPING SOCIETY: THE CASE OF NIGERIAN DISTRIBUTIVE SECTOR

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Abstract

This study presents the results of an investigation on the effects of liberalization of trade channels on marketing activities in Nigeria. The study was based on a survey of the distributive trade sector of the Nigerian economy conducted in two commercial cities in Nigeria. The purpose was to evaluate the role of marketing in the development process in Nigeria, and also to examine the future role of marketing in developing countries, especially sub-sahara countries, as they enter another decade in search of solutions to their economic problems.

Introduction

Considerable debate has taken place on the role of the distributive trades in the economic development process. For many years, the role of commodity distribution in the economic growth of LDCs was absent from the body of literature on economic development. Since marketing activities do not add value to the national output to the same extent as more dramatic changes in agriculture and industry, attention is often devoted almost exclusively to the problems of increasing production in the basic industries, correcting unfavorable balances of trade, relieving capital shortages and reducing unemployment (Kaynak 1982).

Many explanations exist for the neglect of marketing in LDCs. Collins and Horton (1970) argued that economists and policy planners are much more interested in increasing the production of physical goods than in intangible marketing services that are more easily associated with a rising real standard of living. Anderson (1970) argued the neglect may well be in the lack of theoretical understanding of the role of marketing in the various stages of development process. Mittendorf (1982) believes the lack of available personnel in developing countries is responsible for this.

In recent years, however, the relationship between marketing and economic development has begun to attract attention from both marketing scholars and development economists. Cundiff (1982), Lewis (1984), McCarthy and Perreant (1984), Nason and White (1981), Shapiro (1983) and Ortiz Buonofina (1987), for the most part, see marketing institutions as a vital factor in the profitability of productive activities which influence investment decisions in LDCs.

Several scholars have also challenged the previously held contention that marketing is a passive element in development. Kaynak (1984), Elgar (1983) and Aiyeku (1989) argued that marketing may be one of the most dynamic forces in facilitating technological change and more productive institutional arrangements for organizing and coordinating economic development activities. Etemad (1984), in his study of the catalytic role of marketing, concluded that certain positively charged goods and services are necessary for economic growth. Even Drucker (1958), influenced by Rostow's stages of development, asserted that marketing is the most effective engine for economic development. It contributes to the foremost need of LDCs - the rapid development of entrepreneurs and managers for mobilizing latent economic resources. Moyer (1976) concluded in his extensive literature review that marketing contributes to economic growth in several ways, which include risk reduction, since it provides adequate information flow between the producers and final consumers and vice-versa.

McCarthy and Shapiro (1979), supported Moyer in a separate study, concluding that marketing is a key ingredient in economic growth and development because it stimulates research and innovation resulting in new products that, if found attractive by consumers, can lead to further employment, higher incomes and higher standards of living.

The present study also joins the stream of literature that emphasizes the major problems common to most LDCs marketing channels. These range from high physical handling and transaction costs because of operational

inefficiencies and lack of a grading system, to shortage of credit available to middlemen at reasonable interest rates, to lack of a dynamic and effectively competitive market structure, to severe price fluctuations. Anderson (1970), Lele (1971) and Aiyeku (1989) cited the importance of investment in storage and transportation to achieve more efficient channels of distribution in LDCs. Foggin (1980) emphasized the development of physical distribution facilities and infrastructure as a key to economic and market development.

The present study addresses these concerns by examining the impact of liberalization of marketing board parastatals in Nigeria. The study sought (1) to determine whether there was a difference in the channels of distribution before and after liberalization policy in Nigeria; (2) to identify who determines the grade standards for agricultural exports before and after liberalization policy; and (3) to examine the pricing policy before and after liberalization of the Marketing Board parastatals and the relationship with increased production of agricultural commodities after liberalization.

The Data and Methodological Considerations

The analysis presented in this paper is based on two sources: a secondary source from literature on the role of marketing in economic development, especially in developing countries like Nigeria. Close attention was given the Marketing Board system, an "engine" that was responsible for the marketing activities of all agricultural export commodities in Nigeria for many decades.

The primary information source was a survey of the distribution trade sector of the Nigerian economy. It covered the activities of the wholesale and retail trades for agricultural export commodities. The reason for pursuing this strategy was to evaluate the impact of the government's liberalization of the marketing board system on agricultural export commodities. To narrow the scope of the study, two specific commodities were chosen: cocoa and groundnut. A structured self-administered questionnaire was carried out in two major commercial cities in the country. The enterprises interviewed were limited to those involved in both wholesaling and retailing of the commodity chosen for the study. A total of more than 85 private middlemen were interviewed at length. All respondents had at least five years experience in the business and had first-hand knowledge of the distributive trades sector of the Nigerian economy prior to and after the liberalization of trade channels and dissolution of the Marketing Board system.

Demographics of the Respondents

The demography of the respondents varied. The group consists of 50% licensed buying agents, 30% wholesalers, 25% retailers and 5% traders. Out of the 85 respondents, 60% were engaged in cocoa products, 30% in groundnut and 10% in both groundnut and cocoa. About 70% of the respondents handle less than 5,000 tons of the products annually, 20% handle between 5,001 to 15,000 tons annually, and only 10% handle over 15,000 tons of their respective products annually.

Assumptions and Findings

This study was based on three assumptions:

A.1. There are differences in the channels of distribution before and after liberalization of the Marketing Board parastatals.

The results of this survey show that the distribution of agricultural commodities for export prior to the liberalization policy in Nigeria was mainly through the Monopoly Marketing Board, a parastatal trading enterprise set up by the colonial government in English speaking sub-

sahara countries, inherited and maintained by post-colonial governments, in the region, to buy and sell agricultural commodities. It was also the instrument used to control export commodities in the region. The board uses many intermediaries to carry out their functions (Figure 1). Eighty-eight percent of the respondents indicated that the channels of distribution were through the Marketing Board systems (Table 1). Only 10% indicated channels through the licensed agency, and 2% through independent exporters.

FIGURE 1
CHANNEL STRUCTURE UNDER MONOPOLY MARKETING BOARD



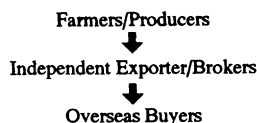
After liberalization, however, 94% of the respondents indicated that the products were distributed through independent exporters, and only 6% through overseas merchants. The channel became shorter than before (Figure 2).

TABLE 1
CHANNELS OF DISTRIBUTION ON % OF SAMPLE

	Before Liberalization	After Liberalization
	<u>n=85</u>	<u>n=85</u>
Marketing Board	88%	0%
Licensed Agency	10%	0%
Overseas Merchants	0%	6%
Independent Exporters	2%	94%

This supports the assumption that there was a great difference in the channels of distribution of agricultural export products after liberalization of Marketing Board Parastatals.

FIGURE 2
CHANNEL STRUCTURE AFTER MARKETING BOARD SYSTEM



A.2. There is a difference in who determined grade standards for agriculture exports before and after liberalization of the Marketing Board Parastatals.

Prior to liberalization, the marketing board was responsible for setting the grade standard (Table 2). Twelve percent of the functions were delegated to the Ministry of Natural Resources, and six percent to Federal Produce Inspectors.

TABLE 2
WHO IS RESPONSIBLE FOR SETTING GRADE STANDARDS?

	Before Liberalization	After Liberalization
	<u>n=85</u>	<u>n=85</u>
Ministry of Natural Resources	12%	6%
Ministry of Trade	0%	88%
Marketing Board	82%	0%
Federal Produce Inspector	6%	6%

After liberalization, however, 88% of the same function became the sole responsibility of the Ministry of Trade with only six percent delegated to both the federal produce inspector and Ministry of Natural Resources respectively.

A.3. There was a change in commodity prices of cocoa beans and groundnuts after liberalization of the Marketing Board Parastatals, and this change led to increased production of these commodities.

Traditionally, the official purchasing prices for all agricultural export commodities were set by the Marketing Boards in Nigeria. Only 12% of this function was delegated to the Ministry of Trade (Table 3). Prior to liberalization, there was a free market in a few agricultural products, but the board acted as the purchaser of the last resort, paying guaranteed minimum prices to the producer (Table 4). Both producer prices and guaranteed minimum prices were usually increased over the years (Government Gazette 1986); but these increases never kept pace with inflation. This resulted in a steady decline in the production of agricultural products.

TABLE 3
ESTABLISHMENT OF DOMESTIC PRICES

	With Marketing Board	After Marketing Board
	<u>n=85</u>	<u>n=85</u>
Marketing Board	88%	0%
Ministry of Trade	12%	4%
Open Competition	0%	90%
Independent Agency	0%	0%

TABLE 4
PRODUCER AND GUARANTEED MINIMUM PRICES FOR AGRICULTURAL COMMODITIES (\$ PER TON)

Producer Prices	1981/82	1982/83	1983/84	1984/85	1985/86
Cocoa beans, A	1,300	1,300	1,425	1,500	1,600
Cocoa beans, B	1,270	1,270	1,395	1,470	1,470
Coffee, arabica	1,155	1,155	1,155	1,405	1,450
Coffee, robusta	998	998	998	1,248	1,250
Coffee, liberia	924	924	924	1,166	1,166
Tea	700	700	700	700	700
Seed cotton	431	431	560	700	850
Groundnuts (peanuts)	450	450	450	650	750
Soybeans	155	175	230	300	500
Sesame Seed	315	315	360	360	360
Sheanuts	100	120	140	160	250
Ginger, split	450	450	520	700	800
Ginger, peeled	650	650	750	850	950
Kenaf, retted	431	431	431	431	431
Rubber	1,000	700	700	1,200	1,300
Palm kernels	200	230	230	230	230
Palm oil, B	495	495	495	600	600
Palm oil, A	440	440	440	500	500

Guaranteed Maximum Prices

Wheat	247	280	280	400	450
Maize (corn)	210	210	210	350	450
Sorghum	220	220	220	360	500
Millet	220	220	231	360	500
Rice, paddy	345	400	480	500	700
Rice, milled	596	596	596	596	596
Beans	362	362	362	600	600

Source: Federal Ministry of Agriculture and Rural Development. (1988)

Results from this study show the liberalization policy dramatically increased the purchase prices offered to producers of agricultural products for exports. For example, the grade-one cocoa purchased at \$600 per ton in the 1985/86 season became \$4,000 per ton in the 1986/87 season as a result of a shift to free market.

Under the liberalization policy, prices were established by open competition, with frequent intervention from the Ministry of Trade to ensure free competitive trading and allow producers and consumers to hedge against price fluctuations. This is contrary to the monopoly Marketing Board which traded at fixed prices. It is also an indication of change in the establishment of prices before and after liberalization of the trade channels in the country.

This survey revealed that since the abolition of the Marketing Boards, there has been a tremendous increase in the production of all major agricultural export commodities, especially cocoa and groundnuts. The high prices offered by private traders in contrast to low prices paid by Marketing Boards have boosted output and provided major incentives to increase production. This has also helped to improve handling and fermenting procedures which, in turn, have resulted in a significant improvement in the quality of these products. For example, Nigeria produced and exported 65,000 tons of cocoa beans in 1984/85; 95,000 tons in 1986/87 and 130,000 tons in 1987/88.

This study also revealed the division of Nigerian marketing channels into three groups. Group One, to which the majority of the people belonged, is small and handled less than 5,000 tons of their selected commodities annually. This group has been in business for less than ten years, an important indication that a large percentage of the trade channels in Nigeria is handled by small retailers who are poor and still at great disadvantage under open competition.

While the liberalization policy has opened the door for many new entrants into retail trading in agricultural export commodities, the size of their establishment makes it practically impossible for them to compete with large corporations. Since producers sell to higher bidders in an open competition, the small retailers face the same problems they had under Marketing Board. The banks' rules make it very difficult to raise money to expand operations. This group lacks all the purchasing power advantages enjoyed by the big retail houses. The small scale of their business makes it very difficult to obtain credit. Despite the prodding of the Nigerian federal government, studies revealed that the commercial banks have been reluctant to give out loans to this sector because they consider it to be high risk.

Group two consists of about 20 percent of the retailers. This group handled between 5,000 and 15,000 tons of their respective commodities annually and have been in business over ten but less than 30 years. The survey revealed that this group consists of multi-purpose retailers. They have several other establishments and are more organized than channel members in group one, possibly because of their many years of experience and financial advantages.

The third group is the smallest. It consists of only 10 percent of the channel members. Though this group no longer dominates the institution, the survey revealed they still have both competitive and comparative advantage over the other two groups. This indicates that even with liberalization, the largest exporters of agricultural commodities continue to be the large organizations.

The results of this study should help developing countries, especially those of sub-sahara regions, to realize the importance of efficient marketing activities in their economy. Many countries in the region still utilize Marketing Board system because they feel it is the only way to control their exports. This has led and continues to lead to decreases in agricultural production. With the current food crisis in the region, it would be wise for the region to follow the Nigerian example and continue to stimulate agricultural production. This is the only way the region can feed its people and increase exports.

Policy Suggestions

Changes in distribution channels of agricultural export commodities alone cannot be the sole determinants of further growth and development. The integration of national and regional distribution or markets entails continued development of infrastructure.

The development of rural transportation and communication systems linking these areas with urban centers, can facilitate the rationalization of marketing activities and a more efficient distributive network.

Redistribution of income is an issue which must be faced, however, if the Nigerian society is to capitalize on its development potential, the socio-economic structure in Nigeria has proven to be a limiting factor in the growth of aggregate demand and consumption. The formation of the regional market, the Economy Community of West African States (ECOWAS) does not appear to have expanded markets significantly since the same limiting conditions exist in other countries of the sub-sahara African region.

Development strategies still need to be reoriented in order to meet the needs of the majority of the population. The Nigerian government should increase its efforts to ensure the economic integration of the sub-Sahara. Such an effort should include provisions for providing foreign aid to sub-Sahara nations so that export markets can be expanded for Nigerian agricultural products.

The government should ensure equal distribution of public infrastructure within the regions to ensure political and economic stability in the country.

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ECONOMIC DEVELOPMENT: STRATEGIC CONSIDERATIONS ON PROJECT PORTFOLIOS

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Abstract

Universities have the potential to be a positive factor in economic development, and small business development centers have been established in many US universities to capitalize on the potential that may exist in this area. A model is introduced that permits strategic analysis of development portfolios in such centers. The issue of portfolio balance is discussed from an experiential base. Particular attention is paid to platform projects, which exist between derivative and breakthrough projects, and the potential they have for economic development. Although the treatment apparently presumes an existing portfolio, similar considerations would exist for establishing an initial strategic portfolio.

Introduction

It is difficult to assess all the issues that may be important in discussing economic development. Network theory, for instance, has been developed to describe European industry (Håkansson 1982). These networks have been seen as being important in providing insight into industry formation. That is, firms attempting to locate in regions with a weak industrial structure may be hampered in their development. Likewise, such start-up firms may find difficulty in finding suppliers and core skills required for their existence (Christensen 1991). Thus, regional development expenditures may have a difficult time in affecting the spatial distribution of economic activities.

Nevertheless, conscious attempts are made to encourage regional development. While his discussions were framed in terms of nations, Porter noted that the geographic concentration of industries within nations needed to be explained. "Successful firms are frequently concentrated in particular cities or states **within** a nation. In the United States, for example, many of the nation's leading real estate developers are based in Dallas, Texas; oil and gas equipment suppliers in Houston; ...; mobile home producers in Elkhart, Indiana, and minicomputer companies in Boston. Something about these locations provides a fertile environment for firms in these particular industries. Government policy at the state and local level has an important

role to play in shaping national advantage" (Porter 1990).

One vehicle employed at the state and local level to encourage business expansion has been the small business development centers in many U.S. universities.² This practice is perhaps surprising because enterprise development and academic scholarship traditionally have not been viewed as compatible. It has been suggested, "The fundamental forces affecting higher education institutions and new business ventures seem so dissimilar that, on the surface, the two worlds seem to be operating in different planetary systems. Experience has shown, however, that the two worlds' orbits do indeed intersect, albeit infrequently. When they do intersect, the interaction can result in considerable economic value" (Allen 1992). Small businesses, in particular, have been a focus because of the importance they appear to have in job creation. It has been suggested that between 1969 and 1984, 66 percent of the total jobs gained in the US economy between 1969 and 1984 were provided by firms with less than 100 employees (Reynolds 1990).

Within these centers, economic development may be thought of as a four pronged attack. A model that incorporated analyses of the sources of job gains and losses has been used to analyze Swedish data (Lindmark 1992, Davidsson 1992). It suggests that

$$\text{Economic Growth} = \text{Job Gains (Business Births + Business Expansions)} - \text{Job Losses (Business Deaths + Business Contractions)} \quad (1)$$

The function of economic development thus becomes one in which not only business births are encouraged, but business expansion as well. Similarly, attempts to minimize job losses through business deaths and business contractions becomes part of the role of an economic development program.

Projects and programs tend to be organizational features in these centers. The author has had experience in a number of projects associated with small business development centers' successful attempts to assist local economies

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² Authorized by an act of U.S. Congress in 1980, the Small Business Development program was conceived as a jointly funded venture between the federal government, through the U.S. Small Business Administration, and public and private sector agencies at the state and local level. In May 1992, there were 775 SBDC's in the 50 states, 2 territories, and District of Columbia. Parties interested in the program might contact the Small Business Administration in Washington, DC.

(Musser 1990; Tieder 1989 a,b; Wilson 1989, 1991, 1992). One thing that became evident during this time was that it might prove useful to have some approach that assists strategic development of these efforts. In particular, the matter of a properly balanced portfolio of projects may be an issue. The purpose of this article is to introduce a model that may prove useful in making portfolio analyses and thus identifying steps toward development that might be addressed. These reflections may be of assistance to other practitioners, whether they are consultants to small business centers or economic development program managers.

Conceptual Background

In the absence of any external organization, a geographical area is left to develop its economy *au nature*. That is, development will proceed on the basis of opportunities that present themselves to individual companies and entrepreneurs. These opportunities may be the "something" peculiar to some geographic areas to which Porter refers (1990).

The existence of an assistance organization in a geographic area, however, suggests that the possibility exists for developing some strategy for economic development assistance. The first step in any planning process is generally an analysis stage. A means of analysis that may be relevant to this situation has been recently described (Wheelwright 1992). It was observed that firms could be more effective if they attempted to "balance" their approach to development by having a proper mix, or portfolio, of development projects. The analysis, as described in the literature, strictly applied to product development efforts of firms. It is implicitly assumed here, however, that a very close analogy exists between the projects managed by a product development manager in a firm and an economic development manager in a region. Both individuals are held responsible for the long term health and vitality of their respective areas of responsibility. The strategic importance of the project portfolio is thus important in both cases (1). The product development model will therefore be extended in this paper to function as a possible guide for economic development strategy.

The initial step in the analysis of a regional economic development portfolio is the definition of a framework that will permit understanding of the type of work being presently done. Because the basic organizational unit of economic development work tends to be projects, it is essential that the nature of these projects be understood. Two dimensions that suggest that they may be useful in understanding regional economic development projects are

- 1.) the degree of change in **composition** of business that will occur in the geographic area in question, and
- 2.) the degree of change in **knowledge** that must be implemented within a firm as a consequence of the project.

Generally, the greater the change along either dimension, the more resources that will be needed to implement the change.

Composition of business means both the basic character of business, i.e., retailing, service, manufacturing, etc. and the nature that the basic business might take, i.e., basic, specialty, etc. For instance, the idea that a new or expanded manufacturing plant could stimulate a lagging economy has been a paramount theme of development interests in the US (Hunker 1974). Within manufacturing, "high tech" manufacturing has been particularly sought and has a certain natural association with university areas.

Changes in business composition may be thought of as being of four types. In the simplest situation, derivatives and enhancement of a basic business may be produced. An example of this type change might be efforts to enhance the competitive position for a local food producer among local customers. At the other extreme, one can envision the addition of new core businesses in development settings. An example of such an addition would be the addition of a ceramic manufacturing plant into a geographic area that had been previously wood, or metal, products oriented. In between, two additional changes are defined -- additions to business families, e.g., additions to existing businesses that serve additional segments and thus expands employment, and next generation businesses, e.g., employment growth through business growth into different product/market combinations from an existing business base.

These next generation businesses may be most difficult to conceptualize because they exist between additions to a family and new core businesses. Obviously, shades of changes exist between these categories. An example that the author had experience with involved treatment of a waste stream that produced a new business potential for a client when the same process was used to treat other firms' wastes. This expansion involved both a new product (waste treatment) and new segments for the firm out of which the business grew. The original company thus went from a product producer to a service producer in part -- a next generation change.

In general, economic development is concerned with job production as suggested by Equation 1. As one goes along a change in composition axis from enhancement projects to new core business projects one goes from job protection to job creation. Also, as one goes from enhancements to new business formations, one obviously goes from relatively safe projects to relatively risky projects as far as economic enhancement is concerned. Thus, there are some obvious considerations on expected returned that might be discussed.

Knowledge changes, the other dimension relevant in economic development portfolios, generally come in two forms. On the one hand, additions may be made to basic business knowledge. These additions may be as simple as helping a client find a supplier of material, or as complex

as assisting in a joint venture agreement. On the other hand, there is also a technological component of knowledge. Changes in technology may manifest themselves in such ways as assisting a client in using the telephone more in promotion, computerizing an accounting system, or incorporating some new machine tools in production.

Knowledge changes also may be considered as having a spectrum defined by four types of changes:

incremental changes, e.g., the addition of some software to an existing system for a client.

simple upgrades, e.g., training in how to utilize manufacturing representatives effectively in distributing a product for a manufacturer that had always been sold direct.

next generation knowledge, e.g., instruction in quality assurance for a client considering a just-in-time agreement.

new core knowledge, e.g., incorporation of computer assisted design into an existing manufacturing scheme.

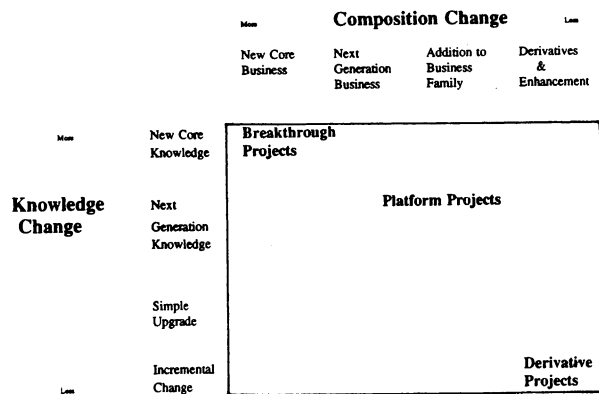


Figure 1 - Development Projects Map

Using this approach that considers business **composition** and **knowledge** changes as important in defining project types, three different types of projects may be defined in analogy with the original article (Wheelwright 1992). These **types** of projects are used to assess portfolio balance. They are derivative projects, breakthrough projects and platform projects. These different types of projects are shown in **Figure 1**, which illustrates the framework upon which development projects may be mapped.

Derivative projects frequently result from requests from existing businesses. Any project that promises to make existing businesses more competitive within their existing sphere of business, i.e., better and faster tends to fall into this category. These projects range from time, or cost, reduction assistance to profit enhancement projects. For example, efforts to computerize a firm's files, or find more potential customers for a firm's output would be of this type. Much planning assistance also falls in this category because many plans are developed that merely formalize

company's approaches to their existing business. Likewise, many of the seminars presented by centers may be of this project type because they are not designed to particularly develop new businesses, but better business practices, i.e. stress management, time management, managing for effectiveness, or cost accounting seminars fall into this category.

It should be noted that a value judgement is not being placed upon these types of projects. It is recognized that "before winning, one first has to assure that he/she does not lose." The harsh reality is that many development centers have arisen in geographic areas where manufacturing plants have closed and basic industry has declined. A first priority in developing an economy must therefore be to preserve, to the extent possible, existing jobs while going about the work of creating new ones as suggested by Equation 1.

Breakthrough projects represent the other extreme in development activity and probably represent the second most frequent request for assistance in economic development centers. This project class is characterized by the familiar case where an entrepreneur comes to a center and says, "I have this terrific idea and I need some help in getting started. I also have no money." If the concept appears viable, personnel at the center may assist in (do) market research, assist in (do) planning, and assist in (get) start-up financing for the entrepreneur. If the start-up is successful, and if the business does not replicate existing business, then a new core business may enter the local economy. Business growth, either incremental or through firm formation, may be expected from the presence of this new firm. Seminars that assist this type of activity are "getting started in your own business," "women entrepreneurship," etc.

Of course, much of what is known about new firm formation suggests that this area is a high risk area, and thus these projects are necessarily high risk. Again, no value judgement is being expressed here. It is also known that these efforts can be high reward when they are successful. Not only are real, new jobs created in the successful firm, but jobs are also created in supply and service firms for the new company itself and also for the new employees. Mission statements of development centers tend to specifically address these entrepreneurial start-ups because it is known that entrepreneurs are rare and starting a new business is a tough job. Furthermore, anecdotal evidence of pay-offs tends to emphasize attractive situations and thus financial supporters of centers tend to place some priority on helping start-up projects.

Platform projects represent the in-between situation and thus are harder to define. Platform projects can be generated by both existing firms and entrepreneurs. They tend to require more knowledge generation and also tend to require significant product modifications or access to new market segments than derivative projects. On the other hand, they do not introduce radically new knowledge or business changes for a given geographical area. For example, a manufacturer may express an interest in opening up

a new production line to serve a previously unserved market segment. Or, an entrepreneur may come to a center and say, "Look I think firm XYZ is missing an opportunity. They should be producing a product to satisfy the ABC segment, which they are now ignoring. I want to start a business to do that."

Good platform projects will extend the economy of a given geographical area. They tend to create jobs in an incremental manner when they derive from existing firms, and they tend to be rather "safe and secure" expansions because the company is expanding from some position of business strength and knowledge. Entrepreneurial type firms may generate a larger increment of jobs, but the expansion also carries some higher risk. Nevertheless, the risk may not be so extreme as with a new core business because the expansion is undoubtedly from some position of production or market knowledge and thus expansion with these type projects may be very comfortable within a region.

Applying the Approach

To illustrate the approach outlined here, a conceptual portfolio has been constructed from projects with which the author has some familiarity (2). Twelve projects have been identified and their required knowledge input and expected business change noted. This information is shown in Table 1. The information from Table 1 has, in turn, been plotted in Figure 2. It is this figure that will receive attention and subsequent discussion.

Proj. No.	Project Title	Required Knowledge Input	Knjge Rating	Expected Business Change	Change Rating	Required Allocation
1	Technical R&D Program.	Suitable Business Orientation.	4.5	Possible Formation of New Firms.	4.5	8
2	Service Center.	Analysis of Present Perception.	1.5	Enhanced Business.	1.5	2
3	Manufacturer's Strategy - 1.	Assistance in Strategic Planning.	2.0	Enhanced Business.	2.0	4
4	New Plant - 1.	Assistance to Potential Entrepreneur.	4.0	Possible Construction of New Plant.	4.5	10
5	New Product - 1.	Preparation of Marketing Plan.	3.8	Possible Construction of New Plant.	4.5	6
6	New Firm - 1.	Assistance with Survival Plan.	2.0	Survival of Firm.	1.0	3
7	Manufacturer's Strategy - 2.	Assistance in Strategic Planning.	2.0	Business Enhancement/ Survival.	2.0	2
8	Manufacturer's Co-op.	Analysis of Present Quality Perceptions.	3.0	Enhanced Business.	1.0	12
9	Start-up Business.	Periodic Mentoring of Progress.	3.8	New Core Business.	4.2	4
10	Business Expansion.	Venture Plan.	4.0	New Core Business.	4.2	6
11	Specialty Manufacturer.	Specific Promotion & Pricing Info.	2.0	Profitability & Growth.	1.5	3
12	Seminar Series.	Specific Information in Seminar Format.	2.5	More Knowledgeable Business Climate.	1.0	3
TOTAL RESOURCES						63

Table 1 - Hypothetical Portfolio for Analysis

Application of the approach is a simple, seven-step process that involves:

1. assigning a rating scale to each axes in Figure 1.
(For the portfolio considered here, a five point scale was used.)
2. rating individual projects for their necessary knowledge

input and consequent business change that might be expected.

3. noting the resources allocated to each project, in man-hours or dollars.

4. posting the individual project information to a graph as shown in figure 2.

5. characterizing the apparent strategy that the graph of the portfolio suggests.

6. comparing the apparent strategy with the desired strategy.

7. making changes desired.

The portfolio shown in Figure 2 is characterized as a portfolio that tends to have either breakthrough projects or derivative projects. Of the total resources allocated, over eighty percent of allocations go to these two type projects - 54% to breakthrough projects and 27% to derivative projects. Breakthrough projects tend to be fewer and bigger, as shown by the size of the allocation circles. There appears to be a gap in platform projects. The center manager would reflect on these characteristics and decide if it was the type of portfolio suitable for the role of the development center in the region.

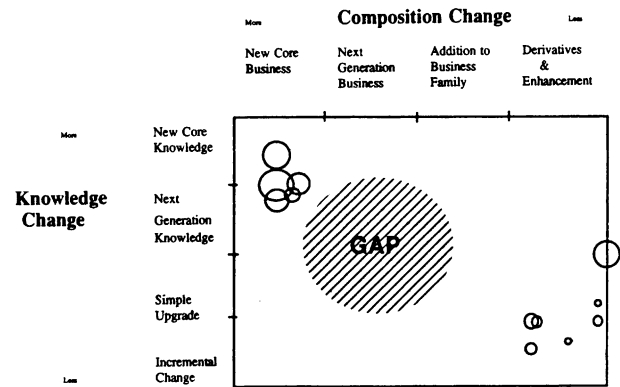


Figure 2 - Conceptual Portfolio for Analysis

The portfolio shown may not be necessarily bad. It may be that platform type projects are handled well by existing firms in the region. In this situation, the role of the development center may thus be to assist small, local firms stay healthy and to attempt to bring in significantly new businesses to the region. If this were the case, the portfolio would indeed suit the needs of the region and the strategic emphasis of the center would unlikely be changed. If, on the other hand, the platform project gap was thought to be a significant deficiency in strategy, then changes would be warranted.

Several different types of changes might be considered. In a fixed budget situation, some of the breakthrough

funding might be directed toward platform projects. Either existing entrepreneurs might be directed toward existing business situations, a change in their emphasis, or resources might be shaved from existing projects to support new ones. In this latter case, new projects would have to be generated. One source for these projects would be from existing businesses, which could require some marketing of the center itself to existing businesses.

In an open budget situation, a specific, independent program could be designed in which the deficiency could be addressed. The program could be implemented without detracting from existing programs.

Discussion

An outline has been given for conducting a portfolio analysis of projects in an existing development program, and an example has been given to illustrate how the analysis might be made. It is anticipated that the approach will have intuitive appeal for practitioners. Certainly, the idea of classifying projects has a strong fundamental base, and the idea of using business composition change within a region and knowledge introduction appears well grounded in actual center operations. There may be some problems in initially assigning project ratings, but it is thought that since this approach is meant for self analyses, center manager will work through this potential problem to their own satisfaction.

Implicit in the approach is the recognition that the center manager is, in the final analysis, a project portfolio manager. As a portfolio manager, proper balance should exist between existing project effort and strategy. At issue is portfolio balance and the correct composition for a given region. Proper response to this issue is, of course, situational. What is good for one region is not necessarily good for another. The balanced portfolio will depend upon regional needs, regional assets, and efforts expended by other development organizations.

Nevertheless, platform projects, in particular, would appear especially important within a region's economic development efforts. One danger of running a customer oriented center is that few requests for these type projects might be generated. That is, it may be easy for a business to identify particular needs for immediate operations. Likewise, entrepreneurs may show up with requests for assistance in developing quite different core businesses.

Center managers in this situation could find themselves in a position of having to market their services. One target market would be existing businesses. The message would be, "We think strategic expansion of your business might be profitable. You might consider it. We could help." Benefits to the area could be worthwhile -- expansion would be from existing business strength, and perhaps some aspect of Porter's regional specialization could be gained. The potential pay-off in job development would appear to make the effort worthwhile.

In closing it might be noted that this paper has been written with an on-going center as its focus. This focus is a practical one because of the many existing centers in the US. Similar considerations, however, would exist for start-up centers. In fact, using a balanced portfolio approach would undoubtedly lead to the long term successful growth of the center and the region it impacted.

End Notes

1. R&D projects and strategic alliances, both of which fall outside of the portfolio analysis matrix, were considered in the Wheelwright/Clark article. Although conceptually significant to development centers, they are not considered in this article.

2. The nature and balance of this portfolio are not meant to reflect on any program with which the author has been associated. It is merely a collection of projects with which the author is familiar and has been assembled to illustrate how a portfolio approach may be used.

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THE IMPACT OF TRANSFORMING EASTERN EUROPE
ON FOREIGN INVESTMENT STRATEGIES
Estonia from the Perspective of a Foreign Service Company

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Abstract

This paper deals with the impact of East European transforming markets on foreign investment strategies. Entry strategies by two Finnish service companies into Estonia are discussed in order to examine how service companies with previous international experience enter the markets. It is acknowledged that the entry strategies may be implemented differently from the entry strategies elsewhere in industrialized or developing countries. Furthermore, it is argued that decisions to enter the transforming markets require more country-specific empirical research to indicate the real state of the transforming East European markets.

Introduction

During the reorientation of Eastern Europe a number of foreign companies have established themselves in the Baltic states. The "joint venture decree", set in Jan. 13, 1987, was a major step toward development enabling foreign business activity in the former Soviet Union. Two other significant developments in the legislation have been Dec. 22, 1988 when restrictions for foreign ownership were dissolved, and summer 1990, when the "joint stock company decree" was completed. The decree influenced foreign business activity directly by enabling the establishment of foreign-owned joint stock companies which are easier to manage than the inflexible joint ventures. The indirect result was the growth of the private enter-

prise sector in Estonia; the number of Estonian enterprises doubled in two years. At present there are over 40.000 established companies in Estonia (Liuhto 1992b).

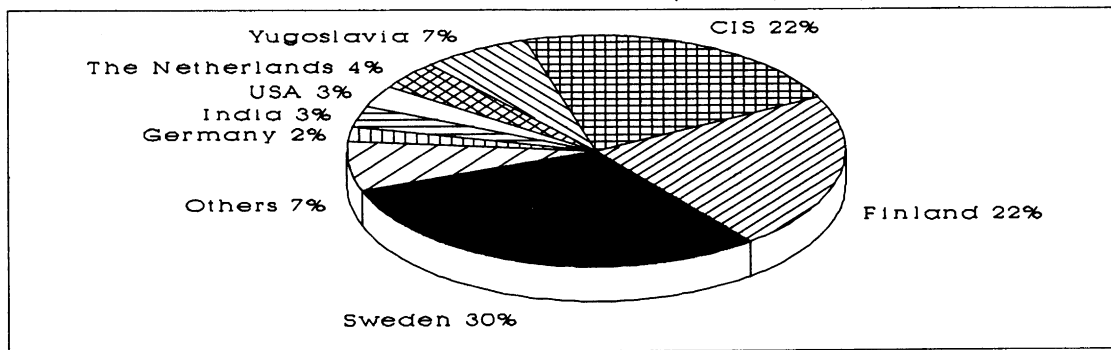
The impact of the joint-stock company decree can be noticed in the form of joint venturing boom. The result was that the number of foreign-owned companies increased tenfold in two years. At the end of 1992 the total number of foreign-owned companies reached almost 3000. Finland, followed by Sweden, Germany and USA, have been most interested in investing in Estonia. The number of cooperative ventures established by other Western countries is remarkably smaller.

Perhaps more important than the number of ventures is the size of investments. The establishment capital of cooperative ventures is 6.835 million Estonian crowns. The amount of investments of foreign companies is 2.050 million. Swedish investments have formed nearly one third of all foreign investments in Estonia. Many ventures have been established in order to look the development inside the country and only after real business opportunities arise, make further investments. This strategy could be labelled as "waiting inside the gate", ie. to be in the market and to establish relations, but to limit the risk.

Internationalization of Services

Although the strategic importance of the choice of an entry method has been emphasized also in the service sector

FIGURE 1
FOREIGN INVESTMENTS IN ESTONIA (OCT. 1, 1992).



(e.g. Ohlsen & Markgraf 1991; Nicolaud 1989;), empirical studies in the field are still rare. Because of the different nature and characteristics of service businesses, considering also their international aspect (see e.g. Thomas 1978; Grönroos 1979; Lovelock 1981;), it has been argued that service firms must choose from fewer entry options because exporting of services is impossible (e.g. Carman & Langeard 1980).

Vandermerwe & Chadwick (1989) have proposed a classification system which illustrates modes and strategies in service internationalization. They argued that services tend to cluster around three levels of internationalization modes, which they call (1) "exportable", (2) "3rd parties", and (3) "FDIs" (cf. classification by Root 1983). Furthermore, they argued that service companies may be operating in more than one mode.

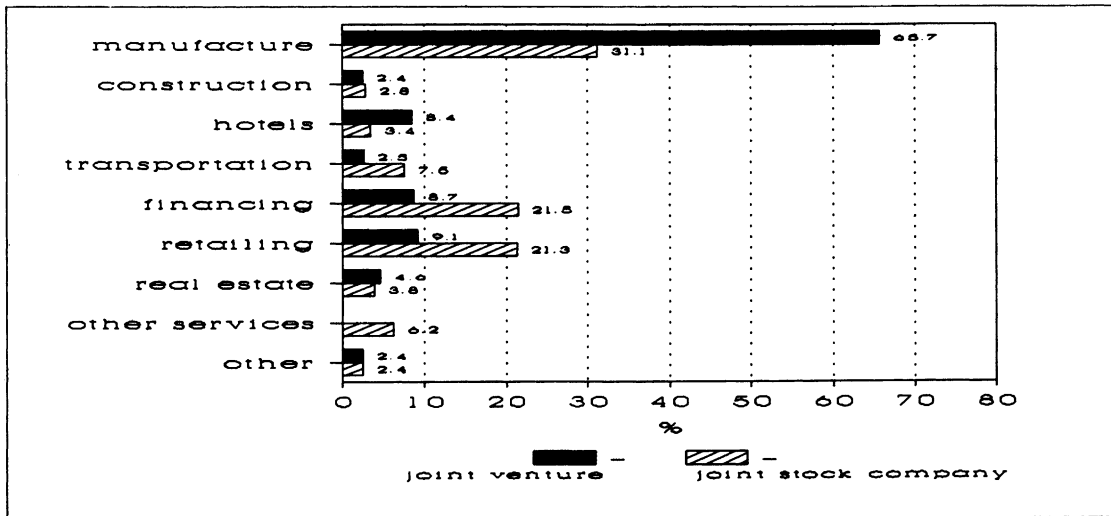
Variation in entry mode choice across various service industries was studied by Erramilli (1990) who made a distinction between "hard" services (the production and consumption of a service can be separated), and "soft" services (production and consumption occur simultaneously). According to Erramilli, foreign market entry behaviour in "hard" service industries (e.g. packaged software, engineering design, R&D services,) appears to be similar to the manufacturing sector. On the other hand, "soft" service industries (e.g. advertising, consulting, banking, insurance) differ from manufacturing firms and rely mostly on non-export modes of entry.

The decision on an entry strategy is most closely related to the date when a service company first entered international business (Weinstein 1977). For the earlier entrants moving into international business, the stimulus was usually the move of a large important client into international markets. These are later called "client followers" (Erramilli 1990), firms going abroad primarily in order to serve their domestic clients also abroad. The later entrants usually entered international business because of the perceived opportunities, being thus "market seekers", firms going abroad in order to serve foreign customers. Weinstein argued that the earlier entrants almost exclusively chose wholly owned subsidiaries while the later entrants were more potential to form equity joint ventures. Furthermore, a study concerning the internationalization of Dutch insurance companies (Eppink & Van Rhijn 1988), showed that they preferred acquisition of an existing company over starting from scratch either alone or through an equity joint venture.

Estonia from the Perspective of a Foreign Service Company

Figure two illustrates the diversified interest in joint ventures. Joint stock companies are increasingly dealing with finance activities, trade and other services. Lately, industrial services have also developed, e.g. consulting, forwarding & transportation, credit, banking, and insurance services (Liuhto 1992a).

FIGURE 2
THE DIVISION OF FOREIGN INVESTMENTS IN VARIOUS FIELDS OF BUSINESS.



An important question that arises from all this is: How do service companies with previous international experience enter into the Eastern transition markets? Therefore, we will compare entry mode choices by two Finnish insurance companies ("Comp1" and "Comp2") in the Estonian markets. The empirical material consists of two types of material: on one hand, of interviews which were concerned with the foreign operations of the target companies and were conducted with the managers of both the senior and operative level. On the other hand, documents including annual reports and other corporate documents together with articles in business magazines and newspapers were also studied.

The Insurance Industry in Estonia

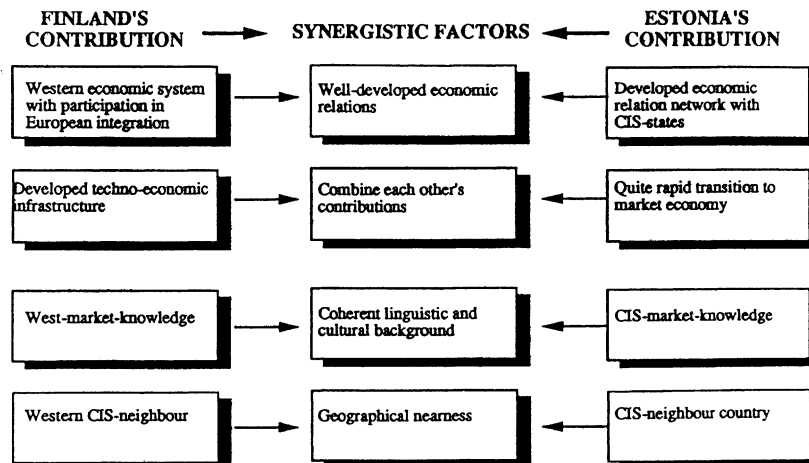
Development of the insurance business in Estonia was not very controlled in its early stages and the traditional insurance companies could not satisfy the increasing demands. The insufficient coordination in the insurance sector rapidly lead to the establishment of insurance companies, which differ considerably in their resources. Their funding capital varies from 2 500 crowns to 2.5 million crowns (Äripäev 97/92; Kaubaleht 15/92). Among the companies, there are two foreign-owned enterprises. These two companies are partly owned by Finnish insurance companies.

Comparison of Two Finnish Insurance Companies Market Entry in Estonia

Entry strategies of the companies were quite similar with one another. Both companies were involved in forming an equity joint venture (= a joint stock company), in which the Finnish partners took a minority shareholder position. Furthermore, in both cases another foreign partner as well as local Estonian partners were involved. Both companies also had previous international experience of various kinds, and also had existing cooperation with their respective partners prior to the establishment of the new joint venture in Estonia. In Estonia, both companies relied on a non-export mode of entry typical for "soft" service industries (Erramilli 1990). Furthermore, both companies preferred an investment entry over a plain contractual entry mode.

"Comp2"'s activities can be seen as a natural consequence of the world-wide cooperation between them and a Swedish insurance company. This is natural since Finland and Sweden are the two major investors in Estonia. "Comp1" had existing cooperation with a Swedish insurance company and also with an American insurance company, but despite the potential Swedish interests in Estonia "Comp1" decided to undertake the joint venture with their American cooperation partner.

FIGURE 3
FINNISH-ESTONIAN DUAL-GATEWAY BETWEEN EAST AND WEST (Liuhto 1992b, 16).



A major difference was the choice of partner, as well as motives, sizes and resources of the partner. "Comp2" chose a Scandinavian partner, although one with which they had an existing world-wide service network. "Comp1" chose a partner which had an international service network of its own. In the terms of previous research, "Comp2"'s partner was definitely a "client follower", and the partners' motives were common. "Comp1"'s American partner was naturally interested in the ability to serve their internationalizing customers but in addition to that, their motives included a strong element of "market seeking". "Comp1"'s and their American partner's motives were thus not common but neither conflicting or complementary. Their motives were simply, at least to an extent, different.

In "Comp2"'s joint venture the partners rely totally on local management in the operative level. In "Comp1"'s joint venture, however, the managing director comes from the Finnish partner company. Based partly on this, the role of the Finnish parent company is more important in the case of "Comp1" than in the case of "Comp2".

Considering future activities of the companies in the Baltic region, they regard Estonia as a part of the Baltic markets, and therefore intend to expand their operations. Estonia seems to serve as a "pilot" operation. Entries into other Baltic states and

possibly to Russia are to be realized according to the same concept.

Discussion

Acquisition of an existing company has been virtually impossible because of the almost non-existent insurance markets in Estonia. The companies in an earlier study (Eppink & Van Rhijn 1988) preferred starting from scratch alone over starting from scratch with one or more partners, whereas the companies we have studied preferred to have not only local partners but also an additional foreign partner with whom they had cooperated earlier. This can be seen as a form of minimizing or sharing the risk. Because of the dynamic business environment and prevailing uncertainty, sharing of risks seems to be a dominant feature in business activities in Estonia.

Because of the environmental factors it may also be argued that when a firm enters Baltic markets the situation is often the same as when the firm enters international markets for the first time. Then, according to Weinstein (1977), earlier entrants would choose wholly owned subsidiaries, and only later entrants would be willing to enter joint ventures. Moreover, the companies Weinstein studied entered into minority positions through a purchase whereas in our cases minority positions were entered into through starting from scratch.

Considering the partners' motives for forming a joint venture with a Finnish partner, certain facts make Finnish partners attractive in Estonia. The distance between Finland and Estonia is small in geographical as well as in cultural terms. Due to similarities in languages, various supporting activities can be provided from Finland.

In the background of the partners' motives for the market entry may have been an idea of the Baltic states as a gateway and a test laboratory, from which to have a better view over the insurance markets of Russia and other CIS-countries. If so, service companies seem to follow manufacturing companies in directing their activities towards East via Baltic States.

The possibility of creating a dual gateway (Liuhto 1992b; figure 3) is a noteworthy characteristic in East-West trade at the moment. The idea of a two-way bridge between East and West via Finland and Estonia is contributed by Estonia's experience from the Soviet system and Finland's experience in belonging to the Western system. Our empirical analysis of the two insurance companies operating in Estonia supports the idea of a dual-gateway.

Conclusions

Empirical studies on entry mode choices in service industries are not very numerous. Especially this is true concerning Eastern Europe. The study indicates the fact that market entry strategies may look similar but a closer examination often indicates a number of differences, which have quite often been due to the characteristics of the transforming markets in Eastern Europe. Moreover, entry strategies of service companies in these markets may be implemented differently and not necessarily based on the same arguments and reasoning as the entry strategies by the same companies elsewhere in industrialized or developing countries.

Many similarities exist between the development stages of the Eastern markets. Nevertheless, it ought to be realized that the business abilities vary remarkably from market to market.

It is important to analyze the actual developments and not only focus on the potential and future expectations of the Eastern transition markets, since there is a gap between the potential and the reality in these markets. Market entry decisions into Eastern transition markets require more country-specific empirical research to indicate what is the actual state of the specific market from the perspective of a foreign service company.

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THE IMPORTANCE OF TOTAL QUALITY MARKETING IN EXPORT GROWTH

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Abstract

This paper analyzes the importance of "total quality export marketing" for developing countries. After brief reviews of the literature on quality and export marketing, the paper examines Turkey, a country that has developed considerably in the last decade as a result of many liberal economic policies. At present, however, Turkey finds itself competing for export markets against other industrializing countries that are, like Turkey, good sources of labor-intensive products. Unless Turkey makes the customer the focus of its export marketing efforts to achieve global competitiveness, it may not be able to continue its export success.

Introduction

John Young (1985) defines competitiveness as

the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while at the same time maintaining or expanding the real incomes of its citizens.

Competitive advantage is the key to success in gaining and maintaining market superiority. To become and to stay competitive, companies with global strategies should put quality first. In today's interdependent global market place, quality has become the common denominator that ensures survival and success.

Quality is the centerpiece of a developed marketing system. Recent years have witnessed an ever-increasing interest in total quality in managerial circles which tend to treat quality either as an issue of technical merit and contribution or as something relevant only to production. Thus, since the beginning of the quality revolution, managers and organizations in many countries have mostly improved quality from a "manufacturing" or a "product" perspective rather than from a "marketing" oriented perspective. The quality loop begins and ends with marketing. Drucker (1964) argues that both the market and the distributive channels are more important than the product: although management can change or modify products, it has almost no control over how the market behaves.

In quality marketing, achieving customer satisfaction and sustaining resales become the key objectives. Companies have to satisfy the customers by anticipating their needs and by immediately responding to their expectations. Managers devise their strategic planning in relation to customer wishes. Customer focus requires an empathy for the customer together with the desire and the strive to serve the customer's evolving needs and expectations. In other words, companies must define quality from the point of view of customers. Also, in the striving for customer satisfaction, total quality is not an end in itself, but only a means to the end which is global competitiveness.

For a country, economic development is not a domestic issue that can be separated from the competitive global economy. Export growth is a crucial tool in economic development. The transition from an industrializing nation to an industrialized one requires export growth policies that emphasize quality for becoming and staying globally competitive. This paper discusses this issue in the context of Turkey. The realization of the importance of quality at every stage of marketing

for continued export growth is not true only for Turkey, but Turkey constitutes a relevant example for many industrializing nations.

Export Growth In Industrializing Countries

Among the many benefits of exporting on a country's development are increased sophistication of industrial structure due to increased competition, a more efficient resource allocation, more domestic demand in sectors that supply materials to exported goods and services, savings in capital leading to higher output through greater employment, wider choice of consumer goods at lower prices, and increased foreign currency reserves, easing the restraint of foreign exchange (Keesing 1979; Balassa 1978).

Some scholars argue that developing countries' primary exports face market limitations and their manufactured exports encounter high protection in exporting countries. However, Balassa (1978) believes that most industrializing countries either do not have enough supplies or their exports do not measure up to the requirements of importing countries. In manufacturing, newly industrializing countries rely mostly on cheap and not-highly skilled labor. However, labor-cost advantages do not necessarily provide them with enough economic advantage any more. How can the industrializing countries use their resources to their competitive advantage to adapt to the new world order? Moreover, how can these countries also extend into exporting services? The answer to ensuring competitiveness lies in quality export marketing.

Quality Export Marketing

Quality marketing is as important in export activities of a nation as it is in its domestic marketing policies. It is also crucial for individual exporters:

Doing any type of marketing job well together with having a stronger and/or brand franchise means that a company can be better shielded from competition in export markets (Albaum et al 1989).

In developed economies, marketing has become the center of the entire business function: firms begin with consumers and work back to production (Moyer and Hutt 1978).

However, for many industrializing nations, industrial production, financing and exporting to improve the trade balance become the top priority whereas marketing hardly receives the attention that it deserves. Neither governments nor managers treat marketing as important because the results may not be as tangible financially. Governments, by moving from inward-oriented import substitution to outward-oriented export strategies believe that the country's exports will increase automatically. Although liberalization policies initially increase a country's exports, sustaining export growth requires an export marketing orientation based on satisfying the customer.

For a country's exports to become and stay competitive, the government together with the private sector need to cooperate to ensure successful export marketing strategies. Industrializing countries' governments have to help firms realize the importance of having a thorough export marketing program in which quality becomes the centerpiece. Governments need to help businesses realize that an exporting strategy based on consumer satisfaction will be sustainable and not a one-time opportunistic one.

Therefore, the government has three important roles. The first one is to create a domestic environment that favors and protects competition. Competition policy creates the environment for a fair distribution of resources, products, and incomes between suppliers, producers, and consumers. Anti-monopoly and free trade laws prove important steps in achieving competitive markets. For example, in 1981 Korea introduced the Anti-monopoly and Fair Trade Act along with liberalization and privatization policies. Although these policy changes have encountered setbacks from several industries, the Korean government has played an important role in promoting competition and enhancing efficiency (Han 1991).

Secondly, the government should create an environment that encourages exporting and that helps exporters. Ideally, government export incentive schemes should ensure a free trade regime along with stability over the long run. Making the country's monetary unit convertible to other world currencies, allowing a realistic exchange rate mechanism, and export subsidies are usually the first actions a government would take in its liberalization and export boosting policies. The government should also have an informational bureau that is active and that has good networking with potential and current exporters (Albaum et al 1989). Additional services include setting up trade development offices abroad, sponsoring trade missions, and participating at trades and fairs.

Finally, the government has to increase managers' understanding of the meaning and the importance of quality in both domestic and export marketing. Continuous workshops and seminars would help in this attempt. The government can also encourage and channel resources into technological research and development, improve distribution networks, set up national quality standards and national testing and standard-registration agencies, and encourage or even make mandatory inspection of export products. For example, India's inspection agencies counsel manufacturers on production processes and standards and inspect exports (Asian Productivity Organization undated). Also, the government should continually strive to improve the general image of the country abroad. The efforts should include promotional offices abroad, advertising, and establishing good will.

Despite a government's obligation to create a favorable environment encouraging exports, the private sector has an important role to play, too. Even though businesses are (justifiably) profit-driven, short-term profit orientation can only bring short-term success. As well as attaining organizational (financial) goals, exporters should strive for total quality marketing in order to compete in markets abroad. Although success in export marketing requires competence in general marketing, export marketing also requires a thorough knowledge of and an empathy for foreign markets and the consumer. A company may not be able to control the competitive forces that determine the attractiveness of an export market. However, a company's competitive strategy could and would have enough power to make the market more attractive or to improve the position of the company (Porter 1985).

Many country specific examples show the relevance of the simultaneous role of both the government and the private sector. Today, as one speaks of quality, one of the first countries to examine is Japan: at present, for many industries, Japanese products and services set the global standards. However, following World War II, Japanese products suffered from low product quality, many deficiencies, and lack of customer orientation. In the mid-1950's, following the advice of three U.S. scholars, Deming, Jansen, and Drucker, the Japanese chose the path to continual commitment to quality. They started with working on their manufacturing practices, striving for near-zero product deficiencies. Since then, the Japanese have also expanded the quality concept to suppliers, subsidiaries, services, and customers (Starr 1991). The outcome has been a complete transformation of the image of Japanese products and services.

New Zealand constitutes another good example for countries facing the quality challenge. Until 1984, government inter-

vention and protectionism dominated the economic scene and this policy led to low productivity and mediocre product quality. However, starting in 1984, the government changed its policy, introducing free market economics. At present, New Zealand is still installing a program to improve and ensure quality in manufacturing and marketing and most importantly trying to increase awareness of quality within business circles. The government has established many educational and training courses and has encouraged the growth in the numbers of third party professionals such as auditors, consultants, standard agencies, and information bureaus. The response of businesses to this attempt to increase understanding of the real meaning of quality has been very positive (Wenmoth 1987).

The next section studies Turkey and its export promotion efforts as Turkey constitutes a good example in studying the importance of a quality marketing orientation in increasing exports and sustaining export growth on a long-term basis.

Turkey

Like many developing countries before 1980, Turkey chose to isolate itself from foreign competition and the rest of the world and based its development on import substitution. During the last years of the 1970's, with the oil crisis of 1973-74, the debt crisis, and the ever rising inflation, the Turkish economy suffered considerably. On January 24, 1980, the government introduced a new economic stabilization and liberalization program to revive the stagnant economy.

In terms of exporting, several important measures were taken. First of all, the government aimed to create a favorable environment to increase exports via a realistic exchange rate mechanism and many export incentives like subsidies, tax rebates, and export credits. (OECD 1984; Milanovic 1986; Herschlag 1988). The government also began to provide public services to Turkish exporters. For example, IGEME (The Export Promotion Research Center) was reorganized to better serve the needs of Turkish exporters (Oktem 1986). In addition to the export promotion measures, there were several favorable exogenous factors affecting the growth in Turkish exports. The 1979 Iranian Islamic revolution cut supplies to Iran and Iran became a major export market for Turkey. Also during the long Iran-Iraq war that started in 1980, Turkey continued its neutrality with both nations and its exports to them rose considerably (Milanovic 1986; Herschlag 1988). Since 1980, Turkish exports on the average have shown quite a remarkable increase in volume and dollar amount terms. For example, total exports rose from US \$ 2,261 billion in 1979 to US \$ 7,133 billion in 1984 and to US \$ 11,627 billion in 1989 (OECD 1991).

A closer look at the export performance on a sectoral and geographical basis reveals important non-market forces behind this success. When the initial export promotion measures of 1980 were introduced, exports increased sharply. In 1980, everyone agreed that economic and financial incentives would be necessary to give a boost to Turkish exports. The 1980 economic report of OECD added that "the development of dynamic, export-oriented attitudes among Turkish firms and government institutions" would be necessary to succeed in increasing exports. Yet most of the time, Turkey achieved international competitiveness through a "policy of persistent real depreciation of currency" (OECD 1988) and via export subsidies, tax rebates, and preferential credits (OECD 1989). Unfortunately, the government could not make the full switch to non-price factors in increasing export share. These factors should have included differentiated products, more market outlets (OECD 1988), and improved product quality. The 1990/1991 OECD Economic Survey on Turkey said that "[the] structural weakness ... could not be overcome by ten years of adjustment effort...[Therefore] further changes in the structure of Turkish exports are required to improve the integration of Turkey into world markets." Thus, the country

still lacks the marketing orientation to be successful in global international markets.

Despite the substantial increase in exports over the last decade, Turkey can still increase its exports quite considerably. For example, although intermediate and capital goods exports have been increasing, the main stress is still on the food industry. The share of agriculture in exports has been falling; yet Turkey could export to many countries including the former Communist countries as well as other areas of the world. Similarly, except for oil, minerals produced exceed the domestic demand and thus there is room for increased exports (Herschlag 1988). Furthermore, a constant share market analysis shows that the volume amount of Turkish manufactured exports of high and medium-technology is quite low (OECD 1987).

Hanson (1990) argues that Turkey needs to find alternatives to Middle Eastern and North African export markets. As the decade has shown, Middle Eastern and North African markets (both in terms of needs and being able to service their debts) are subject to internal developments (OECD 1986). Turkey needs to increase its exports to other OECD countries; however Turkey does not seem to be able to supply the OECD demands (OECD 1991).

In short, since the early 1980's, although Turkey has been quite successful in increasing the volume of its exports, this increase has been as a result of governmental incentives and other favorable international developments. Because of the weakness in the structure of exports, Turkey is highly vulnerable to changes in world demand and to protectionism of other countries. In order for Turkey to ensure a continual export growth and competitiveness in international markets, especially in the industrialized world, quality export marketing is crucial.

Total Quality Marketing And Government's Role

Economically, Turkey is a country of contrasts. Economic performance declines from west to east. This economic contrast is also reflected in the development of marketing. In the west, the domestic marketing system is quite developed. However, export marketing measures involving promotion, distribution networks, and transportation are not as developed as they would need to be (Bodur 1986). A study by Karabulut (1986) has concluded that even the large Turkish firms based in Istanbul lack marketing orientation both in domestic and international activities.

Eastern and southeastern Turkey have always been considered peripheral regions, experiencing exceptionally serious structural problems. In agriculture, a marketing scheme does not exist: whatever is produced is consumed within the family and locally. Prices of most agricultural commodities are set under the commodity price system that operates on the basis of production costs. Farmers tend to favor and select those crops that are more heavily subsidized and whose purchases are guaranteed. Over-production and the lack of sufficient storage facilities add to the marketing problem (Özer 1990). The manufacturing industry in these regions is also immature due to the insufficiency of entrepreneurship, capital accumulation, technical and managerial skills and communication facilities (Avcioglu 1987). Inadequate transportation and communication networks and high transportation costs are among the reasons why these regions cannot attract investment (Özer 1990).

Consequently, there is much room for marketing development throughout the country. In the east and the south-east, unless structural economic changes occur, micro-marketing cannot develop. In the west, unless exporters adapt a quality export marketing mechanism, their exporting activities will be mainly opportunistic and short-term oriented. In Turkey, export promotion has mostly been limited to financial and economic measures. Now it has to go further to encompass quality marketing with the customer as

the center piece. The government should set the goals, define the direction, and work with private businesses. Then it is up to the private manufacturers and exporters to follow the lead. Therefore partnership between the government and the private sector is very important.

First of all, the government has the crucial role of improving the living, structural, and market conditions in the underdeveloped east and the southeast. Despite their backwardness, Eastern and Southeastern Anatolia have many important assets, natural resources, and a potential for the development of livestock farming (Bayoglu 1984). In agriculture, through modernizing production techniques, productivity may increase and output may diversify. The government should help extend the principles of market economy to agriculture by decreasing the role of government and by encouraging private initiative. Although the South-East Anatolia Project (GAP) will generate opportunities for development, the government should not wait until the completion of the project (which will be in 2005 by the most optimistic measures). The net result will be better and more agricultural produce and more competitive prices for consumers and increased revenues to farmers (OECD 1984). This will create the base for agricultural exports. Then businesses will need to find out and utilize the market opportunities abroad.

In developed parts of the country, firms lack export marketing orientation. Here the role of government is two-fold: first of all, it should help small and medium-sized enterprises become more competitive through modernization, better allocation of resources, and using up to date technology. The government should be able to channel the resources from increased foreign capital and technical and commercial know-how into bettering export marketing. Modernization policies that reward innovation and entrepreneurial action should be initiated and carried through.

The government should also do a better job of increasing the awareness of businesses (both the small and medium-size enterprises and the larger ones that are already established in exporting) about the vital role of marketing in exports. Improved market research in international markets becomes very crucial if Turkey wants to increase its exports to industrialized countries as well as to other parts of the globe. For example, public services available to exporters need to be improved and made more effective. Commercial representation abroad needs to become much more active and better linked to trade organizations and to Chambers of Commerce within the country for prompt information exchanges, etc.

Recently, the government has done quite an effective job of channelling attention to ISO 9000-9004 requirements and registration (Geçgil 1992), but unfortunately not for the completely right reasons. The Geneva based International Standard Organization has developed ISO 9000-9004 as international standards for quality systems. These standards prescribe how good organizations need to be organized and managed. ISO 9000-9004 address the issues concerning product development, installation, and servicing. Documentation of production techniques, of operations, and of quality systems and well-kept and accurate records need to become part of an organization that would like to be certified (Bone 1992).

For almost about a year, The Institute of Turkish Standards (TSE) has been promoting the fact that companies need the ISO certification for survival in foreign and especially European markets. Thus most companies believe that if they have the ISO registration, then their products will not have a difficult time in finding and securing markets. However, ISO registration only ensures that a product or a service conforms to specified and internationally recognized standards. But quality marketing of those products far exceeds the regular standardization process. As a result of conforming to these standards, product quality improves (Katz 1988) and thus products become more marketable;

nonetheless this does not ensure sales, complete customer satisfaction, or repurchases. On the other hand, taking a marketing approach to quality not only addresses the issues of product requirement to meet customer expectations, but also involves managerial, marketing, and after sales customer-satisfaction issues. Now, the government together with TSE should promote the importance of following ISO standards for achieving continual product quality which is a must for quality marketing. For companies, receiving the certification should not become the mere end in itself.

Conclusion

Although both the Turkish government and exporters realize the importance of exporting for the country and for individual businesses, export incentives and export growth have been under the direct influence of fiscal and economic policies as well as international economic and trade developments. Export marketing targeted towards customer satisfaction is lacking in the Turkish export initiative. Unfortunately, this lack of customer orientation makes exporting more opportunistic than long-term based. Although a country should make use of the opportunities the international arena offers, given the importance of export earnings on economic development, its products and services should be sought after no matter how world trade behaves in general. In order to achieve this success in global markets, the Turkish government and the private sector should cooperate continually to develop and sustain a marketing oriented exporting scheme.

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DEVELOPING NATIONS' MARKETING DILEMMAS ARE IMPAIRING THE GLOBAL ECONOMIC DEVELOPMENT

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Abstract

The marketing dilemmas faced by the developing nations are not only a threat to their individual development schemes but also set barriers to the economic development on a global scale. The double standards inherent in their economic policies are contrary to the universally accepted rules of the global markets. This situation combined with the complexities encountered by such nations in global integration is a handicap for their global competitiveness. This paper attempts to analyse the marketing dilemmas witnessed in Turkey and proposes some research topics for matters in the interests of the political decision centres that are responsible for the formulation of the development strategies in the context global trends and marketing.

Introduction

It is forecasted that the coming century will witness increased interdependence and co-operation among all nations on a global nature revealing itself more in technological and economical terms than that of political or cultural.

In the beginning, this internationalism has manifested itself by the multinational companies. Then came the birth of the European community representing regional economical development. In the end, the final goal of the world economic interdependence-the global integration has been reached.

The global integration has a unique scope varying from that of the multinational companies or the regional economical co-operation. In this type of interdependence, a group of nations are integrated by a set of laws, regulations and procedures creating a common interest base while satisfying the fundamental needs of the business life (Winthrop 1978). Consequently, it is expected that the new laws and regulations set up by the blocks of nations in the course of global integration will be the essential causes of the legal and bureaucratic difficulties faced by the LDC's in their international marketing efforts.

A primary condition for getting a bigger share of the world markets is the importance given to research and development in each industrial sector to keep pace with the acceleration of the developing technologies. When firms gain competence in the international markets, they can contribute more to the wealth of the society as they begin to produce goods and services at global market price levels (Isaiah 1980).

As we advance toward the year 2000, a consensus has been reached among the leading nations of the world whereby utmost importance will be given to the following topics: democracy, the market economy, human rights, environmental concerns and the optimum utilisation of the information technology. These issues can be defined as the global infrastructure of the world today and those nations which are unable to comply to these basics will face more and more social and economical turbulence in the future.

Recent Developments in Global Integration

The world is in a transition process. As Europe's integration strategies are close to realisation, each nation or individual firm is bound to have intensive co-operation and solidarity with respect to the integration of specific technologies and cultures. Especially in the areas of politics, communication, technology and management, advances will be continuously observed. Technology will be more beneficial to the mankind and communication will be of primary concern.

Today, competitiveness and creativity are the two major global issues in the international business arena influencing the business firms-public or private, to conceive the world as a single market and to formulate their competitive strategies in accordance with the global considerations (Tekeli 1992). Therefore, the success of the national economies at present are evaluated with respect to their competitive power, productivity and their effectiveness in adapting themselves to the technology of the global markets.

The utilisation of the new technology in the traditional industries in achieving productivity increases and improvements in price-quality relationships is recognised through automation, robotics and the expert systems. The marketing practices are being affected by the new electronical industries while the basic innovations of the information age are having considerable impact in such areas as sales techniques, distribution systems, advertisement and other marketing functions like the marketing research. The intrafirm and individual relationships which occur on such a global context can only be conceived relevant to the above mentioned criteria and the marketing's role in the development of such a global integration can not be underestimated

In the next 10 years, competition will be even more intense due to the fact that current forecasts are revealing decreases in the national incomes of the affluent Western countries as well as increases anticipated in their labour and investment

costs. Thus, in the decisions and planning efforts of the corporate managers, consideration should be given to the sectoral risks and to the prevention of the potential revenue losses.

However, it is not yet certain that a complete world integration will be achieved. But, it is certain that a unilateral economic system is being created. Cause and effect relationship reveals that extensive cultural nationalist movements are occurring within those nations which are left blockless in such an integrated world.

Global Marketing Considerations of the Developing Nations

Developments in the information age have put the developing nations in a handicapped position and this challenge has to be met by self confidence, sufficient knowledge and by retaining a systematic and well planned development scheme.

The developed nations and the multinational companies have unlimited access to the global information networks and thus control information and its dissemination. As a result of their competence in information technologies, they will be the representatives of real power in the economical and political arenas.

The advances in telecommunications, electronics and transportation will motivate the high-tech nations like Japan and US to concentrate increasingly on the above mentioned industries, while the traditional ones are being transferred to the developing nations. As a consequence of this transformation, the interdependence among the developed and developing nations will increase considerably in the future.

It is a generally accepted fact that the information age has increased the importance of technology transfer to the developing nations underlining the prerequisites for adaptation to the new technological developments. As the technology brought in by the foreign investors finds alternative means of utilisation in the economy of the host country, the final outcomes will be cost economies and product improvements.

Naturally, barriers are encountered during such developments, but nevertheless many firms will not be restraining themselves in trying these new approaches. Controversies more often will be experienced between the long-time standardisation efforts of the multinational corporations and the specific marketing strategies of the individual firms in the developing nations.

Developing nations under the continuous pressure of the inflation-devaluation spiral are eventually realising that their

national exports are getting everyday cheaper and greater deficits are being witnessed in their balance of payments. This situation obviously restricts their resource allocations to the high technology imports required for the functioning of the industrial and service operations.

Such inadequacies in finances, combined with the lack of adequate access to global networks in maintaining the foreign trade operations, could further be a limiting factor in the realisation of their export potentials. Unless this vicious circle is broken, restrictions will be seen in the international marketing efforts of the developing nations causing considerable deficiencies in financing the new technology requirements essential for their development.

Another limitation is the fact that in the developed nations per capita food production increases higher than the population increase so that a surplus of food items ready for exportation is accumulated. Just the contrary occurs in the case of the developing nations and the high rate of the population increase influences negatively the per capita production-consumption equilibrium. Therefore, increasing amounts of food exports to the developing nations from those having surpluses will be witnessed in the future. This will create opportunity cost to the developing nations limiting their potential resources for the technological imports.

Turkey's Competitive Position in the Global Markets

The information age's profound effects on the social and economical structures of developing nations like Turkey has to be researched widely in order to have sound policies by the decision makers.

The macro-economic imbalances of Turkey today manifest themselves mainly through the high rate of inflation, high interest rates, high rate of unemployment and low level of investment which reflects itself in fluctuating growth rates. The fundamental reasons for these problems are the public sector deficits and the inability to find sound resources for the public sector whose management and technology is continuously deteriorating. Government intervention on the prices, exchange rates, interest rates and the wage structure is a practice quite contradictory to the philosophy of the market economy.

In Turkey, monopolistic conditions still prevail. After half a century of existence, protectionism is still expected to be a support for agriculture and industry. According to a recent report by the Reformist Labour Union (DISK), the trend continues in the Turkish industrial concerns towards monopolistic competition. This is especially witnessed in manufacturing industries whereby out of 63 concerns, in 43 of them production is maintained by 1 to 4 firms only.

Another monopolistic competitive situation that impairs severely the concept of liberal economy is the huge amount of capital accumulated and controlled by the Turkish State. It is the proprietor of the 4 leading corporations and 70% of the banking enterprises in Turkey. State Economic Enterprises are 90 group of companies amounting to 300 with its affiliates both in industry and services. The financing cost of these enterprises amounts to 18 billion dollars and the total loss incurred from them is the primary cause of inflation as it is reflected in the budgetary deficit. All these factors are considered on the negative side of Turkey's compatibility in the course of global integration.

Similarly, the banking and stock market operations are manipulated by the state agencies impairing the competitive financial structure. Reforms are needed to eliminate the inequalities in the taxation and incentive systems. Extravagance in all sectors of the economy has to be prevented since this overspending is financed by the internal and external loans granted to the government.

From the social, political and economical point of view, Turkey's entry to the European Economic Community at present is only wishful thinking. The present socio-economic problems of Turkey, i.e. the unbalanced yearly growth rates, limitations in per capita income due to the extraordinary rate of population increase, unequal distribution of income, high rate of unemployment, low level of production and most important of all, the 60-70% rate of chronic inflation are considered among the primary barriers delaying its European integration.

On the social and political platforms: the human rights considerations, the quality of work life, poor social security and health systems, regional and ethnic problems and the politically oriented educational schemes have been the primary reasons for the unsuccessful attempts of Turkey in its integration with Europe.

Conclusion

Within the scope of global integration, uncompetitive forces which still exist in the socio-economic structures of the developing nations will always be setting barriers to their entry into the global markets. This situation combined with the technological complexities encountered by these nations in their global integration missions is a handicap for their competitive position in the global markets. Therefore, application of the scientific methods in the formulation of development strategies should be the rule not the exception accepted by the policy makers and the corporate managers operating in these nations.

Thus, the information age's profound effects on the social and economical structures of the developing nations like

Turkey are necessary to be researched widely in order to have sound policies by the decision makers. This research should be undertaken with respect to organisation and management structures, regional differences, education and training, employment levels, leisure time, women's liberation and ethnic considerations. Forecasts for future trends in the information technology effecting each of the above mentioned topics should be considered. Also, a series of research projects should be directed to the informal economic phenomena in Turkey and special techniques should be derived in the measurement and control of such informal economic activity.

In Turkey, a framework should be found whereby prices, exchange rates, wages and interest rates are freely determined. The Turkish government should withdraw from the industry and services as quickly as possible. Privatisation should include small scale municipality enterprises, schools, insurance companies and health institutions limiting public economic activity. Removal of entry and exit barriers to the market should be reconsidered. Agricultural production should be transformed to adapt to market economy rules.

The developing nations should attain a sustainable growth in the future. The sustainable development approach maintains economic growth by preserving human health and natural balance through the rational management of natural resources. This approach requires formulation of social and economic policies in combination with environmental policies in every stage of the development process. The whole concept obliges the marketing discipline to set the basis for this framework whereby in every management school a department dealing with these subjects has to be established.

Similarly, the improvement of the social infrastructure with undue emphasis given to the social welfare and education is recognised as one of the most important parameters influencing the competitiveness in the foreign markets. Up to the present, the information technology has accumulated enough power to be able to affect the global social systems.

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EXPLORING THE RELATIONSHIP BETWEEN
CONSUMER PRODUCTIVITY AND THE SOCIO-ECONOMIC DEVELOPMENT
OF LDCs

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Abstract

The socio-economic development of less developed countries can be accelerated by employing strategies that are designed to improve consumer productivity. Consumer productivity is defined as the ratio of total utility obtained by consumers to the total resources (i.e. financial, mental and physical) spent by consumers. The paper explores ways in which the government and business can improve consumer productivity to achieve national development goals.

Introduction

The subject of the role of marketing in economic development has attracted the attention of scholars since the late 1950s (Drucker, 1958; Rostow 1960 and 1965). Two schools of thought on the relationship between marketing and development appear to have emerged: the determinist and the activist school (Duhaime, McTavish, and Ross 1985; Hosley and Wee 1988). The determinists hold the belief that marketing responds to changes in the environment and thus plays a passive role in furthering development. The activists believe that marketing has the potential to influence the environment and hence can be a major force in initiating development and growth. While this issue can be the subject of a stimulating debate, the focus of this paper is to explore the activists' point of view.

Further, recognizing the broader concept of marketing that includes the marketing of ideas and causes (Kotler 1982), in addition to products and services, this paper discusses the role of marketing in the socio-economic development of countries and not just economic development. The role of marketing as an agent of cultural change and as a means of furthering societal goals is given explicit recognition (Dholakia and Sherry 1987; Joy and Ross 1989). Hence this paper takes more of a so-called radical approach as opposed to a narrow modernization approach or an institutional approach.

Concept of Consumer Productivity

The all-important question facing marketers then is: how can marketing be used to achieve societal goals, particularly in less developed countries? As suggested by McIntyre and Kale (1986), developing and implementing strategies that are designed to improve consumer productivity is one generic approach LDCs could use in their quest for socio-economic development. Consumer productivity is defined in conventional terms i.e. as the ratio of output to input or, more specifically, as the ratio of total utility obtained to total resources spent.

McIntyre and Kale (1988) identify five dimensions of utility and three categories of resources expended. The five dimensions of utility are: functional, social-organizational, situational, emotional and curiosity. The three categories of resources expended are: financial, mental and physical. Consumer productivity can be increased by i) increasing output and holding inputs constant (e.g. improving product quality or adding a salient attribute), ii) holding output constant and reducing inputs (e.g. reducing price or arranging for a more convenient distribution of products), iii) increase output more than input (e.g. offer substantially better service at a slightly higher cost, and iv) decrease inputs more than output (e.g. introduce a basic stereo model at a significantly lower price).

Changing from a Production to a
Marketing Orientation

Having introduced the concept of consumer productivity, the next step is to discuss how it can be maximized at the macro-policy making level and the micro-firm level in order to achieve socio-economic growth in LDCs. But first, governments as well as individual firms in LDCs must recognize and understand the beneficial (and at times detrimental) power of marketing in accomplishing societal goals. Unfortunately, with the existence of sellers markets in LDCs, manufacturing firms have tended to overlook marketing for production considerations in the pursuit of profits (Sherbini 1965). Marketing has been equated with sales and physical distribution and these have often been relegated to mere administrative functions devoid of creativity. Until recent times, the marketing of automobiles and scooters in India suffered from such practices.

Governments in LDCs have typically embarked upon ambitious development plans that set production goals in both manufacturing and agricultural sectors. Marketing of the goods produced is assumed to occur in some shape or form. Unfortunately, it occurs with a high level of inefficiency. Abbot (1963) and McCarthy (1963) after investigating the loss of profits to the production sectors of LDCs due to inefficiencies in marketing institutions have concluded that more effective and efficient marketing channels are needed. This production orientation has been equally prevalent in Eastern European countries. Recent discussions between the author and an American based East European trade expert reveal an abysmal ignorance of basic marketing methods on the part of government officials and managers of state owned enterprises in Czechoslovakia and Bulgaria.

Decision-makers in LDCs and Eastern European countries need to be convinced of the positive

contributions of marketing. Empirical studies in this area are, however, far from abundant. Examples of studies that show a relationship between marketing and development include studies by Cundiff (1965), Preston (1968) and Holton (1980). Cundiff's (1965) study of distribution in several countries indicates that marketing innovations lead to economic development. Preston (1968) demonstrated a positive relationship between the GDP of LDCs and the percent of population employed in commercial marketing activities. Holton (1980) in reviewing the influence of advertising in LDCs noted that advertising reduced consumer search and resulted in higher profits for advertisers.

In addition to the three examples cited above, Wood and Vitell (1986) in their excellent review article also note that marketing provides utility to consumers in LDCs; develops managers and entrepreneurs in LDCs and sets in motion a synergistic process that benefits both manufacturers and consumers. For instance, an efficient distribution system results in market expansion which encourages mass consumption and hence mass production. Mass production leads to economies of scale lowering the unit cost of the product. This can result in both savings for the consumer and enhanced profitability for the manufacturer.

Role of Government in Increasing Consumer Productivity

Mentzer and Samli (1981) have rightly emphasized the need for government involvement in developing a nation's infrastructure. A critical non-physical component of the infrastructure that is often ignored in LDCs is the timely collection, processing and dissemination of reliable information. Scarce and unreliable statistics may result in a misallocation of scarce resources by government and business and a less than optimal development of the physical infrastructure. In either case, consumer productivity is hindered in the long run.

The physical infrastructure consisting of transportation, communication, energy availability, educational institutions and the like exercise a major influence on consumer productivity. Improved transportation networks lead to market expansion and the growth of new and existing businesses. Market expansion increases product availability in non-urban areas (lessening the problem of a dual economy) and as a consequence of production economies of scale reduces consumer inputs in the form of a lower price. Improved communication systems enhance consumer learning and make the consumer search process more efficient thus increasing consumer productivity. Energy availability such as electricity makes it possible for consumers to enjoy products that previously could not be used. Literacy and better education help the consumer to become aware of and learn about a wider array of products and services and at the same time enable the government to more successfully (i.e. with a higher probability of

success) promote socially desirable programs like health (vaccination, disease prevention, hygiene, nutrition), family planning (e.g. in India, Thailand and Mexico), savings (e.g. savings bonds campaigns in India and the U.S.A.), energy conservation, use of fertilizers and pesticides, etc.

The government can play a major role in enhancing consumer productivity in other significant ways also. The area of regulation is a double edged sword that has to be used very carefully. Minimum acceptable product standards in the pharmaceutical industry are relatively commonplace as are minimum qualifications in professions such as medicine and law across countries, both DCs and LDCs.

Governments could also require firms to offer products and services in certain geographic areas (typically rural or backward areas) or to certain market segments in return for the privilege of operating in that industry. For instance, transportation companies, electric utilities and banks may be required to provide services to sparsely populated or remote areas. Rather than using regulatory measures, governments could also use a system of incentives in the form of tax breaks or disincentives in the form of penalties, restrictions on access to resources, etc. (McIntyre and Kale (1988)).

While the types of regulations discussed above may increase consumer productivity, others may, actually, reduce it. For instance, price controls while seemingly reducing consumer inputs in the short run may actually increase consumer inputs and decrease consumer output in the long run due to the disincentive it offers sellers. Similarly, too much regulation of industry (e.g. in the form of protection from imports) may result in unwittingly reducing consumer productivity by increasing consumer inputs and reducing consumer output. An example of the latter is the automobile industry in India. Domestic manufacturers failed to innovate while prices kept going higher.

An interesting proposition advanced by Samli (1978) based upon his study of Eastern European countries is that economic development is related to a lessening of central government control over marketing activities. This proposition may apply to LDCs as well. The lesser centralized control encourages market-sensitive entrepreneurial activity which in turn can increase consumer productivity.

Role of Business in Increasing Consumer Productivity

It is in the self-interest of profit maximizing firms to enable consumers to increase their productivity as consumers will buy from firms which enable them to attain the highest level of productivity. Firms that offer higher levels of consumer productivity will gain loyal customers

and market share. The question then is: what can firms do to increase consumer productivity?

Product innovations in the form of introduction of new products and constant improvement of existing products will increase consumer output and enable the firm to gain competitive advantage. This, obviously, assumes that the firm is operating in a competitive environment and not functioning as a near monopoly. Even in a sellers market, product innovation will enable a firm to enhance its long run profitability. The only caveat to consider is the possibility that a dominant market share or high profitability may invite government intervention. Extension of the product line will also enable the firm to increase consumer productivity in selected market segments. For instance, consumers need refrigerators in different sizes and stereos with different features. Offering just one model will suboptimize the productivity of a large number of consumers.

Process innovations enable a firm to make the same product more efficiently i.e. at a lower cost. Sharing some of the savings with the customers in the form of a lower price will not only reduce consumer inputs but also result in market expansion thereby enabling the firm to enjoy further economies of scale and increasing profits.

The opportunities for increasing consumer productivity are immense in the area of promotion. Advertising can be a powerful force in creating product awareness and in imparting information about product features and product use. This has the effect of reducing consumer inputs due to learning taking place in an efficient manner. In LDCs, advertising has enabled consumers to learn about a variety of processed foods and how they can become a part of the family's daily diet. Advertising and related promotional activities have also helped to create larger markets resulting in economies of scale for sellers. It should, however, be kept in mind that advertising can also encourage new behaviors that may be detrimental to consumers in LDCs. The case of the promotion of infant formula resulting in its increased consumption in environments conducive to misuse has been well documented (Gilly and Graham

1988). Advertising of cigarettes and alcoholic beverages may result in similar maleffects.

Improvements in distribution provide the direct benefits of time and place utility to consumers. Consumer productivity increases as consumers expend less time and less effort in the buying process. Better distribution methods also result in cost savings for sellers, reduced spoilage of perishable items and expansion of markets.

Conclusion

Given the existence of sellers markets in many LDCs, consumer productivity has frequently been sacrificed in favor of seller productivity. Drawing upon the work of McIntyre and Kale (1988), this article has focused upon the concept of consumer productivity as a means of

increasing the socio-economic development of LDCs. The concept, of course, is generic enough to apply to DCs also. Increasing consumer productivity calls for an activist approach upon the part of government and business in order to achieve societal goals.

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CONSUMER MARKETING

THE ROLE OF TURKISH WOMAN IN FAMILY'S CONSUMPTION

MAHIR NAKIP

ABSTRACT

The purpose of this study is to determine the role of the wife in Turkish families during the purchasing process and to research whether the employment situation of the wife has any influence on this role. In this study the purchasing process consists of: the determining stage, the deciding stage, and the buying stage. This study shows that the wife has an important role in the first two stages. In the third stage the wife's importance diminishes to equal decision making or to the husband's decision. The statistical analysis that was carried out indicates that the decision maker variable (wife-husband-together), and the employment situation of the wife variable (working wife-housewife) are independent in the first two stages. and dependent in the third stage.

INTRODUCTION

One of the most famous consumer purchasing processing models was developed by Engel-Blackwell-Kollat in 1978. This model, which was designed for individual consumers as well as for families, consisted of five stages: problem recognition, information research, alternative evaluation, choice and outcomes.

Sema Tapan applied this model in Turkey by measuring the effectiveness of reference groups on youth when buying outfits (1979). This same researcher also used the model to measure the influence of reference groups when purchasing convenience and speciality goods(1990). Although there are some studies in Turkey about the role of family members in purchasing decisions (Koç:1975), the application of Engel- Blackwell-Kollat's model on family consumption in Turkey was not done until 1980 by Mehmet Karafakioğlu .

In the beginning of this study, the role of the wife in the

family purchasing process is measured. Subsequently, within the framework of the model, statistical analysis is used to understand whether the decision makers variable (wife-husband-together), employment situation variable (working wife-housewife) are independent.

METHODOLOGY

255 Turkish families were selected for this research; 60 of the wives worked in state sectors and 195 were housewives. The following questions were directed to the families: who determines needs, who decides to buy, and who buys? By whom these decisions were made in each of these three stages important. Therefore in the questionnaire, three decision makers were indicated: wife, husband, and together. These questions were repeated for seven products: food, white products, furniture, men's clothes, woman's clothes, children's clothes, and cleaning materials.

21 tables have resulted from this study. These tables have been classified into three groups: determining, deciding and buying. Each class forms three columns and two rows. Columns display decision maker (wife-husband-together), rows display the employment situation of the wife (working wife-housewife).

In each purchasing process stage, χ^2 analysis was used to discover whether the decision makers were dependent on the employment situation of the wife. To understand the strength of the relation, a contingency test was carried out.

In cases when these two statistical tests are inadequate; to comprehend which cell was more effective, a contribution test was applied and the sign of the cell was taken into a consideration. Tables were tested with two degrees of freedom at 5% level of significance. Table values for χ^2 was 5.99, for contingency 7.71 and for contribution test was 3.84.

FINDINGS

Need-Determining Stage

According to the results of the analysis, need for food, cleaning materials, women's and children clothes was determined mostly by the wife. On the other hand need for furniture, and white products was determined mostly by wife and husband together. The husband determined only his own needs for clothes (Table-1).

Table 1
The Percentage of Deciders Due to Product Groups in Need-Determining Stage(%)

Products	Wife	Husband	Together	Total
Food	66	12	22	100
White Pro.	23	18	59	100
Furnitures	3	12	57	100
Male cloth.	18	62	20	100
Female cloth	82	5	13	100
Child.cloth.	53	6	41	100
Cleanig M.	86	7	7	100

Six of seven X² tests, applied to each product group separately, showed that the job situation of the wife and decision makers are independent. Contingency coefficients for all product groups were very low. In other words, the relation between decision makers and the employment situation is very weak.

Table 2
Values of X², Contengency, Contribution Tests Due To Product Groups in Need-Determining Stage

Products	X ²	Conting. Coeffi.	Effective Cell and Sign
Food	4.46	0.12	-
White Pro.	4.02	0.12	-
Furnitures	0.76	0.05	-
male cloth.	13.70*	0.23	(+)(WW-T)**
Female cloth.	2.05	0.09	-
Child.cloth.	3.13	0.11	-
Cleaning M.	0.52	0.05	-

*(P<0.01)

** (Working Wife-Together) Cell

According to the table above, there is an exception in male clothes. A Statistical differentiation was observed between two variables. That shows, that there was a statistical difference between employment situation of the wife and decision makers.

Need-Deciding Stage

According to product groups, the results of this research indicates that the role of the decision makers in the second stage is almost similar to the first one.

Table-3

The Percentage of Deciders Due to Product Groups in Need-Deciding Stage(%).

Products	Wife	Husband	Equal	Total
Food	39	28	33	100
White Prod.	9	29	62	100
Furnitures	12	24	64	100
Male cloth.	8	68	24	100
Female cloth.	66	10	24	100
Child.Cloth.	48	20	32	100
Cleaning M.	74	13	13	100

In the second stage the χ^2 values were close to the first stage. The only difference between them was contingency coefficients. The values of contingency coefficient in second stage was relatively higher than the first stage.

Table 4
Values of X², Contingency Coefficient, Contribution Tests
Due to Product Groups in Need-Deciding Stage

Products	X²	Conting. Coeffi.	Effective Cell and Sign
Food	5.15	0.14	-
White Prod.	4.70	0.13	-
Furnitures	2.70	0.12	-
Male cloth.	15.50*	0.24	(+)(WW-T)
Female cloth.	4.12	0.13	-
Child.cloth.	4.64	0.14	-
Cleaning M.	4.39	0.14	-

***(P>0.01)**

Need-Buying Stage

The results of the analysis in this stage differed totally from the first two stages: While food products, cleaning materials, and male clothes were bought by the husband; furniture, white products, women and children clothes were bought by the wife and husband together.

Tablo 5

**The percentages of Deciders Due To Product Groups in
Need-buying Stage(%)**

Products	Wife	Husband	Together	Total
Total				
Food	10	66	24	100
White Prod.	4	39	57	100
Furnitures	4	45	51	100
Male cloth.	5	70	25	100
Female cloth.	30	27	43	100
Child.cloth.	22	31	47	100
Cleaning m.	29	53	18	100

All seven χ^2 tests were significant in this stage; this means that the job situation of the wife and decision maker were dependent and that the job situation of the wife differed according to the decision maker.

Tablo 6

**Values of χ^2 , Contingency, Contribution Tests Due To Pro
duct Groups in Need-Buying Stage.**

Products	χ^2	Conting. Coeffi.	Effeclive Cell and Sign
Food	7.4 *	0.17	(+)(WW-T)
White Prod.	11.2*	0.21	(+)(WW-T)
Furnitures	6.1**	0.15	-
Male cloth.	20.7*	0.27	(+)(WW-T)
Female cloth.	18.2*	0.26	(-)(WW-H)***
Child.cloth.	10.9*	0.21	(-)(WW-H)
Cleaning M.	14.4*	0.23	(+)(WW-T)

* (P<0.01)

** (P<0.05)

*** (Working wife-husband) cell

As displayed in **Table-6**, the contingency coefficients were high also. This means that the relation between the two variables in this stage was strong, compared with the first two stages. Keeping in mind that statistical methods are insufficient in estimating purchasing behavior (Kurtuluş:1987) and in order to know which cell is more effective in differentiation between two variables, a contribution test was also used . As indicated in **Table-6** the most active role was played by the (working wife-together) cell in positive direction at the third stage. There was an exception in purchasing women and children outfits during this stage. The most active role played here was by (working wife-husband)cell in a negative direction.

CONCLUSION

It can be concluded that in the first two steps of the purchasing stage, the wife has an important role. In the third stage this importance disappears leaving its effectiveness to equal decision making or to the husband's decision. This conclusion is in agreement with the research done by Mehmet Karafakioğlu at 1980. This means, that there was no change in the role of the Turkish wife in effecting the family purchasing decision during the past 13 years.

According to the χ^2 outcomes, the employment situation of the wife and her role in purchasing decisions are independent. At the third stage the job situation is taken into consideration and differs from the decision makers variable.

The outcome of the contribution tests, showed that when a woman worked it resulted in equal decision making in Turkish families during the third stage. When a woman works the situation of making decisions together develops positively. The source of the difference comes from the(wor-king wife-husband)cell and effects it in a negative way.

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A STRATEGIC FRAMEWORK FOR ANALYSING NEGATIVE RUMORS IN THE MARKET PLACE: THE CASE OF WASH & GO IN DENMARK

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Abstract

The author proposes a classification system for the analysis and curbing of negative rumors in the market place. The classification system is useful for marketers as it does not only indicate the potential of a rumor to spread, but also suggests the response strategy appropriate in a specific rumor situation. To illustrate the relevance and applicability of the classification system the article will refer to an example recently seen in Denmark: the case of Wash & Go.

Introduction

Marketing and consumer behavior literature clearly emphasizes that great importance is usually attached to negative word of mouth communication (WOM) regarding a company and/or its products in consumer decision making and hence is of major concern to business. Research provides evidence suggesting that negative WOM has greater impact on consumers than positive WOM and that the negative impact may persist even when it has been refuted (Arndt 1967; Weinberger, Allen and Dillon 1981). Furthermore, cases analyzing companies or products victimized by negative WOM information indicate that such influence is possible in the absence of substantive facts. In the U.S. for example, McDonald's fast food chain was rumored to be using red worm meat in its hamburgers. Although this rumor was not based on fact, McDonald's attempts to combat the rumor was less than effective and their sales went down as much as 30% in the areas where rumor circulated (Tybout et al 1981). And Sherry (1984) cites many other examples where negative WOM takes the form of untraceable rumors associating products with undesirable and even bizarre characteristics. A key question confronting the marketers when a negative rumor begins is, "how do we combat it?". Very little guidance is available as to what strategy might work best and many unsuccessful attempts to dispel rumors provide evidence that this question is very hard to answer. This paper attempts to provide some guidelines. The author points out some of the key factors determining the launch and diffusion of negative rumors in the market place and proposes a rumor classification system to determine how likely a specific rumor is to spread. Possible response strategies suggested in literature are highlighted and their appropriateness is discussed on the basis of the suggested classification system. The author approaches the subject from a managerial angle and no actual discussion of the theories on rumors is offered. To illustrate the relevance and applicability of the classification system a case recently experienced in Denmark will be set as an example.

The Case of Wash & Go in Denmark

In January 1990 the American company Procter & Gamble

introduced a new combined shampoo and conditioner product on the Danish consumer market: the "Wash & Go" shampoo. The introduction was heavily promoted by emotionally appealing TV-advertising emphasizing youth and activeness, the advantages of only one bottle to handle and the saving of time in washing and conditioning the hair in one step. Later the advertising was followed by household-distributed free samples of Wash & Go. Within a few months Wash & Go gained a great market share culminating in September with a market share in terms of volume and value of 12.6% and 23.8% respectively. Late September the success turned owing to the launch of negative rumors about Wash & Go. Hairdressers all over the country complained about problems doing perms and colorings on clients using the new shampoo product of Wash & Go. Procter & Gamble responded with a prompt refusal, but did not manage to dispel the rumor. Indeed, very soon Procter & Gamble had to face a second rumor that the use of Wash & Go might cause severe hair loss. In a few months these negative rumors reduced the sales of Wash and Go from a market share of 20% to around 5%.

Launch of Negative Rumors in the Market Place

Greater insight into the factors determining the launch of negative rumors is obviously of importance when curbing negative rumors. After all, the best way to combat rumors is to avoid them. Rumor literature (e.g. Rosnow and Fine 1976; Allport & Postman 1965) defines rumors as information without secure standards of evidence being present and suggests that most rumor activity derives from an attempt to reduce uncertainty and anxiety. Individuals may engage in rumor activity in order to simplify matters and to reduce anxiety. Hairdressers may for example attribute their problems in doing perms or coloring to the shampoo product of Wash & Go in order to explain their failure and to reduce anxiety. Similar to negative WOM in general, negative rumors in the market place are mostly launched by individuals experiencing some kind of dissatisfaction with a company or product (Richins 1984, p.699). In these cases, literature (Arndt 1967; Richins 1984, Sherry 1984) suggests three major motivations to engage in negative WOM; 1) an attempt to reduce emotional arousal by sharing verbally the experience with others; 2) an attempt to prevent others from experiencing a similar fate and 3) an attempt to "get even with" the offending marketing institution by turning other consumers against it. In the case of Wash & Go these motivations were all likely to be present. It should be noted that any rumor usually has a 'kernel of truth' and thus it is very important for marketers to detect the 'kernel of truth' from which the rumor probably developed. Not to say that Wash & Go actually is to blame for problems with perms and coloring as well as severe hair losses. The content of silicon in Wash & Go may, however, have caused problems in connection

with some perm or coloring products. In order to delimit the rumor potential, Procter & Gamble should promptly have detected this 'kernel of truth'. As already known by the reader, Procter & Gamble denied any problem to be caused by Wash & Go. Their doing so without any substantial facts apparently started off the second rumor: individuals blaming Wash & Go for causing hair losses. Some individuals may actually have experienced some hair loss and thus attributed this (probably natural) hair loss to Wash & Go.

This incident stresses the fact that content customer are a necessary, but not sufficient way to prevent the launch of negative rumors. Apart from negative experiences with a company or its products two other types of motivations should be noted. Firstly, the communicator may simply be seeking attention or status (being the one who knows), and secondly, and very common in the market place, there may be emotional or commercial motives for the launching of negative rumors against a particular product or company. For example, persons disliking big foreign companies for being successful or a competitor (e.g. another shampoo producer) may want to fight against the success of Wash & Go. Spreading negative rumors may simply be motivated by a need to justify or rationalize one's emotional interests or attitudes. In line with this Sherry (1984, p.742-743) provides a list of areas which may be vulnerable to rumors. To mention a few: new products, mass-prepared food products, fast food products and big (especially foreign) companies are potential victims for rumor stories. Many of these areas may be related to the case of Wash & Go. Furthermore, hairdressers may have commercial interests in blaming Wash & Go for problems with perms and colorings. Interestingly, another shampoo producer (located in the eastern part of Jutland) was about to launch a new 2in1 shampoo product; without silicon. Indeed, this upcoming product, in contrast to Wash & Go, was to be distributed through hairdressers. There is no evidence confirming such motives but, if existing, Procter & Gamble might combat the rumor by distributing the product through hairdressers. To conclude the above, insight into the motives behind negative rumor communication may help marketers prevent the launch of such rumors.

Diffusion of Negative Rumors in the Market Place

The impact of any negative rumor in the market place depends on how likely the rumor is to spread among potential customers. The diffusion of negative rumors is in many ways similar to the diffusion of new products or ideas in the market place. Hence, the theoretical foundation from this area seems valuable when analysing the diffusion of negative rumors. According to Rogers (1983) diffusion is defined as the process by which an innovation is communicated through certain channels over time among members of a social system. The adoption of an innovation is seen to be a sequence of events through which individual consumers pass over time. In this temporal context consumers are seen as moving from being unaware of the innovation through various stages ending with the decision to adopt or reject the innovation. The starting point in time

as well as the speed of the adoption process may vary across segments of consumers. Literature (e.g. Sheth 1989) emphasizes various factors which may inhibit the diffusion process and further suggests strategies by which marketers are able to overcome these inhibitors. Marketers introducing new products obviously desire the innovation to spread rapidly, whereas marketers curbing rumors desire to eliminate the process. Yet, elements of the same framework may be valuable in developing effective strategies to combat negative rumors. For example, the notion of different adoption processes among various segments of potential adoptors suggests that marketers locate various segments and determine at which stage they are in the adoption process as well as how likely they are to adopt the rumor. If large segments of potential adoptors are unaware of the rumor, marketers should try to keep rumor information away from these segments in order not to move the segments further into the adoption process. Thus, the origin of the rumor has to be located as soon as possible and, if necessary, a very selective response strategy should be targeted at only the segments being aware of the rumor. In the case of Wash & Go, the rumor about problems with doing perms or colorings was for a long period limited to hairdressers located in the eastern part of Jutland. Hence, a selective response strategy targeted at this segment seemed appropriate. Apparently, Procter & Gamble did choose a selective response strategy, but unfortunately the response was a pure denial without any substantial facts. Consequently, this response strategy did not succeed, and to make things even worse the denial itself may have motivated the hairdressers to more public communication in order to defend their status as experts. During the following week the information spread and was mentioned in newspapers all over the country. Furthermore, Wash & Go was very soon also blamed for severe hair losses. From this case, two important factors call for further attention: 1) the importance of the rumor to the target segments and 2) the lack of any substantive facts to support the refutation. Exactly these two dimensions are highlighted in rumor literature as necessary for rumors to occur and spread (Allport & Postman 1965). Their relevance for the analysis of negative rumors in the market place will be further clarified.

Personal Importance of the Rumor (Involvement).

In general, individuals may be motivated to engage in rumor communication by two main factors: the perceived risk associated with the rumor and the closeness of the rumor to personal values, interests, etc. The perceived risk has two facets. The negative consequences in case the rumor information is true and the probability of such an outcome to be perceived by the individual. In case that Wash & Go causes problems when hairdressers do perms or colorings, mainly hairdressers and customers having perms or colorings are affected. Thus, this rumor is less likely to spread into the entire shampoo market owing to the relatively low involvement among other segments. Obviously, the second rumor about severe hair loss is of major concern to almost any shampoo user, thereby making it more likely to spread across the entire market. The second dimension of rumor involvement depends on whether or not the rumor implies information that threatens or

strengthens existing values or attitudes held by the individual. In the case of Wash & Go hairdressers may engage in rumor communication in order to defend their image as experts on hair styling. This may explain, why many hairdressers were involved in the discussion when Proctor & Gamble denied the problems with perms and colorings. It is important to note that this need to defend existing values and interests may also inhibit rumor diffusion. Heavy users or very experienced customers using Wash & Go may for instance reject the rumor in order to protect their own attitudes and behavior.

Lack of Substantive Facts (Ambiguity)

Ambiguity is associated with two main factors. Firstly, the rumor object may itself be more or less tangible. And secondly, the amount of personal experience/ knowledge related to the rumor object is important. In the case of Wash and Go it should be relatively easy to provide substantive facts, at least for hairdressers, on whether or not the shampoo causes problems with perms and colorings. In contrast, it is very difficult for most individuals to provide objective evidence on whether Wash and Go causes hair loss or not. Further, while hairdressers, owing to their profession, can easily provide substantive facts on the rumor concerning perms and colorings, very few consumers have any experience/knowledge with the subject matter. The importance of experience/ knowledge with the rumor subject may explain why new products, like Wash & Go, are vulnerable to negative rumors.

A Proposed Classification System

The classification system proposed in figure 1 is an attempt toward a framework for marketers to analyze the potential of a rumor to spread. The classification model is built upon the two dimensions previously emphasized to be valuable in determining the potential of a specific rumor to spread: 1) rumor involvement and 2) rumor ambiguity. As will be seen later on, these dimensions also provide guidelines for developing appropriate response strategies to combat negative rumors. The most serious rumor situations to be confronted

**FIGURE 1
A RUMOR CLASSIFICATION SYSTEM**

I N V O L V E M E N T	HIGH	I Perms/colorings (hair dressers)	II Hair loss (all consumers) Hair loss (hairdressers) Perms/colorings (consumers having perms or col.)
	LOW	III	IV Perms/colorings (consumers not having perms or col.)
		LOW	HIGH
		AMBIGUITY	

with are those with high involvement and high ambiguity (quadrant II in figure 1). In contrast there should be no problems in curbing with rumor situations with low involvement and low ambiguity (quadrant III). To illustrate the application of the classification system the most relevant rumor situations confronting Wash & Go are placed in figure 1. The rumor situation with hairdressers blaming Wash & Go for problems with perms and colorings is not very likely to spread. Firstly, it is of little concern to individuals not having perms or colorings (quadrant IV). Secondly, hairdressers, owing to their profession, should be able to accept substantive facts refuting the rumor. The customers having perms or coloring belong to the most serious rumor situation because of their relatively high involvement and lack of knowledge to evaluate substantive facts. Hairdressers are a very important segment to target, since they, in their capacity as opinion leaders, may be able to persuade their customers. Finally, the rumor concerning hair loss is of great risk to Wash & Go due to the very high involvement as well as ambiguity in almost the entire shampoo market.

Combating Negative Rumors

To deal with negative rumors four major strategies are suggested in literature; 1) ignoring the rumor; 2) refutation; 3) storage and/or retrieval and 4) product recall (e.g. Tybout et al 1981; Weinberger & Dillon 1981; Sherry 1984). Below, each strategy will be discussed in relation to the above four rumor situations.

An 'ignoring' strategy suggests that the victimized company refuses any problem and proceeds as if nothing happened. Evidence indicates that this strategy is rarely an effective course of action. In any case, the strategy may be employed only in relatively harmless rumor situations (low involvement). Furthermore, the strategy may be most effective when potential rumor adoptors are in possession of prior experience and/or substantive facts making them likely to refute the rumor (quadrant III in figure 1). It is important to note that in rumor situations indicating high involvement (quadrant I and II), pure denials without reasoning may increase the level of involvement making the spreading of the rumor even more likely. In the case of Wash & Go, the denial of any problem with perms and coloring was likely to increase the involvement among hairdressers owing to their position as 'experts' on hair styling. Thus, in any case an ignoring strategy has to be accompanied by careful monitoring trends in the individual situation.

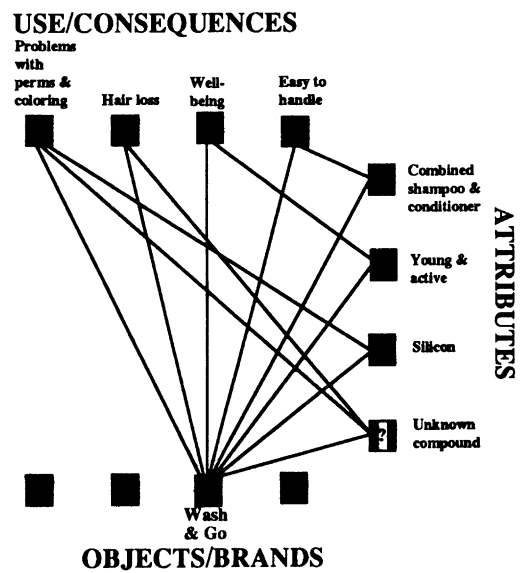
In a 'refutational' strategy the victimized company provides substantial facts in order to convince the potential rumor communicators that the negative information is not likely to be true. This strategy is useful in rumor situations with low ambiguity (quadrant I and III) and may take two directions; a 'cognitive route' or an 'affective route' (Petty and Cacioppo 1979). Refutation as a 'cognitive route' strategy should be accomplished in high involvement situations (quadrant I). Informative, issue relevant counter arguments should be provided by a credible source to be effective. Here it is important to note that the victimized company is

rarely considered high in credibility itself. This explains why press meetings with the victimized company as one part are not very likely to refute negative rumors. In the case of Wash & Go, Procter & Gamble actually did invite to such a press meeting, apparently without any positive effect. In low involvement situations (quadrant III), the audiences are not expected to engage in much cognitive activity. In such cases an 'affective route' strategy, using the persuasiveness of emotionally appealing sources may be more likely to succeed. If not successful, it goes for both strategy directions that the refutation may have a negative impact in spreading rumor awareness or increasing involvement among potential adoptors, thus making a diffusion more likely. In order to minimize this risk, a selective refutation strategy may be employed. In the case of Wash & Go, the rumor concerning problems with perms or coloring did originate among hairdressers located in the eastern part of Jutland. Hence, an appropriate strategy for Procter & Gamble might have been a selective refutational strategy targeted at these hairdressers and their customers having problems with perms or colorings. First, the 'refutational' strategy, using substantive facts, may be targeted at hairdressers. Then, in their position as opinion leaders the hairdressers are likely to convince their customers.

The storage and retrieval strategies take an informational processing approach (Bettman 1979; Grunert 1988; Tybout et al 1981). In their classic laboratory experiment simulating the McDonald's worm rumor, Tybout et al (1981) concluded that these strategies under certain conditions are more effective than a refutational strategy. The information processing approach seeks a more mechanistic approach explaining behavior not only as a consequence of what people think about an object but also how they think about it (Tybout et al 1981). People are believed to store information about objects (e.g. a company or its products), associated attributes and consequences as cognitive networks in a storage memory. Subsequent evaluation of the object (e.g. forming attitudes towards a product) requires retrieval of thoughts associated to the object. The overall evaluation of the object depends on the valens of thoughts retrieved from memory. To explain the theory consider the introduction of Wash & Go. The shampoo was heavily promoted with emotionally appealing TV-advertising emphasizing the positive attributes of youth and activeness, the advantages of a combined shampoo and conditioner in only one bottle as well as the associated consequences of feeling good and easy to handle. All positive associations in order to create a positive evaluation of Wash & Go. The rumor about problems with perms and coloring did add new and negative associations to Wash & Go thereby creating a less favorable attitude when retrieved for subsequent evaluation. Figure 2 may further illustrate the case.

Note that consumers not attributing the problems with perms or coloring to silicon may add a new unknown attribute ('?') to the network which may further have caused the rumor about hair loss. Tybout et al (1981) showed that consumers are affected by processing such negative associations, whether they believe them or not. Fortunately, the information processing approach also suggests two strategies useful to limit the rumor effect.

FIGURE 2
COGNITIVE STRUCTURE
AFTER EXPOSURE TO RUMORS



The storage strategy (illustrated in figure 3,) suggests introducing a second object to be associated with the rumor attributes. For example, the individuals may be informed about the positive consequences of using silicon or that silicon is also a component in other conditioning products. The storage strategy intends to foster associations from the rumor attribute (silicon) with hair conditioner rather than with the object initially specified in the rumor (Wash & Go). Moreover, if hair conditioners are positively evaluated by rumor recipients, some of this effect is likely to be associated with the rumor attribute (silicon), making it less negative. Thus, if the silicon attribute is later retrieved in

FIGURE 3
COGNITIVE STRUCTURE:
STORAGE STRATEGY

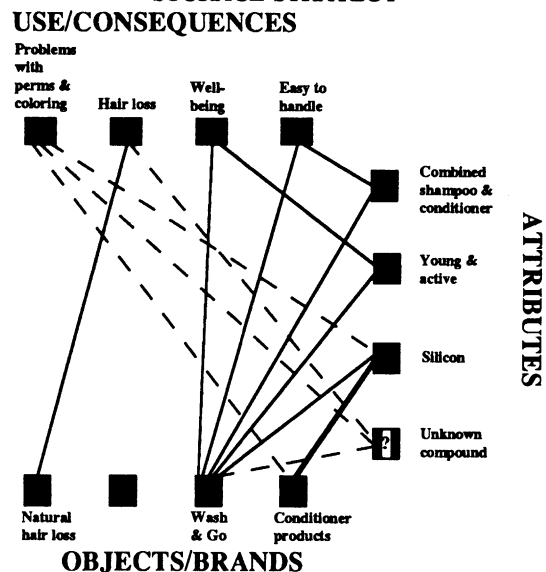
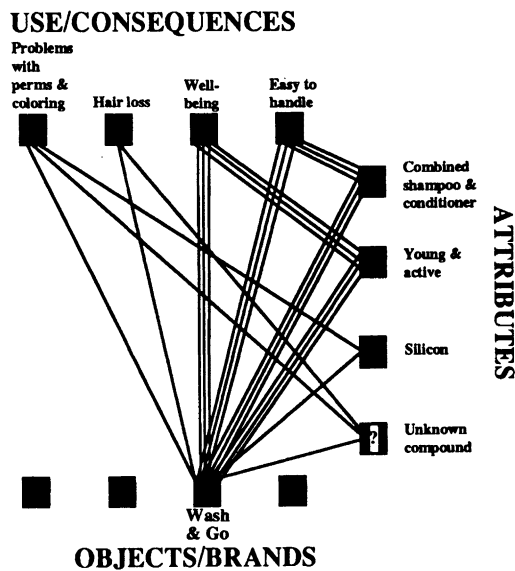


FIGURE 4
COGNITIVE STRUCTURE:
RETRIEVAL STRATEGY



the processing of Wash & Go, it will not have as negative an effect as in the absence of the storage strategy.

The retrieval strategy is an attempt to affect the information retrieval. The strategy is based on the notion that it is possible to 'direct' the retrieval of thoughts in memory away from rumor-stimulated associations by intensifying existing positive associations, (e.g. combined shampoo & conditioner /easy to handle; young and active / well being). Figure 4 illustrates this strategy. Procter & Gamble might have employed this strategy by increasing the intensity of the emotionally appealing commercials stressing the product associations to the positive attributes and consequences. For some reasons the Wash & Go commercials were almost tuned down during the period with the highest level of rumor activity.

The fourth and last strategy to be mentioned is product recall according to which the company calls back the entire or part of a particular product line. Intuitively, this strategy seems very appropriate, especially if the product is said to have unacceptable/hazardous effects. However, some caution is important. Literature (Weinberger et al 1981) reveals evidence that, contrary to popular belief, a voluntary recall may lead to perception of greater fault, thereby having negative consequences for other product classes marketed by the company.

Figure 5 sums up the four strategies as well as their applicability to the different rumor situations highlighted in figure 1.

Conclusion

The case of Wash & Go clearly emphasizes how a company or its products may be harmed by negative rumors in the market place. The author sums up some factors determining

FIGURE 5
RESPONSE STRATEGIES TO
COMBAT NEGATIVE RUMORS

HIGH I N V O L V E M E N T	I Refutation (cognitive route) Product recall	II Retrieval or Storage Selective refutation (opinion leaders and/or customers with problems)
	III Ignoring Refutation (affective route) Retrieval or storage	IV Ignoring Retrieval or storage
LOW	LOW	HIGH
	AMBIGUITY	

the potential negative rumors to be created and suggests that some areas are more vulnerable as victims. More insight into such factors may help marketers prevent negative rumors. In case a company or its products are hit by negative rumors, this paper suggests a classification system to analyze how likely the rumor is to spread and further to evaluate which response strategy will be most likely to succeed. The classification system is a first attempt to provide an applicable framework for the analysis of negative rumors in the market place. Hopefully, this paper will motivate more marketing and consumer researchers to develop our knowledge further in this direction.

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BUYERS' PERCEPTION OF THE PRICE-QUALITY
RELATIONSHIP: THE TURKISH CASE

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ABSTRACT

This study is contrived to evaluate the perceived price-quality connection in Turkey, which is among the world's industrializing nations. Data was collected in Istanbul, Turkey and analyzed using the Factor Analysis Techniques in the SPSSX routine. The study findings indicated that the price-quality relationship shows formations based upon socio-economic patterns, economic foundations, and value structure of a particular country. The interdependence of price and quality will motivate consumers to be particular about their choice and persuade manufacturers to produce and sell high quality products. Market success will depend upon how well price and quality are connected and how positive an opinion consumers have in this process.

INTRODUCTION

Pricing is one of the important strategic decision elements of the marketing mix which could be crucial in assuring the market success of new products. Information about pricing is not the single element which may sway the buyers' decision-making process and buying behaviors. Information about various qualities of different products may also help the purchasing decision. Buyers may compare the price along with other marketing mix variables to choose the best alternative which will satisfy their needs. As Jeuland and Dolan (1982) stated, the price may become a practical quality indicator and may help to position the product if quality information is not available or clear. The price in some situations may be used as a base in a purchasing decision. In order to make a correct choice, buyers must also have an acceptable reference price to determine whether the suggested price is too low or too high.

Previous studies show evidence that there is a strong link between price and perceived quality of products. The findings of these studies concluded that high prices confirm high quality and low prices represent low quality of goods. Buyers' perception of a price-quality linkage is exercised as a base for a purchasing decision (Leavitt, 1954; Tull, Boring and Gonsior, 1964; Gabor and Granger, 1966; McConnell, 1968a; 1968b; 1980; Taylor and Will, 1969; Lambert, 1970).

Other studies showed evidence that price and quality are not linked directly, and price is not a sole indicative element that determines a purchasing decision of consumers. If additional information is available, the strength of the price-quality connection may diminish. In this sense, store image, product/company image, post-purchase experiences, promotion and advertisements, word-of-mouth information, purchase frequency, and consumer demographic characteristics may become instrumental to the buyers' decision-making processes and buying behaviors (Doob, *et. al.*, 1969; Jacoby, Olson and

Haddock, 1971; Jacoby and Olson, 1985; Wheatley and Chiu, 1977; Stafford and Enis, 1969; Paterson, 1970; Monroe, 1973; Gardner, 1971; Monroe and Petroschius, 1981; Riesz, 1980; Erickson and Johansson, 1985; Petroschius and Monroe, 1987; Rao, 1984; Levin and Johnson, 1984; Nagle, 1987). If buyers receive non-price information, they will evaluate this information and calculate the feasibility of their preference. The price-quality connection implies the fact that the products which are considered prestigious often carry higher price tags and are sold in more prestigious stores than the brands which do not have the same image. In the absence of pricing information, the product/company image may influence quality perception, and buyers may use company name and reputation to measure the quality of their selection (Erickson and Johansson, 1985).

Frequency of purchase may also be used to measure the price-quality connection. The most frequently purchased product may be less costly, and its quality may be comparable with the quality of more costly and infrequently purchased products. Perceived quality has a different configuration if the product is only occasionally purchased and buyers are willing to spend more time for evaluation and making a purchasing decision.

Purpose of the Study

The purpose of this study is to examine the perceived price-quality relationship in Turkey. Although earlier studies have used experimental research in a restructured environment (McConnell, 1968a; 1968b, 1980; Peterson, 1970), this study, as Monroe (1973) and Monroe and Dodds (1988) suggested, exercised an empirical investigation to measure consumers' judgement in regard to the relationship between price and quality. Indeed, the price-quality perception shows different formations based upon different cultures and economic conditions. consumers may have better chances for the best purchasing decision if they have plentiful selections from which to make choices. If the choices are limited, the quality may not be a critical issue. In these environments, the satisfaction of needs would be the first criterion of consumers.

This study will attempt to investigate the influence of purchase frequency and the availability of additional information in the price-quality relationship and will present conclusions beneficial to effective marketing policy-making. The study attempts to find answers to the following questions: (1) What are the underlying determinants which may influence the price-quality linkage in different cultural, social and economic environments? (2) Are additional information sources important in consumers' decision-making processes? (3) Does the price-quality connection show different formations according to purchase frequency and

cost of the product?

Method

This study was conducted in Istanbul, Turkey using a total of 150 respondents. In the selection of the Turkish sample, the snowball sampling method was used. This method dictates that initial sampling units representative of the population are selected using a probability method. The additional units are then selected from information supplied by the initial units. The main advantages of snowball sampling are reduced sample size and costs and, if it is carefully controlled, reduced sampling bias (Luck and Rubin, 1987). This kind of sampling is also very appropriate in developing countries where the selection of probability sampling is rather difficult. Accordingly, a group of 30 respondents were located to participate in this study. Additional respondents who are also representative of the population were then referred by the initial group. Everyone who was selected to be in the sample received a copy of the questionnaire. In this process, the questionnaires were dropped off and picked up a week later at respondents' residences in various boroughs of Istanbul, the largest city in Turkey. After two pick-up attempts, 119 (79 percent) questionnaires were retrieved.

Data were analyzed using the Factor Analysis Technique in the SPSSX routine. The factor analysis is a multivariate technique ideal for this type of study. It is designed to identify the underlying constructs of the data which might have practical and theoretical importance to social scientists, researchers and decision makers. Alternatively, the factor analysis is a data-reduction procedure and helps to remove redundancy from a set of correlated variables representing the smaller set of variables called factors (Aaker and Day, 1986; Cureton and D'Agostino, 1983; Hair, *et. al.*, 1992). The factors may be obtained using orthogonal extraction and varimax rotation; these were the primary steps executed to obtain the underlying factors of this study.

Findings

Demographic characteristics of the sample demonstrated that the majority of respondents were 36 years old and older (61.1 percent), female (51.3 percent), married (68.1 percent), and college educated (37.2 percent). Fifty seven percent of the Turkish respondents did not enjoy shopping and stated that improvements to the relationship between price and quality are a significant responsibility (76.5 percent). Before a purchasing decision is made, the price is always (31.9 percent) or often (17.6 percent) or sometimes (42 percent) discussed by Turkish consumers, and these consumers tend to buy again if quality is excellent (41.2 percent) or good (54.6 percent). Accordingly, they try to get advice for price and quality (81.5 percent), and they sometimes (48.7 percent) or often (36.1 percent) are worried about buying a low-quality product (89.8 percent).

The majority of the Turkish respondents perceived

that price is either a good (49.6 percent) or a fair (26.1 percent) indication of quality, despite the fact that they believe improvements are needed in the price-quality relationship in the Turkish market. Furthermore, the link between price and perceived quality was fairly strong for frequently purchased products such as shampoo, cleaners and detergent as well as for periodically purchased products such as shirts/blouses, cameras/film, shoes and cosmetics. This evidence exposes the reality that in Turkey a high price is relied upon as an indication of higher quality goods and as a protection against purchasing lower quality products, which are plentiful in less-developed markets. Although the Turkish respondents opposed repeat purchases of low-quality items (57.1 percent) and agreed that product quality should be consistent over time (73.1 percent), on some occasions, some 91.6 percent of the respondents tended to sacrifice quality to low price. Figures 1, 2, and 3 show behavioral characteristics of the Turkish respondents.

Figure 1
Attitudinal Differences of Respondents

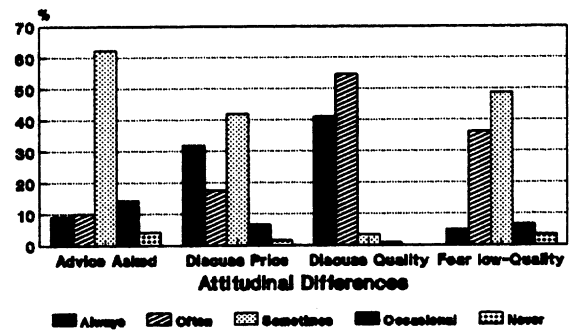


Figure 2
Perception of Price-Quality

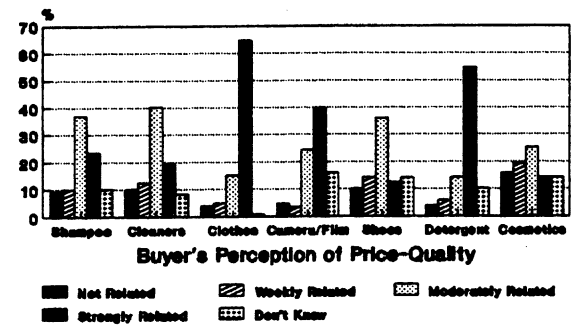
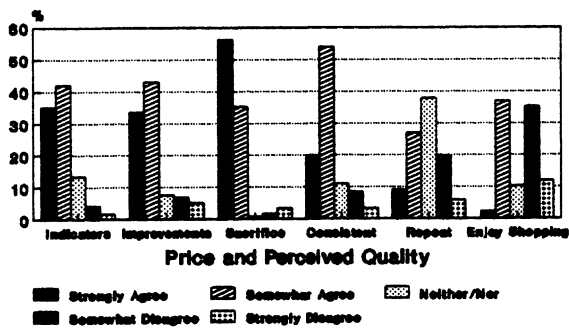


Figure 3
Price and Perceived Quality in Turkey



When the factor analysis methodology was used to define the perceived relationship between price and quality within the Turkish context, a total of six factors were identified, and 40.5 percent of the variation explained. These factors may be described as: (1) perceived relationship between price and quality, (2) perception of price, (3) price-quality decision, (4) demographic factors, (5) shopping style, and (6) consistency in quality.

The first factor characterized the perceived price-quality relationship. Although respondents observed the presence of a price-quality connection for frequently purchased items such as cleaners, detergent and shampoo as well as occasionally purchased products such as shoes, shirts/blouses and cameras/film, clearly they believed that the price is not directly related to quality.

The second factor described perception of price by the Turkish consumers. Despite the fact that the Turkish consumers demonstrated only modest interest in shopping, they indicated that they would buy again if the prices reflect the quality. The reason for this kind of behavior is Turkey's high inflation rate, a critical problem that confuses consumers by producing high prices independent of quality. They would probably be frequent shoppers and would repeat their purchases if quality were enriched commensurate with high prices.

The third factor describes the decision-making process relative to the price-quality relationship. The Turkish respondents have more confidence in word-of-mouth information than in the observed quality for frequently purchased products (shampoo) as well as occasionally purchased products (shirts/blouses, shoes). Due to previously high inflation rates, the Turkish consumers may most likely be skeptical about the quality of products which they intend to purchase. Therefore, they count on the opinion of others who already have experience or knowledge about different products.

The fourth factor is primarily associated with the demographic background of the respondents, and the fifth factor characterizes the shopping styles of the Turkish consumers. The sixth factor identifies the consistency of the price-

quality relationship in the Turkish market. Accordingly, the factor scores showed that the price of a product is not an important concern for the educated and high-income Turkish consumers. In addition, they enjoy shopping, are willing to repurchase products of an acceptable quality, and are strongly inclined to demand consistent improvement of the price-quality relationship. Especially for cosmetic products, this link shows a strong pattern. Table 1 shows factor loadings, and Table 2 exhibits communalities and variations explained by each factor.

Table 1

P/Q Relationship	FACTORS AFFECTING PRICE/QUALITY RELATIONSHIP IN TURKEY				
	Perception of Price	Price/Quality Decision	Demographic Factor	Shopping Style	Consistency in Quality
P/Q - Cleaner	.75969				
P/Q - Detergent	.75291				
P/Q - Shoes	.72493				
P/Q - Shampoo	.68786				
P/Q - Shirt/Blouses	.62450				
P/Q - Indicator of Quality	-.54415				
P/Q - Camera/Film	.49025				
Word-of-Mouth Camera/Film	.57181				
Buy again - Price	.54518				
Frequency of Shopping	-.52308				
Word-of-Mouth - Shirt/Blouses		.52990			
Observed Quality - Shirt/Blouses		-.46985			
Word-of-Mouth - Shampoo		.46415			
Observed Quality - Shampoo		-.45910			
Observed Quality - Shoes		-.42578			
Observed Quality - Cleaner			.70170		
Observed Quality - Detergent			.69890		
Education			-.49344		
Income			-.44004		
Price of Product Discussed			-.41244		
P/Q Needs Improvement				.71276	
Repeat purchase at acceptable quality				.64860	
I enjoy shopping				.55598	
Word-of-Mouth - Cleaner				.46232	
Observed Quality - Camera/Film				.44852	
Quality consistent Over time					.65177
Age					.49591
P/Q Cosmetics					.48119

Table 2

P/Q Relationship	EXPLAIN VARIATIONS BY EACH FACTOR IN THE TURKISH SAMPLE				
	Communality (h ²)	Factors	Eigenvalue	PCT of Variance	CUM PCT
P/Q - Cleaner	.61645	1	3.92271	9.1	9.1
P/Q - Detergent	.56942	2	3.23148	7.5	16.6
P/Q - Shoes	.66205	3	3.21821	7.5	24.1
P/Q - Shampoo	.52051	4	2.65047	6.2	30.3
P/Q - Shirt/Blouses	.53808	5	2.23206	5.2	35.5
P/Q - Indicator	.39422	6	2.16768	5.0	40.5
P/Q - Camera/Film	.42675				
Word-of-Mouth Camera/Film	.46020				
Buy again - Price	.35374				
Frequency of Shopping	.48049				
Word-of-Mouth - Shirt/Blouses	.47151				
Observed Quality - Shirt/Blouses	.48303				
Word-of-Mouth - Shampoo	.43033				
Observed Quality - Shampoo	.46355				
Observed Quality - Shoes	.23374				
Observed Quality - Cleaner	.60216				
Observed Quality - Detergent	.59523				
Education	.41436				
Income	.30520				
Price of Product Discussed	.26419				
P/Q Needs Improvement	.56994				
Repeat purchase at acceptable quality	.54184				
I enjoy shopping	.47182				
Word-of-Mouth - Cleaner	.42044				
Observed Quality - Camera/Film	.35240				
Quality consistent Over time	.46379				
Age	.21904				
P/Q - Cosmetics	.49748				

SUMMARY AND CONCLUSION

The study's findings indicate that the price-quality relationship shows different formations based upon cultures and national settings. Although the Turkish consumers agreed that there is not a direct linkage between price and quality and that a high price is not necessarily correlated with high quality, they recognized price as a good or fair indication of quality and stated that improvements to this linkage are imperative. Other factors that may affect the Turkish consumers' preferences and the decision-making process were frequency of purchase, word-of-mouth information, and demographic background of consumers.

In a less-developed market, the market is not saturated, and the market forces may not impose any rule; therefore, the consumers are usually forced to use their past experiences and word-of-mouth information. Should they be unable to get any information, the trial-error tactic would be the best alternative to evaluate the price-quality relationship in their market and stated that they would probably be frequent shoppers and repeat purchasers if the quality of goods were improved as prices rose. However, the high inflation rate has a negative effect on the price-quality connection in the Turkish market; therefore, the economic condition may have a strong influence on perception of price-quality connection.

Regardless of market structure and cultural influence, it is inevitable that the interdependence of price and quality will motivate consumers to be more particular about their choice and persuade manufacturers to produce and sell high-quality products if they are willing to ask higher prices in the less-developed markets. Market success in most cases will depend upon how well price and quality relationships are maintained and how positive an opinion consumers have in this process.

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ANALYSIS OF THE IMAGE OF
JAPANESE LIFE INSURANCE COMPANIES

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Abstract

As the Japanese life insurance industry expects severe competition among the companies as well as from the foreign companies due to the regulation by the Ministry of Finance, adopting marketing orientation is becoming increasingly important to protect the current customer base and to reach to the new customers. Corporate images of major life insurance companies were examined using a multidimensional scaling technique. It was found from this study that the corporate images of life insurance companies are affected mostly by the size of the company, along with the amount of advertising expenditure, the size of the salesforce and the number of office branches.

Introduction

As of 1989, there are thirty life insurance companies in operation in Japan including five foreign firms. Traditionally, life insurance policies have been sold by insurers, not purchased by customers, which means newly employed sales agents, usually female, try to get contracts with their friends, relatives, or neighbors. That is, life insurance policies have been sold mostly through agents' personal relationships. Therefore, Japanese life insurance companies have tried to employ as many sales people as possible because the larger salesforce the more sales the companies can get. In this sense the industry has been sales-oriented rather than adopting marketing orientation.

However, the current situation will be changed soon as the life insurance market is becoming saturated. Ninety two percent of Japanese households currently have at least one life insurance policy (Japanese Institute of Life Insurance 1990). In addition, the life insurance industry will face severe competition from many foreign life insurance companies since they are expected to enter in the near future. Thus, it is becoming increasingly important for the Japanese companies to adopt a marketing orientation to protect the current customer base as well as to reach the potential customers by understanding their needs and wants.

When we consider the life insurance marketing, we face some difficulties though. Intangible and complex products/services like life insurance are difficult to market because

buyers seldom understand products themselves (i.e., attributes) and the benefits involved with the products. Often, price can be the only indicator of the product quality and consequently customers may make a choice among many alternatives based on the price. However, as for life insurance policies, the price (premium) is determined based on a mathematical method. Moreover, the industry has been strongly regulated by the Ministry of Finance in Japan. Under these circumstances, an insurance company can't easily differentiate itself from others on the basis of price only.

One way a life insurance company can differentiate itself from others is by creating its own corporate image. Corporate images are expected to play a major role when customers consider purchasing some intangible products like a life insurance policy. Understanding of the corporate image of life insurance companies is important for developing an effective marketing strategy. The objective of this study is to examine corporate images of major Japanese life insurance companies perceived by customers.

Methodology

Selection of Life Insurance Companies and Attributes

(1) Life Insurance Companies: We have chosen the largest seven life insurance companies in terms of the annual premiums revenue (Table 1). While there are thirty life insurance companies in Japan, the top seven companies occupy about 65% of the market share (i.e., heavy half). This means that these top seven companies have strong impact on the life insurance market and are expected to be well known among customers.

TABLE 1
TOP SEVEN LIFE INSURANCE COMPANIES IN JAPAN

1. Nippon Life Insurance Co.
2. The Dai-ichi Mutual Life Insurance Co.
3. Sumitomo Life Insurance Co.
4. The Meiji Mutual Life Insurance Co.
5. Asahi Mutual Life Insurance Co.
6. Mitsui Mutual Life Insurance Co.
7. The Yasuda Mutual Life Insurance Co.

* These seven life insurance companies are ranked in terms of their premiums revenue.

(2) Attributes: We have chosen nine attributes

of life insurance companies which are expected to affect the corporate image. We provided our respondents with the meaning of each of the nine attributes before the questionnaire administration. Table 2 shows the attributes and their meanings.

TABLE 2
ATTRIBUTES AND THE EXPLANATIONS

Attributes	Meanings
1. Product	Variety of products
2. Salesforce	Knowledge, attitude toward customer, the number of calls
3. Dividend	Policy dividend rate
4. Channel	Variety of distribution channels
5. Advertisement	Good impression to the advertisement
6. Cultural Activities	Contribution to community
7. Office	Proximity to the office and the atmosphere of the office
8. Service	Variety of services
9. Reputation	Reputation from family member, friends and neighbors

Sample and Data Collection Procedure

A sample of twenty eight MBA students at a business school in northwestern Japan participated in this study. Two out of 28 respondents were dropped from further analyses because their responses were insufficient for the purpose of our study. Therefore, the data from the remaining 26 respondents were used in this study. All respondents were Japanese since non-Japanese students are expected to have little knowledge about the life insurance companies in Japan.

We collected the company by attribute ratings data (i.e., rectangular preference data) on a 10-point scale through self-administered questionnaires. Some background information (i.e., life insurance ownerships and demographic characteristics) was also collected. In addition to the primary ratings data, we collected some secondary data from the industry sources.

Analysis of Data and Results

We analyzed the life insurance company by attribute ratings data via MDPREF (Chang and Carroll 1969). Figure 1 shows the scree plot of eigenvalues versus dimensionality. It seems from Figure 1 that the data can be represented in a 2-dimensional space (i.e., elbow point). Also, only dimensions 1 and 2 carry eigenvalues

greater than 1.0 accounting 92% of the total variance in the data. Consequently, we focus our analysis on a 2-dimensional solution.

FIGURE 1
PLOT OF EIGENVALUES VS. DIMENSIONS

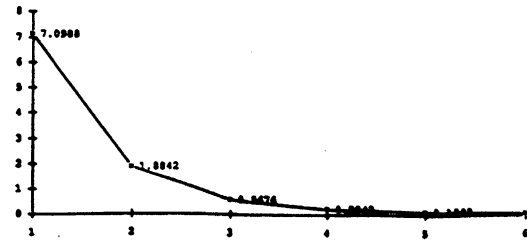
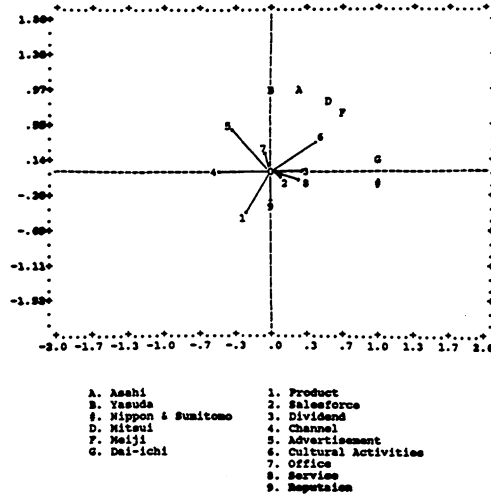


Figure 2 shows the joint space of the life insurance companies and their attributes vectors.

FIGURE 2
PLOT OF LIFE INSURANCE COMPANIES AND ATTRIBUTE VECTORS IN A MDPREF JOINT SPACE



Comparison of MDPREF Space and Actual Data

We compared the ranking on each attribute from the MDPREF space with the actual data from industry sources for the seven life insurance companies. The rankings in the MDPREF space were determined by drawing a perpendicular line from the company points to an attribute vector.

(1) Product	
MDPREF ranking	Actual ranking ¹

¹ Source: Summary of Life Insurance Business (1989) published by The Life Insurance Association of Japan, p. 302-16.

- | | |
|----------------------|--------------------------------------|
| 1. Nippon & Sumitomo | 1. Yasuda (26 products) ² |
| 3. Dai-ichi | 2. Dai-ichi, Asahi & Meiji (22) |
| 4. Yasuda | 5. Sumitomo (21) |
| 5. Asahi | 6. Nippon & Mitsui (20) |
| 6. Meiji | |
| 7. Mitsui | |

The comparison shows that the perception of the respondents is quite the opposite of the actual situation. While Nippon and Sumitomo, which are the lowest in actual ranking, rank high in MDPREF space, the opposite is true for Yasuda, Asahi and Meiji.

(2) Salesforce

<u>MDREF ranking</u>	<u>Actual ranking³</u>
1. Nippon & Sumitomo	1. Nippon (82,067 agents)
3. Dai-ichi	2. Sumitomo (69,856)
4. Meiji	3. Dai-ichi (68,365)
5. Mitsui	4. Meiji (41,896)
6. Asahi	5. Asahi (34,348)
7. Yasuda	6. Mitsui (25,968)
	7. Yasuda (17,847)

Because the attribute of salesforce is to some extent a combination of sub-attributes like knowledge, attitude toward the customers, and the number of calls, the size of salesforce (actual data) is not an exact measure of this attribute. However, the size has effect on the attribute to some extent. The comparison indicates that the MDPREF ranking reflects well the actual ranking suggesting that the respondents perceive the actual situation quite accurately.

(3) Dividend

<u>MDREF ranking</u>	<u>Actual ranking⁴</u>	
	<u>1989</u>	<u>1990</u>
1. Nippon, Sumitomo, & Dai-ichi	1. Meiji	Sumitomo
4. Meiji	2. Yasuda	Mitsui
5. Mitsui	3. Nippon	Nippon
6. Asahi	4. Asahi	Yasuda
7. Yasuda	5. Sumitomo	Asahi
	6. Dai-ichi	Dai-ichi
	7. Mitsui	Meiji

Note that the actual ranking is not ordered in terms of dividend but in terms of financial

² Product lines include group insurance.

³ Source: Summary of Life Insurance Business (1989), p. 322.

⁴ The Weekly Toyo Keizai Special Issue of Life Insurance, August 31, 1990 (p. 113) and September 6, 1991 (p. 144).

performance. Because the policy dividend of each company is not clearly disclosed (Toyo Keizai 1991), we used the financial performance as a measure of policy dividend. The result is that the change of order was drastic in comparison between 1989 and 1990. Only Sumitomo was ranked first in 1990 among the "top three" companies in terms of the total assets (Nippon, Sumitomo, and Dai-ichi), was ranked first in the MDPREF ranking.

Interestingly, Nippon and Dai-ichi, which actually ranks third and sixth, respectively in both 1989 and 1990, were ranked first with Sumitomo in the MDPREF space indicating that the respondents' perception of these companies are very favorable.

(4) Channel

<u>MDPREF ranking</u>
1. Nippon, Sumitomo & Dai-ichi
4. Meiji
5. Mitsui
6. Asahi
7. Yasuda

Currently, life insurance companies do not have many distribution outlets. More than 80% of policy owners bought life insurance policies through sales agents and about 5% became policy owner through over-the-counter. Only around 8% purchased policy through other channels in 1989 such as direct mail or department stores' counter (Japan Institute of Life Insurance 1990). Nevertheless, the top three companies are ranked first. Respondents perceive the top three to have more diversified channels.

(5) Advertisement

<u>MDPREF ranking</u>
1. Nippon & Sumitomo
3. Dai-ichi
4. Meiji
5. Mitsui
6. Asahi
7. Yasuda

Because most Japanese life insurance companies are mutual companies, they disclose less data than stock-issued companies. This presents some difficulty in obtaining an actual data such as the advertisement expenditures. Although advertisement expenditures are not directly related to the effectiveness of advertising, it may have some effect on this attribute. Therefore, we used the advertisement expenditures as an indicator of this attribute.

Nikkei Koukoku Kenkyuujo (1991) provides some data regarding the advertisement expenditures of life insurance companies in 1990. Based on this data, Nippon was the first followed by Dai-ichi, Sumitomo and Meiji (1986.6M yen, 991.2M yen, 585.6M yen and 29.1M yen,

respectively. Other companies' data were too small to show here). An important point is that Nippon spent on advertisement about twice as much as Dai-ichi, the second. Nippon dominated advertisement of life insurance companies.

(6) Cultural activities

MDPREF ranking

1. Yasuda
2. Nippon, Sumitomo & Asahi
5. Dai-ichi & Mitsui
7. Meiji

We could not rank these companies in terms of actual data because all companies have been contributing to communities through various ways like construction of theaters, concert halls, or sponsorship of charity concerts. The important point is that Yasuda, not Nippon nor Sumitomo, comes first from the cultural activities' point of view. This is the first time for the respondents to demonstrate less favorable perceptions of the top three compared with the five previous attributes.

(7) Office

MDPREF Ranking

1. Nippon & Sumitomo
3. Dai-ichi
4. Meiji
5. Mitsui
6. Asahi
7. Yasuda

Actual ranking⁵

1. Sumitomo (2,287 agents)
2. Nippon (2,067)
3. Dai-ichi (2,063)
4. Meiji (1,538)
5. Asahi (1,294)
6. Mitsui (1,141)
7. Yasuda (996)

The real data ranking was collected in terms of the number of branches and sub-branches of each company. We recognize that those numbers is not directly related to the attribute (proximity to office and the atmosphere). In particular, the atmosphere of offices cannot be evaluated. In this sense the actual ranking reflects only the proximity aspect of the attribute. Even so, respondents' perception reflects the actual situation very accurately.

(8) Service

MDPREF ranking

1. Nippon & Sumitomo
3. Dai-ichi
4. Meiji
5. Mitsui
6. Asahi
7. Yasuda

As in the case of the cultural activities, it is difficult to find an actual ranking for this attribute since there is no relevant data. As expected, however, the top three are ranked on

top. This means respondents thought the top three offer better services than others.

(9) Reputation

MDPREF ranking

1. Nippon & Sumitomo
3. Dai-ichi
4. Meiji
5. Mitsui
6. Asahi
7. Yasuda

We also faced difficulty to find actual ranking of reputation. There are not appropriate data to evaluate each company's reputation except Nikkei Business Publications data (1992). This data shows the ninety nine most favorite companies in Japan. Only two out of the 99 are life insurance companies, which are Nippon (27th) and Dai-ichi (94th) that are ranked on top in the MDPREF space.

Discussions and Directions
for Future Research

From the results of our study, it seems that respondents evaluate life insurance companies mostly in terms of their size. The bigger the company is, the more positive attitude the company can get from customers. Note that Nippon Life Insurance (the largest life insurance company in Japan, even in the world) was ranked first in all attributes' ranking except for the cultural activities in MDPREF ranking. The top three ranked on top in terms of only three attributes in actual ranking: (1) the size of the salesforce; (2) the number of offices; and (3) the advertising expenditures which all correlate highly with the size of the company. Even for these three attributes we do not have the data to indicate the quality aspect. We only have the quantitative data. Despite these facts, the top three dominate other companies on most attributes in the MDPREF space. It may be the case that the perception of the respondents were driven mostly by these three attributes in addition to the size of the companies.

The following factors may provide some plausible explanations for the current situation in Japanese life insurance industry: (1) Complexity and intangibility of life insurance; (2) Homogeneity of product lines presented by each company; (3) Strong regulation over the industry; (4) Lack of marketing in the industry.

Because a life insurance policy is not a product for consumers to understand easily and it is difficult for them to recognize its benefits, they want some indicator of the quality of the policy in the purchase process. Under these circumstances, the size of a

⁵ Source: Summary of Life Insurance Business (1989), p. 322.

company is a good criterion for them in choosing one company over others.

In addition, product lines offered by life insurance companies seem to be quite similar to consumers. This is partly due to the strong regulation by the Ministry of Finance over the industry. Therefore, the decision that which companies they choose is not important for them.

The regulation has also prevented each company from differentiating one another and allows all companies to have the same management style. As a result, the regulation has been taking care of life insurance companies' management that means they have not or they do not have to try to make efforts to meet customers' needs and wants.

A final and probably the most crucial reason why the size becomes the criterion is that a marketing orientation is completely missing in life insurance industry. Life insurance companies have not differentiated from one another and they do not have an unique "positioning". Rather, their efforts focused on only employing as many sales agents as possible, which completely ignored customers' points of view.

Now an marketing orientation is becoming an imperative for the life insurance companies in Japan. They should find a unique positioning which emphasizes the strengths of the company by better understanding the perceptions of the current and potential customers. For example, Yasuda should emphasize its diverse product line as well as their contribution to the society. Also, customer education is needed by life insurance companies so that the customers can understand the attributes of life insurance policy and benefits associated with them, and use other attributes than the size of the company as major decision criteria. This will help them to make a better choice of a life insurance policy that fits their specific needs and wants.

Much research is needed in this area. Future research should examine the preference for the attributes of the life insurance policy by using a procedure like conjoint analysis (Green and Srinivasan 1978; 1990), and consequently design a life insurance policy that can satisfy the largest number of customers. Possibility of segmenting policy owners should be explored which may provide important practical implications for the product line management. While we used a sample of MBA students in this study, a future study should use more relevant samples such as the current life insurance policy owners.

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"THE KEY MEDIATING VARIABLES LINKING MARKETING STRATEGY AND PROFITABILITY: A STUDY OF INDIAN TEXTILE AND CLOTHING INDUSTRY"*

ABSTRACT

The authors argue that investment-intensity and gross margin rate act as mediating variables between marketing strategy elements and profitability. On the basis of multiple regression analysis, they develop results which go counter to the current theory that the effect of marketing strategy elements (e.g. product quality) on profitability is direct. They offer insights into the appropriateness of market share-building as a means of raising profitability in different situations and suggest the need for a trade off between market share building and maximising gross margin rate in order to achieve greater profitability.

1. INTRODUCTION

The marketing strategy bears a "direct impact" on a firm's profitability constitutes a key hypothesis in the strategic planning literature (cf Schoeffler, Buzzell and Heany 1974; Philips, Chang and Buzzell 1983; Buzzell and Gale 1987; Comanor and Wilson 1967; Gale 1972; Roach 1981;). Conversely, "indirect effect" of marketing strategy on the profitability via certain mediating variables (e.g. price) has not been ruled out. For example, positive relationship between product quality and price has been established (Jacobson and Aaker 1987; Buzzell and Gale 1987).

Enough empirical evidence exists to support direct positive impact of market share on profitability (Gale 1972; Schoeffler et al 1974; Buzzell and Gale 1987; Ravenscraft 1983). But studies do exist which challenge the existence of direct relationship (e.g. Hammermesh et al 1978; Woo and Cooper 1982). The evidence exists that marketing strategy elements influence the market share (Philips et al 1983; Jacobson and Aaker 1985). A study by Schul, Davis and Babakus (1991) has found that the effects of a differentiation strategy (differentiation being an outcome of large advertising expenditures and product development costs) on profitability are positive and indirect, mediated by market share.

The purpose of this study is to pinpoint mediating variables between marketing strategy and profitability, and establish the relationships of those mediating variables with profitability.

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2. DEVELOPING AND HYPOTHESIS

2.1 Marketing Strategy and Profitability

Marketing strategy variables such as product quality have been found to bear direct impact on ROI (Schoeffler et al 1974; Jacobson and Aaker 1987; Buzzell and Gale 1987). Some studies contrarywise, indicate the lack of direct relationship between marketing strategy variables and ROI. For example Philips et al (1983) find that product quality does not have a "consistent direct effect" on ROI. They discovered a significant relationship between product quality and ROI in case of only one-half of "business groupings" in their study. Srinivasan (1985) finds that there is no direct relationship between various elements of marketing strategy (product, promotion, and distribution) individually or jointly on ROI. In the light of these studies following hypothesis may be developed:

H₁: Marketing strategy variables do not have a significant direct effect on ROI.

2.2 Gross Margin Rate and Profitability

Modern economic theory emphasises the discretionary nature of price-setting as a result of non-price competitive factors such as product differentiation, innovations, reliability, prompt delivery, and after-sales service. The widespread practice of "cost plus" pricing suggests that pricing decisions involve an element of discretion i.e. mark-up leverage. After evaluating non-price competitive factors a company fixes up the mark up which may be termed as a gross margin rate. From the viewpoint of marketing management, gross margin rate seems to be the only portion of product price which can be manipulated to the advantage of firm by making use of various marketing tools. Stout (1977 p.21) argues that profitability is affected by price level of products or services noting that "price is a means whereby **inter-temporal changes in profits** can be brought about in relation to the firm's evaluation of present as against future gains in the light of its present and future financial needs."

Indirect impact of marketing strategy variables on the profitability, was speculated by some studies on market share-profitability relationship. For example, Buzzell et al (1974) and Ravenscraft (1983) speculated the positive impact of product quality on the relative price of which gross margin rate is an important ingredient. Buzzell et al (1974, p.15) recorded that "Market leaders obtain higher prices, relative to competition, than do businesses with smaller market shares. A principal reason may lie in the fact that market leaders also tend to produce and sell significantly higher-quality products and services than those of their lower-share competitors." Similarly, Ravenscraft (1983) argued that market share is expected to be positively associated with profits for firms with large market share as this

results in better quality products or market power which may enable the firm to charge higher prices than their smaller rivals. Later empirical studies have confirmed positive quality-price relationship. Jacobson and Aaker (1987) utilising PIMS database and autoregressive modelling approach found the positive impact of quality on the relative price although they did not rule out possibility of the converse relationship i.e. price influencing the quality. Similarly, Buzzell and Gale (1987 pp.108-110) found that "quality affects relative price; but separate from quality, (market) share has little effect on price". A study in the context of Indian apparel export industry (Khanna 1985, pp.294-295) also pointed out that the firms expected a substantial increase in the f.o.b. price realisation as a result of the "product improvement". These studies clearly suggest a positive impact of relative product quality on the relative price and hence on gross margin rate. In accounting terms, after charging validly indirect expenses (marketing and administrative) against gross margin amount we get net profit figure which is used to compute ROI. Thus profitability can be assumed to be influenced by marketing strategy elements via gross margin rate. Thus following hypotheses can be formulated:

H₂: Gross margin rate has a significant positive impact on ROI.

2.3 Investment-Intensity and Profitability

Investment-intensity is, strictly speaking, a marketing variable. But, it does interact with the marketing strategy of the business firms since its value is generally a characteristic of product/market scope of the business (FitzRoy 1976). And it is deemed to be a measure of degree of operating effectiveness as well as difference in technology or distribution among competing firms (Buzzell and Gale 1987, p.145). Direct positive impact of market share on profitability of a firm has been found by many studies (Gale 1972; Schoeffler et al 1974; Ravenscraft 1983; Buzzell and Gale 1987). But some studies (Woo and Cooper 1982; Hammermesh et al 1978) do suggest the non-existence of the "direct relationship" between market share and profitability. These studies however, do not rule out the possibility of market share having an indirect effect through its effect on investment-intensity. Any increase in market share naturally adds to sales growth and eventually reduces the level of investment-intensity (ratio of investment to sales). We therefore contend that the impact of market share building (or sales growth) on ROI is reflected through the investment-intensity variable. The positive impact of marketing strategy variables such as product quality, and new product activity on market share (Buzzell and Wiersemma 1981; Philips et al 1983; Jacobson and Aaker 1985) is well established. Implicitly, marketing strategy influences investment-intensity (through market share building or sales growth) which consequently, has been found to

cause variations in ROI with a negative impact (Schoeffler et al 1974; Buzzell and Gale 1987). Thus it may be proposed that investment-intensity acts as a mediating factor between marketing strategy and ROI. Keeping in line with past studies, a negative relationship between investment-intensity and ROI is proposed and following proposition is formulated.

H₃: The market share building reduces the level of investment-intensity and consequently there is an improvement in ROI. Similarly, losing market share has an adverse impact on investment-intensity and this leads to reduction in ROI.

2.4 Non-Operating Profit and ROI

In addition to impact of "direct sales operations", profitability of a firm may be influenced significantly by non-operating transactions. This type of transactions are commonly observable in the Indian apparel export industry. The net result of these transactions (e.g. sale or purchase of import/export entitlements; fluctuations in foreign exchange rates) may be positive (non-operating profit) or negative (non-operating loss) depending on extraneous factors and internal management skills of a firm. Strictly speaking these transactions may not be considered to have their origin in marketing. These transactions however have direct linkage to sales. And strategic planning linked to quotas could enable a firm to maximise positive impact and/or reduce negative effect of non-operating transactions. Therefore the following proposition was formulated:

H₄: Non-operating profit (loss) has a significant impact on ROI.

3. Scope of Study and Methodology (Measurement of Variables)

The study confines to Indian apparel export industry. The special features of this industry included a fairly high growth rate resulting in a rising contribution to Indian exports, increasing share in world exports of clothing, a steep growth in export-orientation (exporting more than one-half of gross output) and development of U.S. and West European countries as major markets. Thus the industry operates in a highly competitive marketing environment dominated by fashion-conscious consumers and dominated by a unique export marketing environment comprising quotas and export incentives.

The data used to test the hypotheses were collected as part of a larger study conducted with a view to investigate the general export marketing policies and their relationship with business performance. The data were collected from unpublished profit and loss accounts of non-randomly selected apparel export companies operating from Delhi. Initially the data were collected from 8 companies. However only 34

observations from 5 companies were found appropriate for the multiple regression analysis undertaken for testing our hypotheses. The time-series data belongs to the period from 1975-76 through 1986-87 and the average annual export size of a company comes to \$1.95 million which reflects that these companies are comparatively larger within the industry. In order to test our hypotheses both linear and curvilinear multiple regression analysis were conducted. Different sets of variables were introduced with a view to overcome the problem of multi-collinearity. Furthermore, the use of curvilinear regression technique enabled us to capture non-linear relationships, if any, between proposed explanatory variables (marketing effort, gross margin rate, investment-intensity and non-operating profit) and profitability.

Measurement of Variables

Non-Operating Profit: The non-operating profit was computed by summing up items representing non-operating income less sum total of items representing non-operating expenditure.

Investment-Intensity: The investment-intensity in our study means the ratio of investment (fixed assets) to export size. This measure reflects the effectiveness of operations and has been used in PIMS studies.

Gross Margin Rate: We have computed it as a ratio of gross margin to export size.

Return on Investment: In this study, ROI has been computed as ratio of net profit before taxes (NPBT) to total assets.

Marketing Effort: The marketing effort has been defined in three different ways (M_1 , M_2 , M_3 ,) in order to account for different groups of marketing expenses. M_1 includes expenses on foreign tours, garment fairs, advertising, sales promotion, foreign buyers' entertainment, commission, maintenance of foreign office/branch. This variable primarily reflects promotion strategy and has been computed as a proportion of sales size. M_2 comprises of design development, sample-making and packing and forwarding expenses in addition to those listed under M_1 . This is however an absolute measure and not a ratio measure as M_1 . This measure of marketing effort reflects promotion, product differentiation and physical distribution components of marketing mix. M_3 excludes distribution component and thus reflects promotion and product differentiation only. This is also an absolute measure.

4. FINDINGS AND DISCUSSION

Marketing Strategy - No Direct Impact on ROI

Regression models (See [Table-1](#) and [Table-2](#)) clearly show that marketing strategy or its elements do not have any direct impact on the ROI. Thus results support hypothesis H_1 . This finding is supported by other studies analysing the relationship between these two variables (e.g. Srinivasan 1985, Philips et al 1983). The lack of direct relationship does not however rule out the "indirect" impact of marketing strategy (through gross margin rate and investment-intensity) on ROI.

Gross Margin Rate: The results support the hypothesis H_2 envisaging a direct positive relationship between gross margin rate and ROI. Both the linear and non-linear regression coefficients of gross margin rate (see [Table 1](#) and [Table 2](#)) were significant. It makes therefore evident that gross margin rate is an important predictor variable of the ROI, and further provides us with support for views of Ravenscraft (1983) that better price realisation (due to better product quality) has an impact on ROI. Further a comparison of the t-values indicates that gross margin rate influences ROI in a linear fashion. The results further suggest some degree of positive interaction between non-operating profit and gross margin rate. The positive interaction indicates that a firm may concurrently earn greater gross margin rate and greater non-operating profit. But this is contrary to the expectation that greater NOP would cause a firm to charge lesser gross margin rate.

Investment-intensity: The proposition (H_3) that a negative relationship exists between investment-intensity and ROI is supported by results of our study. Further the results suggest a non-linear impact on ROI. The analysis thus shows that the investment-intensity is an important predictor variable of ROI with a non-linear impact and its negative impact on ROI is in line with the previous studies (e.g. Schoeffler et al 1974; Buzzell and Gale 1987).

An interaction between investment-intensity and gross margin rate may not be ruled out in the context of finding by Davar and Rajagopal (1992). They found significant negative and linear impact of the investment-intensity on gross margin rate. It means that an endeavour to reduce the level of investment-intensity (i.e. to obtain higher turnover of investment) may cause a firm to reduce its relative price eventually reducing gross margin rate. So long as the price remains above the variable cost, this exercise may contribute to the profitability and at the same time, may help in achieving market penetration. Thus after reducing the product prices to a certain minimum level, the strategy of reducing investment-intensity via building of market share may not be useful. Barring the linkage between gross margin rate and investment-intensity, a different situation can be simulated. Better

gross margin rate (through higher sales prices) can be realised through a special thrust on specialised products, narrow product lines, acceptance of small orders, product adaptation, better product quality, faster and timely delivery. The successful low-share businesses use some of these tactics (e.g. product-quality) in order to improve their profitability (Woo and Cooper, 1982). Thus it is evident that independent of any change in investment-intensity, gross margin rate can be improved which has a positive impact on the ROI.

Non-Operating Profit and ROI

The basic hypothesis H_4 that non-operating profit has a significant impact on ROI gains support from the results of this study. (As the impact of non-operating transactions on ROI could be positive or negative depending on profits or losses incurred on non-operating transactions, a two tailed t-test was conducted). Linear regression coefficients of non-operating profit variable were significant as against the insignificant non-linear coefficients. It implies the existence of linear relationship between non-operating profit and ROI. The positive relationship suggests that alternative export orders may be accepted after examining their impact on non-operating profit as export benefits differ for different categories of products. Moreover, associated inflow of non-operating profit on account of acceptance of a particular export order should be considered in order to quote competitive prices.

5. CONCLUSION

The study proposed that gross margin rate and investment-intensity act as mediating variables between marketing strategy and profitability. In order to test the hypotheses regarding the impact of the proposed mediating variables on ROI, empirical evidence from Indian apparel export industry was utilised.

The study findings however must be assessed with certain caveats. First, limitations of certain methodological approaches (multiple regression technique, small sample, and construction of variables) could have caused some distortions in the results of study. Particularly interaction between gross margin rate and investment-intensity may not be ruled out in the light of argument by Buzzell and Gale (1987) that capital-intensity leads to aggressive competition, especially when the economic conditions are poor and plant loading is low because managers may be willing to accept any price above variable costs. Second, the findings based on a single industry data restrict the generalisation of findings especially with regard to non-operating factor as they depend on industry-type and country of operations.

This study lends support to the evidence that there does not exist any "direct relationship" between marketing strategy variables and ROI. Rather marketing strategy and profitability seem to be linked through gross margin rate and investment-intensity. Consequently strategic market planning may be utilised to improve the gross margin rate and investment turnover with a view to generate better ROI. The study further suggests that greater profitability via better gross margin rate can be achieved without having a recourse to the market share building. But the market share building strategy may be utilised to capture growing market potential and/or to establish a new product in a particular market. The results, thus, suggest that objective of 'profitable market share' (Buckley et al 1990) may be pursued by effecting a trade off between gross margin rate and market share expansion. The significant impact of non-operating profit on ROI offers a challenging task to the export managers especially operating from a developing country base having numerous export-related benefits.

6. MANAGERIAL IMPLICATIONS

Along with need for market share building, our study highlights the need for due emphasis on raising gross margin rate through premium pricing by using marketing tools (e.g. product differentiation) or through lowering cost. Achieving greater profitability via improved gross margin rate may be especially suitable for those firms which are operating within mature and traditional industries. Similarly smaller firms may reap the benefits of their competitive advantages (speciality products with certain quality standards and product adaptation etc.) via premium prices resulting in better profits. On the other hand, greater profitability via market share building could be appropriate for growth industries but doing so by lowering prices may not always be a worthwhile exercise. The degree of emphasis on market share building and premium pricing may be laid with reference to the growth stage of product/firm, competitive pressure in particular markets and competitive advantages of the firm.

The managers may use gross margin rate as a criterion variable to ascertain the pros and cons of strategic planning on ROI. Finally, the significant impact of "non-operating profit" on ROI suggests that export managers must keep track of exchange rates, export related benefits (e.g. import licenses), quota prices for buying or selling of the export product) and so on. Appropriate steps such as forward contracts in foreign exchange, and price variability clause in export contracts may be taken with a view to safeguard against impending danger of losses.

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Table 1

Linear Models of Return on Investment							Number of Observations = 34	
Model No.	Intercept	Gross margin rate	Age of Firm	Investment intensity	Non-operating profit	Marketing effort	F-Value	R ²
34.1 (34.1L)	0.07	-	-	-0.10015 (-1.020)	0.00000 ^x (1.310)	0.31884 (0.262)	0.946	0.086
34.2 (34.2L)	0.11	-	-0.00705 (0.932)	-0.13087 (-1.261)	0.00000 ^x (1.513)	0.38673 (0.316)	0.924	0.113
34.3 (34.3L)	-0.17	1.05738 ^a (4.747)	-	0.00473 (0.055)	0.00000 ^z (2.404)	0.00000 (0.507)	7.107	0.496
34.4 (34.4L)	-0.18	1.07323 (4.830)	-	0.01814 (0.204)	0.00000 ^z (2.246)	0.00000 (0.723)	7.238	0.500

- Notes:
- Model numbers are meant only for identification.
 - (i) One tailed test: (a) significant at 1%, (b) significant at 5%, (c) significant at 10%.
(ii) Two tailed test: (x) significant at 20%, (y) significant at 10%, (z) significant at 5%.
 - t-statistics are in parentheses.
 - Age of the firm has been introduced as 'control variable'.
 - Marketing effort used in Models 34.1 and 34.2 has been computed by formula M₁ and in models 34.3 and 34.4 by formulae M₂ and M₃ respectively. For operational definitions of M₁, M₂ and M₃, please refer Methodology section.
 - Model number specified in bracket refers to the corresponding curvilinear model (see Table 2).

Table 2

Curvilinear Double-log Transformation Models of Return on Investment							Number of Observations = 34	
Model No.	Intercept	Gross margin rate	Age of Firm	Investment intensity	Non-operating profit	Marketing effort	F-Value	R ²
34.1L (34.1)	2.69	-	-	-0.57551 ^b (-2.404)	-0.01386 (-0.105)	0.48340 (1.286)	3.458	0.257
34.2L (34.2)	-2.71	-	0.05672 (0.196)	-0.56172 ^b (-2.217)	-0.01671 (-0.124)	0.48137 (1.260)	2.520	0.258
34.3L (34.3)	1.25	1.05456 ^b (2.188)	-	-0.85075 ^b (-2.207)	1.12479 (0.816)	-0.43232 (-1.046)	3.644	0.334
34.4L (34.4)	-2.69	0.96474 ^b (1.982)	-	-0.57675 ^c (-1.520)	0.05182 (0.364)	-0.06263 (-0.165)	3.257	0.310

- Notes:
- Model numbers are meant only for identification.
 - (i) One tailed test: (a) significant at 1%, (b) significant at 5%, (c) significant at 10%.
(ii) Two tailed test: (x) significant at 20%, (y) significant at 10%, (z) significant at 5%.
 - t-statistics are in parentheses.
 - Age of the firm has been introduced as a 'control variable'.
 - Marketing effort used in models 34.1L and 34.2L has been computed by formula M₁ and in models 34.3L and 34.4L by formulae M₂ and M₃, respectively. For operational definitions of M₁, M₂ and M₃, please refer Methodology section.
 - Model number specified in bracket refers to the corresponding linear model (See Table 1).

ARE GROCERY BRANDS INVOLVING?

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Abstract

This paper identifies how consumer involvement measuring techniques can be adapted for use with fast-moving consumer goods. The discussion opens with a review of the recent theoretical developments in involvement and their applications in a number of different product areas. A contemporary measuring device is identified from the extant literature and applied to grocery products. The researchers report on a data reduction step which enabled us to eliminate over one third of the measured items without apparent loss in reliability. Using this modified approach, significant differences in the levels of involvement were found across grocery product categories. The managerial implications of these results are discussed and further uses of the measuring device suggested.

Introduction

The concept of involvement has played an increasingly important role in explaining consumer behaviour. The level of consumer involvement has been hypothesized as affecting brand loyalty, information search, decision process complexity and the predictive ability of attitude models (Assael 1987). Early attempts at empirical verification of the concept as a mediator of purchasing decisions have been of limited value. Problems in definition and measurement techniques have restricted much of this research to a qualitative level (Cohen 1983, Antil 1984, Costley 1988). Recently, significant progress has been made in clarifying the definition and providing new methods of measurement (Bloch and Richin 1983, Laurent and Kapferer 1985, Mittal and Lee 1989, Mittal 1989). Whilst these measuring devices have proved to be robust, their application has been very limited, particularly in grocery product markets.

The research question posed in this paper is whether or not contemporary measurement techniques are sufficiently sensitive to detect significant differences in consumer involvement with grocery products. The paper opens with an evaluation of the converging theory on consumer involvement and its application in the grocery sector. Whilst recognising that researchers are divided in their opinions about how involved consumers are with these products, we argue that, in principal, differing levels of involvement could be detected.

In the second part of the paper, we discuss the research procedures that we used to measure consumer involvement across a number of grocery product categories. Initially, we present evidence to support the validity of the chosen model. However, because of consumer fatigue (due to the length of the self-administered questionnaire), a data-reduction step was undertaken to shorten the questionnaire whilst maintaining the structure of the original model. The reliability of this reduced-item measure is assessed. Involvement scores are then presented and cross-comparisons between products discussed. Although the product categories were all considered medium to low involvement, significant differences in the levels of involvement were found.

Finally, we discuss how our approach to measuring involvement can be used by marketing management and academics to advance understanding of grocery product purchasing.

Consumer Involvement: A Converging Theory.

Despite differences in nuances, there seem to be some common threads emerging from the multifarious definitions of consumer involvement. A number of authors (Antil 1984, Zaichkowsky 1985, Celsi and Olson 1988) emphasise the importance of product possession, usage and purchasing situation to the consumer. This reflects the perceived value attached to the particular stimulus or situation that manifests as consumer interest. Peter and Olson (1987)

also recognize the saliency of perceived consequences that may result. Their definition of involvement is: "the degree of personal relevance which a stimulus or situation is perceived to help achieve consequences and values of importance to the consumer". So involvement with a product can be regarded as the extent to which consumers' product knowledge is related to their self-knowledge about desirable values and needs. They argue that the more closely that product knowledge about attributes and functional consequences is connected to abstract psychosocial and value consequences, the more involved the consumer is with the product. Product involvement can thus be expressed as a means-end of product knowledge. Consumers probably perceive relatively few products to be directly linked to their terminal values. Most products are strongly linked to functional and psychosocial ends and, occasionally, instrumental values (de Chernatony and Knox 1989). Product (or enduring) involvement develops as the means-end relationships are established through the experiences gained in possessing, using or consuming the product. Purchasing involvement (situational involvement), on the other hand, is the interest taken in making the brand selection and is context specific. For instance, buying a gift may activate certain values and goals that are not relevant in other use situations. The level of situational involvement is temporarily felt and is fashioned by the association of brand knowledge (attributes and functional consequences) with relevant self-knowledge appropriate to the purchasing context. Consumer involvement is considered to be a function of the base level of enduring involvement interacting with the level of situational involvement caused by the physical and social context of purchase (Bloch and Richins 1983).

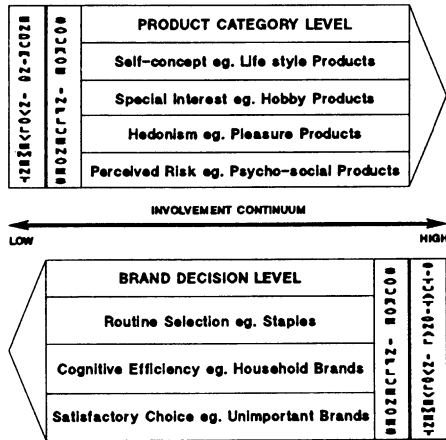
Involvement With Grocery Products

Many marketing practitioners seem to believe that consumers choose their products and brands in a highly discriminating and deliberate fashion. None more so than marketers of grocery products. McKinsey have estimated that some 23% of costs for a major food manufacturer were directly or indirectly attributable to building their brands' added-values (Davis 1986). If consumers were not in some sense prepared to pay for that differentiating activity or if the brand differences were not sufficiently valued, they argue there would not be the economic justification for either manufacturers or retailers to engage in expensive branding exercises. Recent research on price recall of grocery brands and own labels suggests that consumers can readily discriminate between product categories in assessing price-perceived value relationships (de Chernatony, Knox and Chedghey 1992). Whether this level of discrimination exists between individual brands within product categories has yet to be reported for grocery products. Clearly, manufacturers and retailers subscribe to this view (perhaps based on proprietary consumer research) since brands within product categories are differentially priced in store. McWilliam (1991) presents a very strong argument for carrying out this type of research amongst consumers using involvement to establish whether brand differentiation translates into differentiated values based on brand knowledge.

Academics do appear divided in their views about consumer involvement with grocery products. For instance, the Kassarijans have stated categorically that consumers simply "don't give a damn" about most grocery products (Kassarijan and Kassarijan 1979). Barwise and Ehrenberg are of a similar view (Barwise 1984). They argue that most grocery goods are so risk-free and, through direct experience of them, so similar that any perceived difference (no matter how trivial) is likely to generate some trial on a "why not" basis. In contrast, Kapferer and Laurent (1984) are able to distinguish between grocery product categories based on their involvement profile approach (see measuring involvement section). For instance, they found that consumers showed significant differences in the level of situational involvement when purchasing pasta or shampoo. The latter was found to be more highly involving. In a similar study, Mittal (1989) showed significant differences in situational involvement when wine was bought for a special occasion rather than as an ordinary purchase. However, neither researchers measure enduring involvement, so the level of felt involvement remains unclear.

In addition to enduring and situational involvement, there are a number of source influences that are regarded by academics as having an effect on the level of felt involvement with grocery products. They are categorised in Fig.1 according to the direction of influence on the involvement continuum and discussed in the next section.

FIGURE 1
INVOLVEMENT CONTINUUM FOR GROCERY PRODUCTS



Source Influences and High Involvement.

Source influences that contribute towards high involvement with grocery products have been discussed in the literature for the past twenty years. However, empirical validation is scant. There are only a few grocery product studies that provide evidence to support the argument. For example, Knox, Tait and Amps (1989) cite the case of UK mineral waters being positioned as "bistro" brands to exploit social recognition and sports drinks as being associated with fitness and health. Both are examples of lifestyle products that provide routes to self-concept enhancement through product symbolism (Lannon and Cooper, 1983).

Laurent and Kapferer (1985) report differences in the pleasure values associated with chocolate and detergents, with high and low ratings respectively. In the same study, detergents were also found to be devoid of any risk components.

In his meta-analysis of risk and information search, Gemunden (1985) concludes that, for convenience goods in general, perceived risk usually seems to remain below a tolerated threshold. This may be due to the fact that manufacturers of grocery products have clearly understood the importance of consistency and quality to remove the threat of adverse functional consequences. However, psycho-social risk may still remain within the family and among friends which could lead to increased consumer involvement with particular product categories.

In contrast to the research on consumer durables, the evidence for grocery products points towards medium-low enduring involvement if the effects of source influences are any guide. However, it would be inappropriate to be too emphatic since consumer involvement is multifaceted and the source factors cited here do not take into consideration the situational influences discussed in the next section.

Source Influences and Low Involvement

The source influences which mediate low consumer involvement tend to be situational for grocery products. In other words, they relate more to the level of information processing associated with brand choice and purchasing decisions. However, there is an inherent paradox associated with each one of these source effects. Cognitive

efficiency, for example, implies that consumers strive to minimise effort in decision making, particularly when purchasing grocery products (Hoyer 1984); the role of the brand in this process is potentially considerable. Essentially this role is a re-coding process (Millar 1956) whereby each "bit" of information is organised by learning into "chunks". It is the "chunk" which is subsequently used as shorthand for a compendium of information; brands can be viewed as "informational chunks" for functional performance, pleasurable experiences, self-concept etc. Millar's logic suggests that the stronger the brand's added-values, the lower the situational involvement! It is quite possible that low situational involvement (in terms of cognitive effort) masks a good deal of enduring involvement. Routine purchasing, a consequence of routine selection, implies that repeat purchasing becomes the norm unless poor product performance or a simple desire for "change" forces a re-analysis of the original decision. For example, a new advertising campaign from a competing staple (e.g. fruit sugar rather than common sugar) may just be sufficient to trigger such a purchasing switch and a new process of information "chunking" through user experiences.

It would seem from this brief literature review that consumers could, in principal, exhibit differing levels of involvement with grocery products. What little empirical evidence there is seems to point towards some differences in both the enduring and situational forms, judging from the arguments presented about source influences.

In carrying out the exploratory research reported in this paper, our main objective has been to determine whether significant variations in the levels of consumer involvement can be obtained for grocery products, i.e. to test the sensitivity of the most appropriate measurement device. We wished to measure both situational and enduring involvement directly, as well as the saliency of source influences, so it was necessary to validate not only the measurements across product categories but also at the brand-decision level.

In the next section we review the measuring devices that have been developed in recent years and discuss their application to grocery products.

Measuring Involvement

In early research when quantitative indicators of involvement were used, the instruments were often single scale (Vaughn 1980; Zaichkowsky 1985) or a single-item measurement of perceived importance (Agostini 1978; Lastovicka and Bonfield 1982). More recently, in their seminal paper on involvement measurement, Laurent and Kapferer (1985) challenge this assumption and posit the idea of an "Involvement Profile" as a more appropriate measurement device. They argue that since their profile is multidimensional, it must provide a more complete description of the relationship between the consumer and the product. The authors identify four sources of involvement derived both from the literature and from interviews with marketing management; the profile is based on a measurement of each of these four sources. Whilst their work represents a significant step forward, their modelling approach is vulnerable to criticism. Mittal & Lee (1989) argue that because the researchers implicitly define involvement by source, there can be no distinction between situational and enduring involvement in their theory. This is important when considering products which are to be consumed in radically different situations. For instance, compare wine purchased by the layman for personal consumption to wine purchased by the same person for a dinner party or the wine purchased by a connoisseur. In each case, the characteristics of purchase are different yet the consumer remains the same in two out of the three cases. Mittal and Lee offer two further criticisms. Firstly, they argue that the perceived product importance measured by Laurent and Kapferer as a source is, in fact, a part-measure of enduring involvement itself. They give the example of a refrigerator which can be perceived as important but may not evoke much interest i.e. be involving. Secondly, they point out that it is artificial not to explicitly distinguish between sources and forms of involvement. In their paper, Mittal and Lee present a causal model of involvement derived from the work of Laurent and Kapferer (1985) and Bloch and Richins (1983) but which takes into account both sources and forms of involvement.

In their study, the levels of involvement across five products were measured amongst a convenience sample of 100 consumers. They

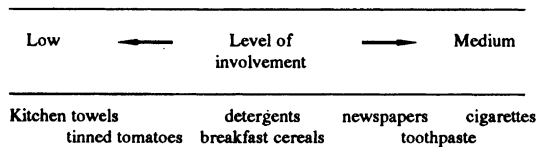
were then able to validate the causal network using LISREL VI for two consumer durable product groups. In essence, they recognise both forms of involvement and establish that enduring involvement is an antecedent of situational involvement. Their three source influences of enduring involvement are remarkably similar to three of the items identified previously by researchers (Fig.1). (Product utility in the causal model identifies category benefits and opportunity loss of not using these products rather than a direct measure of perceived risk). With regard to sources of situational involvement, the consumer's cognitive processing (or lack of it) is replaced by evaluations of functional and psychosocial consequences of brand selection and purchase. The researchers make no attempt to explicitly measure the extent of information processing or the degree of satisfaction in the choice procedure that have been identified in prior theory. Whilst we could level this as a criticism of the model, we also recognise the enormous complexity of providing suitable measuring devices. In the end, researchers need an instrument that is practicable, straightforward for consumers to understand and is quick to complete.

Interestingly, the researchers were able to demonstrate that these source influences were able to explain a substantial portion of the variance in situational involvement for consumer durables; sufficient evidence to accept the model for our exploratory purposes. Measures of all eight involvement-related constructs (six source, two form) lead to the final identification of three scale items for each construct. So, in total, twenty-four items were measured in their self-administer questionnaire (p.389).

Given that this questionnaire had been developed using involving products, our research objective was to adapt this measurement tool for use among grocery products. The research procedure described in the following two sections was designed, firstly, to validate the dimensionality of the model across several grocery product categories and, secondly, to determine whether significant differences in sources and forms of involvement could be detected.

Research Procedures And Model Validation

Seven high-penetration product categories were selected for inclusion in the research. They had previously been considered by expert opinion as representative of the full range of involvement levels amongst grocery products. They are grouped below according to how they had been categorised prior to field research:



For each of the seven product categories, a random, convenience sample of twenty-five respondents was asked to complete the Mittal and Lee questionnaire. This provided us with 168 usable cases for analysis. Respondents were selected only if they were responsible for the household grocery purchases and had bought/used the products in the last four weeks. The self-complete questionnaire (twenty-four items) was left with respondents and collected two days later. All items were recorded on a 7-point, bi-polar scale (strongly agree ... strongly disagree) and comments about the length and content of the questionnaire were collected in an open-ended question at the end. The data was then analysed using the Genstat 5.21 suite of programmes.

In order to provide evidence in support of the dimensionality of the model for grocery products, we examined the convergent and discriminant validity of the measured items. The Multitrait-Multimethod Matrix (MT-MM) approach was used (Campbell and Fiske 1959). They suggest four criteria to imply convergent and discriminant validity from the correlation matrix. Table 1 shows the extent to which the data satisfy these four criteria.

Whilst caution must be exercised in drawing categorical conclusions from this test (multiple item scales do not strictly qualify as maximally different methods), the analysis provides strong evidence to support the dimensional structure of the involvement model.

Next, in assessing the reliability of the scale when applied to grocery products, Cronbach's coefficient alpha (α) was calculated for the items measuring each source and form of involvement. These reliability coefficients are shown in table 2. With the exception of the brand hedonic and brand risk items, the reliability coefficients are extremely good¹.

TABLE 1
VALIDITY MEASURES

Criteria for Correlations	Extent Criteria satisfied(%)
1. Validity Coefficients: Significant and Sufficiently Large	100
2. Validity Coefficients: Greater than all different trait, different method correlations in the same row and column	100
3. Validity Coefficients: Greater than different trait same method variables	94
4. Same pattern of correlations evidenced between all triangles	75

TABLE 2
RELIABILITY MEASURES

Measurement Item	α value
1. Enduring Involvement	.94
2. Situational Involvement	.94
3. Product Utility	.89
4. Product Sign	.87
5. Brand Sign	.87
6. Product Hedonic	.84
7. Brand Hedonic	.72
8. Brand Risk	.72

A major problem we found with the questionnaire was that the number and similarity of the measured items (all relating to the underlying construct of involvement) led to a high level of respondent frustration. This was evidenced both through the difficulty in getting respondents to complete the questionnaire and through comments collected in the open-ended question at the end of the process. The problem of respondent fatigue is, perhaps, highlighted in our research since the sample we used was made up of householders rather than MBAs with whom the scale was originally developed. It was clear to us that for any large-scale survey of this type, the number of items in the questionnaire would have to be substantially reduced. This item-reduction process is briefly described below, prior to discussion of the involvement scores in the next section.

In order to minimise the loss in reliability of either form or source of

¹ Nunnally (1967) argues that for basic research, reliability coefficients of .7-.8 are sufficient.

involvement, only items showing very high convergence within a construct were removed (> .65, significant at $p = .001$). Using this criterion, ten items were dropped from the original questionnaire. For the two constructs with the lowest α coefficients (brand hedonic and risk), all three items remain. In contrast, only one item is retained within the three constructs with the highest α values. To allay any concern about loss of reliability, we carried out a test-retest analysis using this shortened questionnaire. A second convenience sample was asked to complete the questionnaire on two occasions, separated by two weeks, which provided us with 2×84 usable responses. The test-retest reliability coefficients are shown for each of the constructs in table 3. The figures strongly support the reliability of the measure in its reduced form.

TABLE 3
TEST-RETEST RELIABILITY COEFFICIENTS

Measurement Item	Reliability Coefficient (r_{kk})
1. Enduring Involvement	.98
2. Situational Involvement	.91
3. Product Utility	.97
4. Product Sign	.99
5. Brand Sign	.99
6. Product Hedonic	.99
7. Brand Hedonic	.99
8. Brand Risk	.97

In addition to these reliability calculations, a two-way ANOVA was undertaken on the test re-test data for individual products. No significant differences were found. Both tests together provide strong evidence to suggest that the measurement device is, indeed, robust. In subsequent involvement surveys of grocery products, we recommend that the shortened Mittal and Lee questionnaire is used.

Measuring Involvement with Grocery Products

Given that we now had a reliable measurement approach for grocery products, we wished to establish if significant differences in consumer involvement could be measured. From the data collected in the initial questionnaire (based on the fourteen-item measure), values for enduring and situational involvement were calculated using ANOVA for six of the seven product fields². The three source values for both forms of involvement have also been reported (table 4). Building upon the premise that enduring involvement is the more influential form of involvement (Mittal and Lee 1989), we anticipated significant differences in the scores between product groups for this construct. This was found to be the case for toothpaste, newspapers, detergents and cereals when compared to either tinned tomatoes or kitchen towels. However, there were no significant differences within these four product categories on this construct measurement. At the source level (product sign, hedonic and utility), the data is more revealing. For instance, the sign value of newspapers was significantly higher than for toothpaste, detergents or cereals which, in turn, were each significantly higher than for tinned tomatoes. Similarly, the product utility value of toothpaste was significantly

² Cigarettes were dropped from this part of the analysis since the dipolar responses, arising from health concerns, tended to confuse the results.

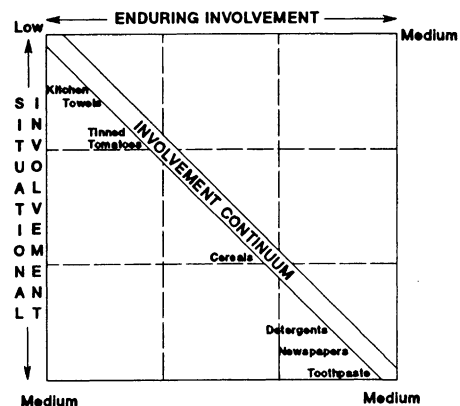
above cereals (as was detergents). So our measurement of enduring involvement, when linked with source influences, indicates a hierarchy of product categories which are also reflected by the situational involvement measures. Toothpaste and newspapers with the highest situational interest, scored significantly higher than tinned tomatoes (or kitchen towels). At source level, broadly the same pattern emerges; newspapers have significantly higher brand sign and hedonic values than cereals which, in turn, have higher brand values across these constructs than tinned tomatoes (or kitchen towels).

Whilst there are variations in the hierarchy of the product groupings due to source influences, there is an underlying consistency based on the measures of the two forms of involvement; both measures place each of the six products in an identical order. By considering both forms and sources of involvement, three clusters of product categories emerge on the involvement continuum (fig. 2). Both tinned tomatoes and kitchen towels are low involvement categories according to either measure. Cereals can be distinguished as more involving, primarily due to attributed hedonic and sign values, whilst toothpaste, newspapers and detergents are the most involving of the six product categories.

TABLE 4
FORMS AND SOURCES OF INVOLVEMENT FOR GROCERY PRODUCTS

Form	Source	Product Categories / Mean Scores						Sig. category Mean	S.E.D.	L.S.D.
		Kitchen Towels	Tinned Tomatoes	Cereals	Detergent	Toiletries	Newspapers			
Enduring Involvement	Product Sign	6.68	4.88	3.95	3.46	3.04	3.33	4.38	.534	.67
	Product Hedonic	6.29	4.80	3.33	3.21	2.71	2.76	3.98	.886	.58
Situational Involvement	Product Sign	6.83	6.00	6.10	4.83	4.48	3.27	4.92	.476	.78
	Product Hedonic	6.45	6.38	6.50	6.39	6.29	6.27	6.11	.371	.61
Product Utility	Product Sign	2.88	3.84	3.38	2.60	1.79	2.63	3.22	.424	.71
	Product Hedonic	6.06	6.07	4.84	4.38	4.71	2.44	4.48	.58	.64
Brand Sign	Product Sign	6.15	4.97	3.95	4.6	3.78	2.90	4.1	.438	.71
	Product Hedonic	6.36	4.97	4.87	4.9	4.01	4.9	4.68	.487	.74

FIGURE 2
CLUSTERING PRODUCT CATEGORIES ON THE INVOLVEMENT CONTINUUM



In comparison to the measurements of situational involvement carried out by Mittal (1989), all the six grocery product categories here have medium-to-high scores relative to the consumer durables in that particular study [e.g. eyeglasses (0.73); lawnmower (1.53); bicycle (1.97) ... toothpaste (2.71); kitchen towels (5.29)]. This implies a medium-to-low level of situational involvement for grocery products. Intuitively, we would expect this to be the case but it is very reassuring to find this level of separation in the scores between

durables and groceries. We are not aware of any other empirical studies where such direct comparisons can be made (Laurent and Kapferer's questionnaire approach and involvement profile scores remain unpublished).

It is clear from this pilot study that the fourteen-item questionnaire is sufficiently sensitive to produce significant variations in the levels of influencing sources and forms of involvement across the grocery products in question. The managerially-derived involvement hierarchy (p.15) for the product categories has been confirmed in four out of six cases. The measures of enduring involvement proved slightly less sensitive at the source level. Nonetheless, significant differences between product categories at the medium and low end of the involvement continuum were observed. These differences also correspond to prior expectations. So, within the confines of our research procedures (limited by sample size and representativeness), our research objective has been met.

In the concluding comments, we draw together prior theory and discuss the practical implications of our findings for practitioners and academic researchers.

Conclusions

Recently, significant progress has been made by researchers both in reaching agreement about a suitable definition of consumer involvement and providing new methods of measuring it. Building on these recent works, Mittal and Lee have now developed a causal model that distinguishes between forms and sources of involvement which has been validated for consumer durables. The research question which we have addressed is whether or not this measurement device is sufficiently sensitive to detect significant differences in the levels of consumer involvement with grocery products. Prior theory suggested that, in principle, this should be possible despite the divided opinions that characterise the academic research in this area. Indeed, a number of individual researchers have identified differences in situational involvement and sources of enduring involvement in relation to grocery products. So far as we are aware, our exploratory study is the first time that both sources and forms of consumer involvement have been measured using a multi-dimensional device in grocery markets. Seven product categories were selected for testing and a twenty-four item questionnaire used to measure the involvement constructs. We have been able to confirm both the validity of the involvement model and the reliability of the measurement device when applied to grocery products. Subsequently, ten items were dropped from the questionnaire without apparent loss of reliability. Finally, using this fourteen-item questionnaire, we have shown that it is possible to measure significant differences in the sources and forms of consumer involvement with grocery products. The measurement of situational involvement and its influencing sources was particularly sensitive. This finding will be of practical interest to practitioners since it relates to brand-decision involvement i.e. differences between brands within a product category. Eight of the fourteen items within the questionnaire relate to these constructs. Where appropriate, the questionnaire could be shortened in this way for use among consumers in developing promotional strategies to modify search and purchasing behaviour at the brand level. At the product category level, the fourteen-item questionnaire could be used to segment the market. Rather than merely indicating medium-low involvement divisions of the market (as per p.15), the measuring device allows identification of consumers high on some source constructs but low on others. This provides a better understanding of the dynamics of consumer involvement i.e. a better understanding of where involvement originates and provides clues as to which types of appeals should be used in communications with each segment.

At a broader level, as the measure of involvement becomes more firmly established, so can the causal relationships with behavioural consequences (such as purchase loyalty, purchase frequency and brand purchasing portfolios). In grocery product markets, such knowledge would undoubtedly become the key to effective and efficient management of brands and product groups.

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INTERNATIONAL TRADE AND BUSINESS STRATEGIES

UNILEVER: A MARKETING GIANT

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Abstract

This descriptive study looks at Unilever, a multinational corporation headquartered in two European countries, and how it markets so many different brand names in various parts of the world today. From our research, this is a task which probably only Nestle can beat. The sheer complexity of producing so many different types of products, and having so many brands, makes this a unique marketing study.

Introduction

This study is an outgrowth of previously unpublished information about Unilever, the giant multinational corporation uniquely headquartered in both the United Kingdom and the Netherlands. Its U.S. division is well known to most Americans as Lever Brothers.

The authors, some of their colleagues, and students visited the leading grocery, drug and department stores in 51 countries of the world to record the brand names of products marketed by Unilever, as well as the company identification and country where manufactured. (We quickly learned that Unilever puts its name on a minority of the products it markets.)

This is a summary of the countries we visited:

North America	15 countries
South America	8
Europe	15
Australia and Asia	11
Africa	2

Results

We found over 700 different brand names marketed by Unilever. This is second only to Nestle, with more than 1000, of the giant MNC's we have surveyed, but well ahead of Procter & Gamble, Colgate Palmolive, Kraft General Foods, and Quaker Oats.

Unilever's largest product category is food, but because of recent acquisitions such as Chesebrough-Pond's, Calvin Klein, Faberge, etc., the company has become a giant in health and beauty aids, and in cosmetics.

Table 1
% of Brands in Product Grouping

Food (ex. marg., tea)	24%
Health and beauty aids	19
Cosmetics	15
Detergents, cleaning	15
Margarine	14
Tea	8
Soap bars	7
Total brands	100%

A significant finding was the number of brands which Unilever markets in only one country:

Table 2
% of Brands Marketed in:

1 country only	68%
2-4 countries	22
5 or more countries	10
Total brands	100%

A discussion of these findings follows.

Use of Brand Names within Product Groups

The employment of different brand names in the regions of the world varies by product group.

Food (excluding margarine and tea) has a very high proportion of brands used in only one country, which is best explained by the fact that eating habits and tastes vary with different cultures. Of the Unilever food products:

Table 3

81% are marketed in only one country
7% are manufactured in one country but are exported to additional ones
11% are marketed in two or more

An example is BIRDSEYE, a brand name belonging to Kraft General Foods in North America, but marketed by Unilever in the rest of the world. This brand is sold frozen in many developed countries, but where there is less refrigeration such as in India, Pakistan, Thailand and the Philippines, BIRDSEYE has been successful selling dehydrated vegetables.

Health and Beauty Aids show quite a different picture, since the basic needs of most countries seem to be more similar:

Table 4

55% are marketed in only one country
12% are manufactured in one country but are exported to additional ones
33% are marketed in two or more

An example is toothpaste, where Unilever markets 7 brands. CLOSE UP, PEPSODENT and SIGNAL are sold in much of the world but ZIEL was found only in Austria.

Cosmetics show a similar breakdown, which is not surprising, although a slightly higher proportion are made in only one country rather than in multiple manufacturing plants.

Table 5

58% are marketed in only one country
13% are manufactured in only one but are exported to additional ones
29% are marketed to two or more

POND'S is the best known brand name in this product grouping, and of course was in wide distribution prior to its purchase by Unilever in 1987.

Detergents and Cleaning Products might be considered as universal in their appeal, but Unilever has chosen to market over one-third of its brands in one country only. This often gives a unique selling advantage that the detergent has been developed for, and is being sold only in the individual country.

Table 6

35% are marketed in only one country
11% are manufactured in only one, but are exported to additional ones
54% are marketed to two or more

A classic case of country segmentation exists here. OMO laundry detergent is sold in most countries outside of the United States, and an almost identical product called SURF is marketed in the U.S. A few countries stock both, but largely the two brands supplement each other. We found OMO in 25 countries and SURF in 23.

Procter and Gamble follows a similar pattern with TIDE and ARIEL.

Margarine is a product Unilever helped to pioneer, and the company has become a world leader in its marketing. From a branding consideration, however, it appears wasteful that so many brands are confined to only one nation. It is hard to visualize that there can be that much difference in the basic product.

Table 7

70% are marketed in only one country
11% are manufactured in only one but are exported to additional ones
19% are marketed to two or more

The only widespread brand names for Unilever's margarines are:

Table 8

BECEL, made in 9 countries
BLUE BAND, made in 5 countries
(called Blauband in Germany)
FLORA, made in 6 countries
RAMA, made in 5 countries

None of these is found in the United States, where Unilever's main entries are IMPERIAL, PROMISE and COUNTRYCROCK.

Tea is another product where Unilever's worldwide brands, LIPTON and BROOKE BOND, are the unquestioned leaders. But the consumption of tea varies greatly by culture and the different brews of tea seem to appeal to very personal tastes.

Table 9

55% are marketed in only one country
13% are manufactured in only one but are exported to additional ones
32% are marketed in two or more

India, where tea was introduced by the British, seems to hold the record for Unilever brand names. We found 20 different brands, yet neighboring Pakistan had only 7.

Soap Bars might look like another homogeneous product, but our findings indicate that perfume, color, deodorizing formula and brand name all appear to have special appeals to individual nations:

Table 10

46% are marketed in only one country
21% are manufactured in only one but are exported to additional ones
33% are marketed in two or more

LUX is the best known and most widely distributed soap bar made by Unilever. It has spawned new varieties such as LUX LINE and INTERNATIONAL LUX. A second brand, REXONA, is made in 12 countries and comes in facial soap, deodorant soap, and sport soap varieties.

Company Identification

Perhaps the most unusual feature of Unilever, among the giant MNC's we have surveyed, is its policy of identifying so many brand names with the major divisions of the corporation. We could find no one in the company who would defend this practice, but it does result in a lower profile. If the name "Unilever" were on 700 different brand names, some consumer groups might start shouting "octopus" or some other uncomplimentary names, which is quite understandable.

These are the sources found on Unilever brands today:

1. LEVER BROTHERS - U.S. soap products
2. VAN DEN BERGH FOODS - on most food products in the U.S. and in many foreign countries (Finland has just changed.)
3. ELIDA GIBBS - widely used in Europe, Asia and Africa for toiletries.
4. CHESEBROUGH-POND'S - a longstanding name, which still identifies most of its brands. Unilever has assigned other toiletries to this unit.
5. UNILEVER - used outside of the U.S. on most soap products; on some they simply show "Lever".
6. RAGU FOODS - for its products vs. the former legend, Chesebrough-Pond's.
7. LEVER-POND'S - used in several Latin American nations.
8. POND'S DE MEXICO is the official source in that country rather than Chesebrough. One some upscale brands the identification is simply "P. de M.", with the same address.
9. LIPTON has all along been separately identified. It has taken over LAWRY and SUNKIST fruit bars.
10. ANDERSON CLAYTON was told to Unilever in Mexico, and is used for most food products there.
11. UNION is the big name for margarine and other foods in Germany.
12. PRINCE MATCHABELLI, FABERGE, CALVIN KLEIN, ELIZABETH ARDEN and ELIZABETH TAYLOR all continue to use their names as manufacturers. This likely adds prestige to these brands.
13. KUNER is the food umbrella used in Austria. It also is a brand name.
14. PAASIVAARA has a similar role in Finland.
15. BROOKE BOND is the only source shown on its products.
16. HINDUSTANI LEVER is the company of record for most Indian products, including those from Brooke Bond.
17. GOLD BOND ICE CREAM COMPANY is the designation shown on Unilever's ice cream novelties.
18. SHEDD'S is still shown on some U.S. margarines, but most have been transferred to Van den Bergh.
19. CHARTER FOODS is used for a few specialty items made by Lawry but not identified with them.

Does this multiple use of company divisions, as makers of the brands, confuse the public? Probably it does, but we could find no published research on consumer awareness of Unilever brand names. Of course many of them have only been acquired in the past three or four years.

Truly Worldwide Brands

Reviewing all of the 700 plus brands found in our research, we can use the term "truly worldwide" on very few:

TABLE 11

CLOSE UP toothpaste (weak in Europe)
CUTEX nail products
FABERGE toiletries
IMPULSE body spray
JIF cleaner (also Cif, Vif)
LIFEBUOY deodorant soap
LIPTON tea
LUX soap and bath products
OMO and SURF laundry detergents
PEPSODENT toothpaste
POND'S beauty products
REXONA soap bars and deodorant
RAGU spaghetti sauce
SIGNAL toothpaste and mouthwash
SUNLIGHT detergent
TIMOTEI shampoo
VASELINE medicated jelly
VIM cleanser

There are a few others which might be judged "also-rans", but at this time their distribution is more spotty:

TABLE 12

AXE men's toiletries
DENIM toiletries
DOVE soap bar
ELIZABETH ARDEN cosmetics
Q TIPS
SUN specialty detergents
SNUGGLE fabric softener

Taking both lists together (Tables 11-12) this is only a handful of brand names which Unilever chooses to devote international marketing effort to.

Local Language Adaptation

We found little of this, perhaps because so many brand names are employed in only one country. The best example is fabric softener. Each label has the white teddy bear, is similar in appearance.

TABLE 13

SNUGGLE - North America
BAMSELINE - Denmark
COCCOLINO - Italy
CAJOLINE - France
KUSCHEL WEICH - Germany, Austria
HUGGY - Australia
MIMOSIN - Spain, Venezuela
ROBIJN - Benelux countries

HANDY ANDY cleaner becomes simply ANDY in some countries, and in St. Maarten we found both brands side by side, one from the Netherlands and one from the Netherland Antilles.

JIF cleaner uses that name in 15 countries, CIF in 8 others, VISS in Germany, and VIF in Switzerland.

BREEZE detergent has been renamed U.S.A. in Thailand, but packages show the former brand name.

Extensive Exporting

A separate Tabulation showed 87 cases of Unilever shipping a brand across an ocean, vs. simply exporting to an adjacent country, or one on the same continent. There is no simple explanation for this great expense of shipping time and cost, but often the product comes from a state-of-the-art plant in a developed country, going to markets which cannot yet justify local production, often of a complicated product.

These are examples of the vast distances Unilever brands must travel to reach their customers:

Table 14

U.K. ships to 12 countries in 45

documented long exports:

St. Maarten 10 brands

Hong Kong 9

St. Lucia 8

Bahamas 6

(three of these leaders are current or former British possessions)

France ships to 2 current colonies:

St. Martin 15 brands

St. Barthelemy 10

Netherlands ships to 4 countries, including:

St. Maarten, a colony 7 brands

Aruba, former colony 3

We also found export situations to destinations across an ocean from Germany, Belgium, Switzerland, Austria and Italy.

Since Unilever is an European-based company, it follows that most of its long exports come from plants on that continent. We found very few brands being shipped from Unilever's U.S. plants, although there were small shipments to Bolivia, Hong Kong, Kenya and Thailand.

If there is a choice for a product to be shipped from an European or an American plant to a destination which could be served by either, Unilever seems to prefer the European source most every time.

Conclusions

Unilever faces stiff competition of course for most every product made, but although it scores a poor second in the United States to Procter & Gamble in detergents, it is a formidable competitor elsewhere. Even so it faces battles from Mankel in Germany and Kao in Japan, which have grown from small companies to formidable rivals in both the cleaning and in the toiletries fields.

Its strengths, as pointed out, are in margarine, where its arch-rivals in the

U.S. (Colgate and P&G) are not involved (as yet), and in tea, where P&G has only a weak entry in TENDER LEAF, a brand purchased from Standard Brands. Unilever has largely avoided coffee, in which competitors Kraft General Foods and Procter & Gamble have large market shares.

The future may well be the war of the cosmetic industry. To date Unilever has purchased more "winners", it would appear, than have Colgate and P&G. But in this area, a non-soap competitor, has reared its head with a substantial interest in LANCOME and L'OREAL, and that is Nestle.

Discussion

Many Americans probably associate Unilever with its U.S. arm, Lever Brothers, and if asked to list its key brands, to come up with RINSO (no longer a giant), LUX, LIFEBOUY and PEPSODENT. In this paper we have seen that, worldwide, Unilever is more important in food than in detergents, and has become a giant in the beauty products group, largely through acquisitions.

It would seem difficult to manage 700 plus different brand names, but with key headquarters in London, Rotterdam and New York, the company seems to stay on top of all of these brands.

Consolidation might bring more protests from previous customers in lands around the world than benefits from reducing the number of brand names. We found no evidence of brand contraction in the several years we have been researching these MNC's, and suspect Unilever will continue to keep current brand names, and to add more through purchases.

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GLOBAL STRATEGY AND LOCAL MANAGEMENT: HOW DOES IT WORK?

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ABSTRACT

This study examines productivity and participatory management systems in similar plants located in five different countries. Likert's System 4 theory was used as an instrument to measure the extent of management participation within the foreign subsidiaries. All five plants engaged in identical operations that were designed and implemented by its U.S.-based owner. Each of the plants, however, were managed by host nationals. The data indicated that the degree of participation differed widely between the Italian, Mexican, Spanish, American and English plants. The data did not support Likert's contention that participation and productivity are linearly related. Rather, it appears that the management systems in each of the plants reflects the expectations of the local society and may not be directly related to productivity.

GLOBAL STRATEGY AND LOCAL MANAGEMENT: HOW DOES IT WORK?

One dilemma which faces all multinationals is the question of centralization or de-centralization of management controls in foreign subsidiaries. We know that national culture impacts upon the behavior of organizations and individuals within those organizations (Adler, 1991; Boyacigiller & Adler, 1991; Cox & Blake, 1991; Cox, Lober & McLeod, 1991; Hofstede, 1980a; Kleinberg, 1992). But it remains unclear as to whether the empowerment of local managers provides an overall benefit to the parent corporation. Comparative management studies implicitly or explicitly assume that organizations, in any society, tend to evolve management systems that are compatible with the values of the local society, not corporate values. It has been observed that people of different national backgrounds acquire different expectations about the formal structure of the organization and the informal patterns of interaction by which work is accomplished (Kleinberg, 1992; Osigweh, Yg., 1989). These observations are corroborated by Adler & Doktor (1989) who maintain that culture influences organizations through societal structures such as laws, politics, values, behaviors, goals and preferences of participants. The work of Kleinberg (1991) examines the impact of nation specific cultural differences on the emergence of organizational culture within a binational work setting. Specifically, she found that societal culture clearly helped shape organizational culture and the predominant style of management used within the organization. Adler and Bartholomew (1992) determined that 93.8 % of the 661 international comparative management studies conducted from 1985 to 1990 concluded that "culture makes a difference."

Despite the acknowledgement of the influence of national culture on organizational phenomenon, the majority of our current knowledge about multinational organizations is built largely on studies conducted within one national culture - that of North America (Cox, et. al, 1991; Doktor, Tung & Van Glinow, 1991). The purpose of our paper is to empirically examine the differences and productivity of locally determined management systems in four subsidiary organizations (Italy, Mexico, Spain and England) of a U.S. multinational.

Since national culture has an impact on organizational phenomena and the theories that are subsequently derived from the study of those phenomena, it is instructive to describe some of the predominant North American values to understand how they may influence management theory. Americans, while not entirely unique, do have cultural values that differ from those of peoples in other countries. One example of cultural differences was identified by Hofstede's landmark research and is discussed in Boyacigiller and Adler (1991) and Cox, et. al, (1991). Specifically, the North American culture places higher value on individualism than does any other culture. As a confirmation of this finding, Cox, et.al, (1991) conducted a lab study examining behavioral manifestations of individualism-collectivism among four ethnic groups within the United States. The findings clearly supported the hypothesis that groups composed of people from collectivist cultural traditions (Asians, Hispanics and African-Americans) displayed more cooperative behaviors than groups composed of people from individualistic cultural traditions (Anglo-Americans). Even though all participants were residing within the U.S., national cultural traditions from their country of origin, influenced their behavior. Other studies, such as those of Gudykunst, Gao, Schmidt, Bond, Leung, Wang and Barraclough (1992) and Lee and Boster (1992) clearly indicate that this value orientation affects both communication and perceptions. Individualism-collectivism has an impact on not only cooperation but also on concepts like organizational commitment, equity, managerial styles, and motivation.

A second example of value differences, and one that is directly applicable to our research study, is the value that North Americans place on power distance (Hofstede, 1980b), free will, control, and dominance over the environment (Kluckhohn & Strodtbeck, 1961). These orientations toward power and efficacy have influenced many of our theories of organizational design, change and behavior (Boyacigiller & Adler, 1991). Among the theories that appear to be based on these values are the normative theories of participation. The success of participatory management systems, which are advocated in the theories, seems to be predicated upon the assumption that people want a say in the decisions that affect them. People want to determine their future, they believe in personal efficacy and want control over their own circumstances and to a degree, their environment. According to Hofstede (1980b), one can understand the U.S.'s penchant for participatory management by examining its relative position on a value called power distance. The U.S. and Great Britain when compared with forty other countries, are in a middle position on power distance (briefly defined as the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally). Larger power distance countries, such as Italy, Spain, Mexico, and France, seem to exhibit little concern for American style participatory management but show greater concern for locating the sources of power (Hofstede, 1980b). In contrast, countries, such as Sweden, Denmark and Austria, which exhibit smaller power distance scores than the U.S. and are known for their industrial democracy - a more extreme form of participation than is practiced in the U.S. or Great Britain. Japan, it should be noted, is an exception to this general hypothesis and is discussed in Hofstede & Bond, (1988). The combination of the U.S.'s wants, beliefs, and values serve as the foundation upon which participatory theories, such as Likert's System 4 or McGregor's Theory X-Theory Y, are built. While freewill is not solely a U.S. value, it does differentiate the U.S. from other cultures (Chikudate, 1991)

METHOD

Site and Respondents

This paper examines the cross-national applicability of one relatively popular, intuitively appealing, American theory of participation. This theory, developed by R. Likert (Likert, 1976) and his colleagues at the University of Michigan Institute for Social Research, is entitled System 4. Likert's System 4 theory of management assesses the degree of participatory management in leadership, motivation, communication, decision making, goal setting and control. The overall management system or management style is based upon the degree of participation across these six areas. Accordingly, Likert classifies each organization or organizational unit into one of 4 "systems" that describe the general level of employee participation. For example, a System 1 organization is called "exploitative authoritative" and is characterized by autocratic leadership, downward communication, and centralized decision making. System 2 is called "benevolent authoritative" and can be described as a paternalistic, authoritative system where employees are given a little more freedom than in a System 1 organization. Within a System 2 organization, management defines the boundaries for interaction, communication, and decision making. A System 3 organization is "consultative". It is characterized by a moderate degree of employee participation. System 4 is the "participative group" style of management. This system makes extensive use of employee participation.

Likert's theory is very normative because of the assertion that the use of a System 4 style is the best way to manage an organization. The theory also assumes applicability across cultures. It is prescriptive because it advocates using participation since this style is effective in the U.S. and in those cultures that have similar power distance values as does the U.S. (Hofstede, 1980b). While Likert qualifies the applicability somewhat by suggesting that the theory must be applied in a "culturally relevant manner", he concludes that a participative management system will be more productive in virtually any culture (Likert, 1976). Likert comments that "many persons believe that there are no universally applicable principles . . . this conclusion is unwarranted" and "There is ample evidence that the general principles and models of System 4 can be applied universally and be of great value." (Likert, 1976, 51-55). The implication of these assertions is that participatively run organizations will be more productive than non-participative organizations regardless of cultural context.

Many organizational science scholars and practitioners question the assumption that studies done in one culture can be equally applicable in other cultures unless proven so (Osigweh, Yg., 1989). Unlike Likert, we believe in equifinality in the transnational application of management precepts, in the sense that specific management objectives, such as productivity, can be achieved in many culturally distinct ways (Bennett, 1977, Negandhi, 1975). Hence, the general hypotheses of our study is that there will be managerial style differences between the five countries in our study but these differences will not adversely impact productivity as predicted by Likert.

This study is unique for three reasons. First, it takes advantage of a "naturally occurring" research opportunity by studying five plants owned by a U.S. multinational organization. The plants, which are located in the U.S., Mexico, Italy, Spain, and England, produce identical products. Second, our study empirically examines the applicability of Likert's System 4 theory in a transnational context to determine if participatively managed organizations perform at a higher productivity level than non-participatively managed organizations. Third, it looks at national differences in managerial style and hopefully contributes to the body of knowledge in cross-cultural management.

The research was conducted at five plants owned by a U.S.-based multinational corporation that produced disposable medical products. The plants in Mexico, Spain, England, Italy, and the U.S. produced identical products with an identical process. When setting up the production facilities in Mexico, England, Spain and Italy, the parent organization believed that the best way to assure a smooth transfer of technology was to avoid introducing changes in the production process. Consequently, a great deal of effort was made to exactly duplicate the structure and processes used at the U.S. plant. For example, the operating policies, product design, manufacturing methods, tooling, work place layout, packaging, and technical training were standardized across the four plants. The manufacturing methods were labor intensive and output was operator-paced rather than machine-paced. Demographically, the characteristics of the direct labor force in the four plants were similar. They were predominantly female, ages 17-24, with two years of experience. This demographic profile of direct labor workers is typical for most light manufacturing operations in Europe, North America and the Far East.

The respondents consisted of all the management personnel in the five plants. These groups of managers included production supervisors, and office, engineering and technical managers. Surveys were filled out at each plant during a regularly scheduled management meeting. The author personally collected the surveys from the 43 respondents at the U.S. plant and the 37 respondents at the Mexican plant. Surveys from the 51 Spanish, the 32 Italian and the 17 English nationals were collected by the plant managers and sent to the researcher. Because of the data collection methods, all of the 180 managers from the 5 plants responded to the survey. Respondents were demographically similar with respect to age (32.6, s.d.=7) and gender. Except for the U.S. plant where 40% (N=17) of the sample were female, all respondents were male.

Survey

The Profile of Organizational Characteristics, which is described in detail in Likert (1976), consists of 18 items, each with a 20-point, verbally anchored response scale. Between 2 and 4 of these 18 items are used to measure the degree of participation in the six organizational dimensions of: leadership (3 items), motivation (3 items), communication (4 items), decision making (3 items), goal setting (2 items), and control (3 items). For example, one of the four items that assesses communication is as follows: "How well do superiors know the problems faced by subordinates?". Responses range from 0 (not very well) to 20 (very well). A low score, on any survey item, indicates an authoritative orientation (low participation) whereas a high score reflects a participative orientation. According to Likert, organizations are classified into one of 4 systems base upon the linear summation of the 18 items (0-4.9-Exploitative authoritative/System 1; 5.0-9.9 - Benevolent authoritative/System 2; 10.0-14.9 - Consultative/System 3; 15.0-20.0 - Participative group/System 4). This summation is referred to as the overall management system.

For purposes of our study, the original English language survey was translated into both Italian and Spanish. Following the advise of Brislin (1970), a back translation was conducted to assure identical meanings in both the original survey language and the native languages of the other research sites. Three Spanish and two Italian language consultants agree that the translations convey identical meanings in each language.

Labor Productivity

In his writings, Likert does not offer an operational definition of productivity. As is commonly recognized, behavioral scientists, as well as economists, accountants, engineers, and managers, have difficulty agreeing on an operational definition of productivity. While the most widely used definition examines the ratio of inputs to outputs, there is not a universally accepted specification of meaning for these two terms. For example, input can be measured as either hours of human labor, total number of workers, capital expenditure, time, or plant or equipment that are used to produce a product or service. Output can be conceptualized as the quantity of goods or services produced, the quality of goods or services, the utility of these products, cost savings, shipments, sales or value added (Pavett, Broedling, & Huff, 1987). The exact definition of productivity varies across as well as within industries. This lack of consensus on the measurement of productivity is indirectly addressed in the present study by the fact that it used five plants that are owned by the same corporation and hence use the same operational definition of productivity. Labor productivity was defined as the number of units produced per hour. This definition was used, in part, because it is consistent with the company's standard cost accounting system. The data used to calculate productivity for each plant was obtained from corporate records. Data consisted of a random sampling of 50 day's worth of production data (direct labor hours and number of units produced) from a one year period for each plant.

RESULTS

Descriptive survey statistics for the combined sample indicated that the alpha coefficients (Cronbach, 1951) for the overall management system scale and most of the organizational dimensions are more than acceptable (.77-.91). However, the internal consistencies of the goal setting ($\alpha = .55$) and control ($\alpha = .67$) scales were relatively low. In spite of these low reliabilities, these two scales were retained for purposes of theoretical consistency. Since our objective is to examine Likert's theory in a cross-national context, altering the operational definition of the theory would obfuscate the interpretation and comparative value of the results.

F-statistic in the last column, strongly supports the hypothesized differences between countries across both the overall management systems and the organizational dimension. All of the F ratios are highly significant indicating differences among the four countries. Duncan's multiple range tests, which were conducted for each pair of means to determine precisely where differences existed, indicated that 65 of the possible 70 pairs of means were significantly different from each other. The pairs that are similar are indicated by a superscript c in Table 1. As an example, consider the means for the leadership dimension. The data indicate that the mean score for the U.S. is significantly different from those of England, Mexico, Spain, and Italy. Mexico's score is different from Italy's and the Spanish reported significantly lower levels of participation on the leadership dimension than did the Italians. The English reported significantly higher scores than all other countries. However, the scores from Mexico and Spain do not differ. Hence, nine of the ten pairs yielded significant differences. It should be noted that Mexico and Spain report similar scores on three - leadership, motivation, and control - of the six dimensions. In terms of Likert's four managerial system categories, the results suggest that both the U.S. and the English plants use a System 3 style while the plants from the other countries fall into System 2.

Profile analysis was conducted on the scores associated with the six organizational dimensions to examine the similarity between the response profiles of the four plants. Specifically, we were interested in determining if the profile of means from the four groups were parallel. Profile analysis tests this parallel means (similarity of vectors) hypothesis along with the null hypotheses that (assuming parallelism): there is not a significant difference between the groups on the mean level of the dimensions (differences is vector elevation) and there are no significant differences between groups on the individual scales (differences in vector shape) (Bernstein, 1988). These results led to the rejection of all three profile analysis related hypotheses. The multivariate test of significance led to the rejection of the parallel hypotheses. Exact values for these tests are as follows: Pillais = 1.67; Hotellings = 9.53; and Wilks = .04. All are significant at the .001 level indicating a lack of parallelism. The test of significant differences between groups on vector elevation indicated that

TABLE 1
Means, Standard Deviations, and Univariate F's
For The Five Countries

	U.S.		Mexico		Spain		Italy		England		F ^a
	Means	s.d.	Means	s.d.	Means	s.d.	Means	s.d.	Means	s.d.	
Total Management System	12.35	1.21	7.89	1.26	8.65	.95	9.23	.65	14.06	1.89	161.72
Dimension											
Leadership	11.97	1.55	8.42 ^c	2.04	9.02 ^c	1.35	10.39	1.41	15.30	2.46	48.67
Motivation	11.17	1.78	8.61 ^c	2.27	8.45 ^c	1.34	6.35	1.05	13.74	1.83	59.48
Communication	14.04 ^c	1.90	10.12	1.60	8.80	1.35	11.43	1.38	13.01 ^c	1.66	93.66
Decision Making	12.87	1.55	3.15	1.06	11.45	1.28	9.87	1.06	14.93	2.03	452.51
Goal Setting	12.44	1.78	9.55 ^c	1.55	6.92	1.66	9.28 ^c	1.51	13.97	1.67	95.21
Control	11.11	1.60	7.30 ^c	1.53	6.61 ^c	2.02	8.57	1.59	13.75	1.78	60.34

^a All pairs of groups are significantly ($p \leq .05$) different unless noted by superscript^c

^b All are significantly different at $p \leq .001$, d.f. = 4, 175

Scores of 0-4.9 = System 1; 5.0-9.9 = System 2; 10.0-14.9 = System 3; 15.0-20.0 = System 4

One-way analysis of variance (ANOVA), Duncan's multiple range test, and profile analysis were used to examine the hypothesized differences between management systems. Table 1 summarizes the results of the ANOVA and Duncan's tests. The

the four plant were significantly ($F=146.07$; $p=.00$; $d.f.=4,175$) different across the main levels of the dimensions. Lastly, when examining exactly where (among the six dimensions) the differences occurred, the results clearly indicated that all six

dimensions contribute to the overall difference between the data from the five plants. The F-test values here range from 8.90 to 278.87. Given the lack of parallelism, this profile analysis is, in effect a simple MANOVA that confirms the results presented in Table 1. The lack of parallelism, however, is informative since it suggests that the differences between the four data sets are not caused by systematic response bias. That is, American managers did not systematically mark higher numbered responses than did, for example, the Mexican managers.

Productivity comparisons among the five plants indicate that nine of the ten possible country pairs are significantly different from each other. These results are displayed in Table 2. The Italian and Mexican plants produced significantly more units per hour than the Spanish, English and the U.S. plants.

Strodbeck, 1961). North Americans also tend to be "rights conscious" and want input on those decisions that affect them. It should be noted the individualism alone does not adequately explain the cultural congruency of participatory management systems. In fact, research indicates that collectivist cultures, such as the Latin cultures, place more emphasis on the needs of the group, social norms and duty, shared beliefs and cooperation than do members of individualistic societies such as North Americans (Triandis, 1989). Cox, et. al's (1991) research clearly showed that people from cultures with a collectivist tradition demonstrate more cooperative behaviors. Other researchers, like Leung (1988), supported these conclusions in the area of conflict resolution. So, while one would expect a greater proclivity toward group activities and participation in collectivist societies, such as Mexico, Spain and Italy, these cultures are not

TABLE 2
Productivity Comparisons - Units Per Hour

Country	Means	s.d.	Minimum	Maximum	t - values			
					U.S.	Mexico	Spain	Italy
U.S.	8.26	.223	7.87	8.70				
Mexico	8.46	.375	7.75	9.09	2.84*			
Spain	8.21	.210	7.81	8.62	2.02*	4.17*		
Italy	8.48	.262	8.00	8.93	3.93*	.75	5.22*	
England	7.87	.269	7.35	8.33	7.84*	8.96*	6.99*	11.50*

*p ≤ .05 two-tail probability

Productivity in the U.S. plant was significantly different from all other plants. The direction of these differences, however, was not consistent. The English plant was consistent, it produced significantly fewer units per hour than the other four plants.

DISCUSSION

The findings of this study indicate that the management system used in the U.S. and the British plants were different from the systems used at the plants in Mexico, Spain and Italy. Within the context of Likert's System 4 theory of organizations, the U.S. and the English plants were unique both statistically and in terms of their classification. Statistically, the respondents at the U.S. and English plants reported using significantly more participation than the other three plants. According to the theory, the plants in Mexico, Spain and Italy employed the relatively autocratic "benevolent authoritative" management system while the U.S. plant used the more participative "consultative" system. It should be noted that while the British plant was technically classified as using the "consultative" system, its total management system score was less than one point away from the "participative" or System 4 organization.

The differences in management systems imply that at the local plant level, there are varying degrees of centralization. In general, these differences appear to reflect cultural differences. Specifically, North Americans place relatively high value on both individualism (Hofstede, 1980a) and free will - with its attending emphasis on personal efficacy and control (Kluckhohn &

known for their highly participative work systems. On the other hand, Norway, Sweden and Germany, which are individualistic, are models of industrial democracy. Hence, the individualist-collectivist orientation, which distinguishes the U.S. and England from the other three cultures in our study, in and of itself does not adequately explain the value placed on participation. However, when individualism is combined with the Anglo-Saxon view on the acceptance of authority (Hofstede's power distance) free will and self-determination, participatory management systems appear culturally congruent. As Hofstede (1980b) indicates, the initiative toward participation is supposed to be taken by the manager. Yet, the crucial fact about leadership in any culture is that it is a complement to subordinateness and its values. Managerial behaviors are learned behaviors that are based upon assumptions about one's place in the world (Harris & Moran, 1991) and the evidence presented here supports the idea that the management system reflects the culture.

The same conclusion could be drawn for the use of the less participatory management styles in countries that place greater value on paternalism and acceptance of authority. First, Mexico, Spain, and Italy are three such countries. For example, the Mexican culture is typically characterized as paternalistic, yet fairly authoritarian (Kras, 1989). Secondly, Laurent's (1983) study clearly shows a strong authoritarian orientation among Italian managers. Lastly, according to Hofstede's (1980a) research, respondents in not only Italy and Mexico but also in Spain reported valuing larger power distances than did respondents in the USA or England. Given the acceptance of unequal power distribution within the organization and the possible attending

expectation of hierarchical distinctions, it seems that a less participative management style would be culturally congruent in the plants in these three countries. The data presented in our study do appear to corroborate the often made observation that cultural values impact upon organizational phenomenon. The locally determined management systems do differ from each other yet the differences appear to be consistent with cultural expectations.

The second general purpose of our study was to examine if participation or empowerment of local managers provides an overall benefit to the parent corporation in terms of productivity. The assumption of a direct relationship between productivity and participation is derived, in part from Likert's contention that participation is desirable and participatively managed organizations will be more productive in virtually any culture. Our data, however, appear to refute this assumption. In fact, the data indicate that the most participative plant (England) had the lowest level of productivity. The least participative plant (Mexico) was one of the most productive plants. While it is difficult to totally recognize culture's influence on a theory (Triandis, 1972), the data suggest that the assumed relationship between participation and productivity necessarily may reflect some element of the U.S. or Anglo-Saxon culture that is not present in other cultures in this study. In fact, both the popular press (e.g. "I came, I saw, I blundered", Time, October 9, 1989) and current research (e.g. Kleinberg 1991), exemplify the negative consequences of culturally insensitive applications of management techniques no matter how good they look in one's own culture.

The current study does not imply that all U.S. behaviorally-based theories are culture bound. For example, the work of Lee and Green (1991) showed just the opposite. They tested the applicability of the Fishbein behavioral intentions model, which was developed in North America, in a Confucian culture. Students in both the U.S. and Korea responded to a series of questions about their intentions to purchase a specific product. The findings suggested the cross-cultural validity of the Fishbein model because a similarly good fit, of the model to the data, was found for both cultural samples. In the Korean sample, however, subjective mores (operationalized as the expectations of important referent others) were more important in forming behavioral intentions than they were in the U.S. sample where attitude toward the act (perceived consequences of an action) was the primary determinant of intentions. Unlike Likert's theory, Fishbein's theory describes a process. It delineates some of the salient components involved in the process of forming a behavioral intention. The theory does not specify the relative contribution of each component to the formation of intentions. Essentially, the theory is not normative and hence it appears to be much less culture bound than Likert's relatively prescriptive theory. Hence, while our findings do not support the applicability of one particular U.S. generated theory, they do not obviate the universality of other theories.

Our study has a number of limitations that future research should address. First, our results addressed only one behavioral manifestation of managerial style. Future research could enhance our understanding of cross-cultural similarities and differences in managerial styles by examining not only participation, but also other managerial behaviors that are commonly accepted in North America but may vary across cultures. For example, more cross national research is needed on managerial styles and personal efficacy (Boyacigiller & Adler, 1991), empowerment, or leader reward behavior. Future research could also enhance our understanding of global management by addressing the second weakness of our study. Specifically, the current research implicitly assumed that value differences existed between the representatives of the four countries who participated in our study. Concurrently, it was

implicitly assumed that the values of each country group were homogeneous. These assumptions were based upon the fact that each of the four plants was managed by and staffed with locals. Yet, future research would do well to explicitly examine values such as product quality (Kearns, 1990), individualism (Cox, et. al, 1991), and power distance (Hofstede, 1980a), to determine if managerial style differences in areas like participation are in fact influenced by values. Other interesting investigations many well include leader traits (Kirkpatrick & Locke, 1991) and how they vary across cultures.

A third limitation of this study is that it is a cross-national rather than a cross-cultural study (Kleinberg, 1991). Since we neither defined nor measured culture, there is no empirical evidence that culture differs across the five countries represented in our study. The last, and perhaps most obvious limitation, is the fact that the study was quite limited in its scope. All five plants were small and represented only one multinational organization. Future research should attempt to survey several MNC's in a variety of industries so that each country would be represented by several firms. In spite of the limitations of the study, the conclusions suggest that American managers and academics should exercise great caution in the application of North American theories and practices to other countries. Our results suggest that managerial styles should be culturally congruent and that congruence may be one of the keys to cross-national managerial success.

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**INTERNATIONAL FACILITY LOCATIONS:
A COMPETITIVE MARKETING STRATEGY
FOR MULTINATIONAL ENTERPRISES**

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Abstract

Market orientation is rapidly becoming an important issue for multinational enterprises. Changes in the market place are forcing these enterprises to adopt market-orientation strategies that give them competitive advantages. Using international facility locations is an approach well suited for gaining competitive advantages. This paper develops a mathematical model to help multinational enterprises design a strategic location plan in the global economic system. The model developed here can be used to evaluate the profitability of international locations among several alternatives.

Introduction

In today's global economic system, enterprises must continuously adopt new strategies to keep up with the changes in the market place. Some of these changes could be due to the following factors (Walker, Boyd, and Larreche 1992 p.26-27):

- * Previously self-contained national markets being transformed into linked-global markets.
- * Overcapacity intensifying competitive pressures by giving customers greater bargaining power.
- * New information technologies enabling closer links between customers and their suppliers and improving customers' ability to evaluate the performance of alternative suppliers.
- * Competitive advantages becoming harder to sustain as product life cycles shorten and global competitors contest more markets.

These recent trends have resulted in a rapid increase of global markets which are already flourishing in many countries. These global markets are causing new competitive pressures on companies to engage in global production and service operations. For example, many companies in the U.S., Japan, and other developed countries are manufacturing in countries with low labor costs in order to reduce their production costs. Transferring production to foreign locations is a viable alternative for lowering production costs, thereby providing

enterprises with a competitive marketing advantage in domestic and global markets (Day and Wensley 1988; Flores 1987; Haug 1985; Porter 1985).

Day and Wensley (1988) developed a framework for diagnosing competitive superiority. They believe that three elements make up the framework: source of advantage, positional advantage, and performance outcomes. Superior skills and resources provide the sources of advantage. Positional advantages refer to superior customer values and lower relative costs. Finally performance outcomes are measured via customer satisfaction, customer loyalty, market share, and profitability. Porter (1985) makes a similar argument. He believes that superior resources are the prerequisites for gaining a competitive superiority. Further, he maintains that many firms underestimate the importance of facility locations in their strategic planning.

Location has some influence on the cost of almost every value activity. Firms do not always understand the impact of location beyond obvious differences such as wage rates and taxes, however. Opportunities often exist for reducing cost through relocating value activities or by establishing new patterns of location of facilities relative to each other. The location of activities in relation to each other as well as to buyers and suppliers often contributes significantly to such things as labor rates, logistical efficiency, and supplier access. The firm that locates its facilities well will often gain a significant cost advantage. The optimal location of activities change over time...(pp. 83,105).

The above discussion suggests the need for optimal-location strategies that provide competitive advantages for the firms. The purpose of this paper is to develop a mathematical model to help multinational enterprises achieve this goal. This paper is divided into three parts. In the first section, we discuss the advantages and disadvantages of international locations and the factors to be considered when locating internationally. Our model is presented in the second section and finally third section presents conclusions of the paper.

Advantages of International Facility Locations

In the past, U.S. companies used manufacturing facilities in other countries for any one or a combination of the following reasons (Kogut 1984; Moxon 1975): (1) to extract raw materials, (2) to secure a foreign market, (3) to take advantage of certain resources, (4) to expand export markets, and (5) to be more

responsive to local markets. Today, in addition to the above reasons, many firms in the U.S. and other industrialized nations have manufacturing facilities in countries where labor costs are inexpensive (See Tables 1, 2, and 3).

INSERT TABLES 1, 2, AND 3 ABOUT HERE

Tong and Walter (1980) indicate that foreign-owned manufacturing facilities in the U.S. increase the national employment level, help balance the U.S. international payments, reduce inflationary pressure, and induce the transfer of technology from abroad. According to Markides and Berg (1988), the Japanese are investing in the U.S. for four reasons:

1. to increase their political clout and prevent further trade restrictions by creating jobs for Americans,
2. to ensure access to the U.S. market in the event that exports to the U.S. are restricted further,
3. to get a better feel for their most important export market so that they can be more responsive to it, and
4. to hedge against fluctuations in the value of the dollar.

The data in Tables 1, 2, and 3 suggest that we are living in a global economic system where companies are taking advantage of the opportunities provided to them. There are several disadvantages associated with international facility locations.

Potential problems with International Facility Locations

Markides and Berg (1988) argue that while American companies are claiming it is impossible for them to stay at home and be competitive, more Japanese companies are building manufacturing plants in the U.S.. They point out that the savings gained by locating in other countries can come at a great cost and argue that inventory, administrative, and quality costs may be higher. They also indicate that manufacturing in other countries may prevent the company from exploiting economies of scale at home as well as abroad, causing under-utilization of existing manufacturing capacity, and, ultimately, plant closings and layoffs. High inflation rates, volatile currency patterns, and economic uncertainties can also cause companies not to locate internationally. Welles (1982 p.235) states that companies which "go off and set up plants in locations that have low labor costs may be missing the great opportunity to automate and have no labor at home".

Important Factors in International facility location decisions

The timing of the decision to invest abroad and the choice of location(s) are certainly influenced by several factors. The major factors affecting site selection for international facilities obviously depend upon the nature of the industry being considered. In a survey of foreign location selections made by the U.S. companies in Europe, Latin America, and Asia, the following factors were found to be the most significant: (1) access to market and transportation, (2) taxes, incentives, labor and site costs, and (3) host government attitudes (Bass, McGregor, and Walters 1977).

In another study (Tong and Walter 1980), 224 foreign companies which had at least one plant in the U.S. were studied and the results indicated that the following factors were the key issues: (1) availability of transportation services, (2) labor attitudes, (3) ample space for future expansion, (4) nearness to markets within the U.S., and (5) availability of suitable plant sites.

The studies by Bass et al., (1977) and by Tong and Walter (1980) indicate that the priorities of the above factors for the U.S. companies are different from those of foreign-owned companies in the U.S.

Literature Review

For many years, the facilities location problem (FLP) has attracted a great deal of attention in the management science, and operations management literature. As a result, there are now a variety of methods for solving these problems. The facilities location literature dealing with quantitative modeling is quite extensive (for a comprehensive review see Brandeau and Chieu, 1989). International facility location (IFL) can be viewed as an extension of the FLP. In the classic FLP, plants, facilities and customers are all assumed to be in the same country; whereas in IFL, plants and facilities are in different countries serving customers within the same country and other countries. There is very little research on the issues related to IFL problems, or on a framework required to deal with such problems. In spite of the extensive modeling work done on FLP, not much modeling research exists on IFL problems either.

The literature in IFL can be classified as consisting of descriptive and quantitative models. The descriptive models identify and discuss (1) the importance of the rapidly growing international markets (Levitt 1983, McDonald 1986), (2) the factors to be incorporated in IFL decisions (Marshall 1983, Tong and Walter 1980), and (3) the steps required for the success of IFL decisions (Davis 1979, Hoch 1982). The

quantitative IFL models formulated thus far are:

1. Pomper's model (1976) which is based on a dynamic programming formulation and seeks to maximize profits;
2. The study by Jucker (1977) generates a breakeven analysis which yields the timing for a manufacturing company to move its manufacturing facilities to a foreign country;
3. The models developed by Hodder and Jucker (1985) and by Hodder and Dincer (1986) are quadratic programming formulations that focus on price and exchange rate uncertainties to maximize profits;
4. The model by Haug (1985) utilizes a mixed-integer programming formulation to maximize after-tax profits.

The Model

Figure 1 presents the framework for the model developed in this paper. The primary objectives of this model are to determine in which countries to locate facilities and the timing for the location decisions such that either total costs are minimized or total profits are maximized. Several factors are considered in our model. Some of these factors are incorporated within the objective function and the constraints in the models developed by Pomper (1976); Jucker (1977); Hodder and Jucker (1985); Haug (1985); and Hodder and Dincer (1986).

The model and the formulation we propose for solving the IFL problem is based on the following physical flow:

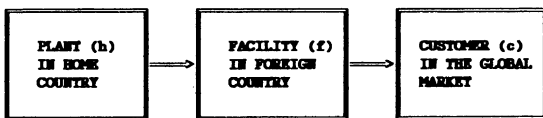


Figure 1
The Physical Flow in International Manufacturing

Plant (h), in this physical flow represents the home country where the decision to locate facility(ies) in other foreign countries takes place. In this physical flow facilities f represent manufacturing locations or distribution centers, in countries f. We assume that facility f can ship the product to customers either within the same country or in another country (including h). Customers c in the global market represent the territory of the customers in the international market (for additional notation used in the formulation see Appendix). In the following paragraphs the components of the objective function, the constraints, and assumptions are described.

Components of the Objective Function

1) **INVESTMENT COSTS:** Investment costs (INC_{ft}) are included in the following two categories: plant

and equipment, and working capital.

Plant and Equipment costs (PEC_{ft}): This term shows the initial investment cost for the plant and equipment for facility f if opened in period t. Plant and equipment costs increase over time as a function of the rate of increase in the cost of equipment and inflation rate in the corresponding country.

Working Capital (WCC_{ft}): Working capital is required as an initial capital investment, assuming operations at full capacity. Investment in working capital includes operating cash and inventories for raw materials, work in process and finished goods.

Thus, investment costs are calculated as $INC_{ft} = PEC_{ft} + WCC_{ft}$.

2) **OPERATING COSTS:** Operating costs include both fixed (FC_{ft}) and variable (VC_{ft}) costs.

Fixed Costs (FC_{ft}): We assume that fixed costs at the potential facilities are composed of training costs, personnel costs and other administrative costs and are assumed to be known.

VARIABLE COSTS: The variable costs include labor costs, material costs, utilities cost and other per unit costs.

Labor Cost (LC_{ft}): Labor cost is reported as one of the primary reasons for locating outside the host country and is included by Pomper (1976), Jucker (1977), Hodder and Jucker (1985), Haug (1985) and Hodder and Dincer (1986).

Materials Cost ($MATC_{ft}$): We assume that the decisions for materials sourcing are made after determining the locations for the manufacturing facilities. The increase in materials cost is based on the inflation rate in the corresponding country.

Utilities Cost (UC_{ft}): Utilities cost increases over time according to the expected inflation rate.

Other Costs (OC_{ft}): Any other cost besides labor, materials, and utilities, such as subcontracting for packaging, is included in this category.

Thus, variable manufacturing cost per unit is defined as follows:

$$VC_{ft} = LC_{ft} + MATC_{ft} + UC_{ft} + OC_{ft}$$

3) **TRANSFER COSTS (TFC_{fct}):** Transfer costs include all of the manufacturing and marketing related costs per unit of the product at a given facility and getting it to the market. Transfer costs are calculated after tax, and adjusted for factors such as export incentives and tariffs in both sending and receiving countries. In addition, they include transportation costs, marketing costs, management fees, royalty, and tariffs, transfer prices, ownership of the facility, the selling price, taxes, and weight of cash flow in different markets. Therefore, transfer costs can be calculated for sales to the local market and for exports.

Transportation Cost (TC_{fct}): This cost denotes the per unit transportation cost from f to c in time period t which includes shipments of raw materials from different sources to facility f. These costs vary depending on the access from the potential location to the markets.

Marketing cost (MC_{ct}): This cost is calculated as percentage of the selling price in market c in time period t. Thus, changes in selling price effect marketing cost. Marketing costs are

incorporated in the calculation transfer prices which in turn is used for the calculation of transfer costs.

Tariffs (TRF_{ft}): The incorporation of taxes in different countries necessitates the inclusion of tariff rates in the formulation of the model where the objective is to maximize profits. We assume that tariffs are known.

Transfer prices (TP_{ft}): Transfer prices need to incorporate any export and import limitations that might be imposed by the countries involved in the IFL model. Transfer prices from facility f to market c have to be determined such that they are greater than (1) a percentage (LT_{ft}) of the market price in market c, and (2) a percentage (1+k_{ft}) of the manufacturing cost in country f. Thus, those restrictions imposed by the sending country imply the following constraint set which produces a lower bound on the transfer prices.

$$TP_{ft} \geq \text{MAX} [LT_{ft} SP_{ct}; (1 + k_{ft})VC_{ft}]$$

In addition, the receiving country imposes restrictions based on its own market price for the product. The objective is to generate enough taxable income from local sales, which implies constraining the full cost to the marketing unit to be at most UT_{ct} % of market price, i.e. mathematically:

$$TP_{ft} (1 + TRF_{ft}) + TC_{ft} \leq UT_{ct} SP_{ct} (1 - MC_{ct}).$$

This results in the following upper bound on TP_{ft}

$$[UT_{ct} SP_{ct} (1 - MC_{ct}) - TC_{ft}] / (1 + TRF_{ft}).$$

Thus, the value for TP_{ft} has to be between the lower and upper bounds constructed above. Furthermore, raising transfer prices by \$1, increases profits in country f by (1 + EI_{ft}) (1 - TAX_{ft}) OBJ_{ft} OWN_{ft}, dollars.

At the same time, profits in country c decrease by (1 + TRF_{ft}) (1 - TAX_{ct}) OBJ_{ct} dollars.

If the difference between these two quantities is positive, TP_{ft} is set at its upper bound; and set to its lower bound if it is negative.

Direct export incentives (EI_{ft}): Some countries regard exports to be significant to the country's economy and in order to encourage more exports from the country they provide financial incentives as a percentage of the transfer price of the product.

Ownership of the facility (OWN_{ft}): In some countries complete ownership of the foreign facilities is not permitted. Thus, profits generated in that country are shared by the partner(s) in that country. Therefore, a parameter indicating the percentage of the ownership is necessary for each potential facility.

Selling Price (SP_{ct}): It denotes the selling price in market c which will be different in different markets (countries).

Taxes: The variation of tax rates in different countries necessitates its inclusion in IFL models. Accordingly in our model, tax rates for the countries where the manufacturing facilities are located (TAX_{ft}), for the home country (TAX_{ht}) and for other countries (TAX_{ct}) are included in the objective function of the formulation.

Weight of cash flow from foreign countries (OBJ_{ft}, OBJ_{ct}): As indicated in Pomper's model the weights

for cash flows from foreign countries reflect the desirability to generate cash flow from those countries. The weights for cash flows from foreign countries to capture risks affecting the movements of funds due to government controls. For example, a weight of 0.8 for one country indicates that one dollar cash flow generated in that country is actually worth 80 cents (Pomper, 1976, page 140).

Calculating transfer costs

As a result of incorporating the components described above, transfer costs are determined for both local sales and exports. Thus, transfer costs for sales to the local market are calculated using the following formula (Pomper, 1976, page 145):

$$TFC_{ft} = (VC_{ft} + MC_{ft} SP_{ft}) (1 - TAX_{ft}) OBJ_{ft} OWN_{ft}$$

This cost includes variable manufacturing cost per unit and the marketing cost per unit adjusted for taxes, weight of cash flow and ownership of the facility.

Transfer costs for exports are analyzed in two groups:

(a) The cost of manufacturing per unit:

$$[VC_{ft} - (1 + EI_{ft}) TP_{ft}] (1 - TAX_{ft}) OBJ_{ft} OWN_{ft}$$

This includes the variable cost of manufacturing one unit and the export incentives adjusted for taxes, weight of cash flow and ownership of the facility.

(b) The cost of marketing per unit:

$$[TP_{ft} (1 + TRF_{ft}) + TC_{ft} + MC_{ft} SP_{ft}] (1 - TAX_{ct}) OBJ_{ct} OWN_{ft}$$

This cost includes tariffs and duties, transportation costs, marketing costs, selling price in country c while incorporating taxes in country c, weight of cash flow and ownership of the facility. Thus, the total cost of transfer from country f to country c in time period t is the sum of components (a) and (b).

4) **SHORTAGE COSTS:** The models constructed by Hodder and Jucker (1985), Hodder and Dincer (1986), and Haug (1985) assume that the facilities have sufficient capacity for satisfying demand from different markets. However, for purposes of completeness, a shortage cost is assigned for demand that is not satisfied. Thus, we define shortage cost as a percentage of its selling price as follows;

$$SC_{ct} = SP_{ct} [(1 + PNL_{ct}) (1 - TAX_{ct}) OBJ_{ct} OWN_{ct}].$$

5) **INVENTORY HOLDING COSTS (IH_{ft}):** Inventories will occur if the facility is opened and production at facility f in time period t is greater than the quantities shipped from that facility to the customers in other countries and/or within the same country. We assume that production at facility f equals the capacity of that facility.

Financial Incentives (FI_{ft}): This term represents the financial incentives that are provided by the host government if the facility is located in that country and are assumed to be known.

Exchange rates: The revenues from sales and manufacturing related costs at facilities in different countries are converted into the home country's currency. Thus, a corresponding exchange rate (e_{ght}, and e_{cht}) must be determined initially and forecasted for the future periods.

Demand (D_{ct}): Demand in the markets are assumed to vary over time based on the growth rate of that market. The model developed in this study is a multi-period model which takes the variations in demand into consideration, each period. The shifts in demand from one country to another is an important factor to be included in determining the location of facilities. One of the functions of the marketing department in the enterprises is to generate new customers for the products being offered and also maintain the existing customers.

Capacities (CAP_{ft}): The size of local labor force and potential employables by skill could present limitations for the capacities at each potential location. In our formulation, capacities are assumed to be known.

The complete formulation of the IFL problem is given as follows;

$$\text{MAXIMIZE } \sum_t \left\{ \sum_c SP_{ct} S_{ct} - \sum_f INC_{ft} Z_{ft} - \sum_f FC_{ft} Y_{ft} - \sum_c \sum_f TFC_{fct} X_{fct} - \sum_f SC_{ct} QS_{ct} - \sum_f IH_{ft} QI_{ft} \right\} \quad (1)$$

Subject to:

$$\sum_c X_{fct} + QS_{ct} \geq D_{ct} \quad (\text{for all } f \text{ and } t); (2)$$

$$\sum_c X_{fct} + QI_{ft} \leq CAP_{ft} Y_{ft} \quad (\text{for all } f \text{ and } t); (3)$$

$$S_{ct} \leq \sum_c X_{fct} \quad (\text{for all } t); (4)$$

$$Z_{ft} \geq Y_{ft} - Y_{f(t-1)} \quad (\text{for all } f \text{ and } t); (5)$$

$$Y_{ft} = 0 \text{ or } 1 \quad (\text{for all } f \text{ and } t); (6)$$

$$Z_{ft} = 0 \text{ or } 1 \quad (\text{for all } f \text{ and } t); (7)$$

$$X_{fct}, QS_{ct} \geq 0 \quad (8)$$

We express the objective of the IFL model as maximization of profits which incorporates the different prices in different markets. The costs incorporated in this objective function include investment, fixed, transfer, shortage, and inventory holding costs for the corresponding facilities in time periods t. The prices in markets and costs presented in this objective function are adjusted to incorporate factors such as ownership of the facilities, weight of cash flow from different countries and tax rates. In addition, prices and costs are converted to home country's currency.

Constraint set 2 allows for shortages in markets and shows that it might be possible all market demands are not met. Capacity constraint set 3 requires that the total quantity shipped

from facility f to market c and the inventories at facility f in time period t do not exceed the capacity at that facility for that product. Constraint set 4 is used to show that the quantities sold in market c in time period t will be less than or equal to the quantities shipped from facilities f to that market. Constraint set 5 insures that the relationship between Z_{ft} and Y_{ft} from the initial period till the end of the planning horizon or the number of periods (T) is considered in the formulation. Constraint set 6 is used to show that the fixed cost and the capacity for an opened facility will be included in the formulation and they are excluded from the formulation for an unopened facility. Constraint set 7 is used to show that the investment cost for facility f will be included if opened and excluded otherwise. Constraint set 8 indicates that the quantities shipped from facilities f to markets c, quantities that are short in markets c, and quantities sold in markets in time period t are to be non-negative.

Assumptions

The assumptions made in the development of the above formulation for this IFL model are summarized below:

1. This IFL model considers the single-product case, which can be thought of as a composite product.
2. The demand from the customers can be forecasted over the future time horizon.
3. Capacity levels for each manufacturing facility can be estimated for the future time horizon.
4. All of the relevant costs are estimated for the planning horizon including the effect of inflation and devaluation rates in the corresponding countries.
5. Host government incentives via taxes, subsidies and sundry incentives are known.
6. The exchange rates between the country where plant (h) is located and the countries f, and c corresponding to facilities, and customers are forecasted for the time horizon.
7. Host government incentives via taxes, subsidies and financial incentives are known.
8. Production takes place at the selected facilities and is not subcontracted.
9. The potential locations for the facilities in the different countries are predetermined.
10. Inflation and devaluation rates are forecasted for countries f, and c corresponding to facilities, and customers.
11. Transportation costs are linear.
12. Terminal values of the facilities are not included in the model.
13. Management fees, and royalties are not included in the model.
14. Net present values of the cash flows are not incorporated in the model.

COMPLETE PAPER IS AVAILABLE UPON REQUEST

STRATEGIC ALLIANCES: A NEW WAY FORWARD FOR BUSINESS EDUCATION

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Abstract

Strategic alliances are proposed as an important way for business schools to face the challenges of a "new world order" that includes intensified competition, changing educational requirements and increasingly global marketplaces. Partnerships between individual business schools, and between business schools and corporations, on a regional, national, and international basis are suggested.

Introduction

Every generation feels that the world is changing faster during their watch than the previous generation. While this may be generally true, the events of the last several decades suggest that the pace of the socio-economic and political changes around us have been faster than ever. Advances in technology have led us into the information age, where effective and timely utilization of ever-increasing amounts of data is critical for strategic success. The management of our public and private institutions requires a broadening, more global perspective, continuous and accelerated innovation in ideas, products and services, and constant reevaluation of competitive competencies. The world we live in is being shaped and changed by an exciting but volatile confluence of factors that must be carefully and constantly monitored.

For example, political and economic liberalization has been blossoming all over the world recently -- witness the fall of communism and the progress with trade negotiations within the EC, NAFTA and GATT. A "new world order" is emerging in which power is increasingly vested in the hands of the Triad of North America, Western Europe, and the Pacific rim. New challenges emerge as the countries of the Eastern block struggle with embryonic free market systems and NICs such as Turkey, India and Pakistan try to shake off the yoke of insularity and protectionism. This global marketplace needs companies and nations to carefully identify their comparative advantages and to invest heavily in infrastructure and technology to retain such benefits. In essence, achieving success within the transformation we are witnessing demands growing interdependencies between companies/countries. It is becoming harder and harder to "go it alone." Moreover, such upheaval is not confined to commercial entities as organizations such as educational institutions also face the same cold winds of economic and political change.

Nowhere is this more evident than in the shifting world of business schools.

This paper examines the potential role of strategic alliances in business schools. It is argued that the new economic order calls into question the efficacy with which traditional business schools train the manager of the future. Such concerns are particularly acute in NICs and LDCs where programs must fit the specialized needs of their own regions while adjusting to the realities of globalization. We will look first at the generic concept of strategic alliances and try to understand its enormous growth in popularity as a management tool. We will then turn to its applicability to the business school environment, providing examples of different forms of collaboration.

The Role of Strategic Alliances

Companies (and universities) are just beginning to learn what nations have always known: in a complex, uncertain world filled with dangerous opponents, it is best not to go it alone (Ohmae, 1989). While there can be no question about the growing importance of the concept of strategic alliances there remains considerable semantic confusion about its definition. There are those that take a broad view:

"Strategic alliance is an umbrella term (that) describes a menu of relationships that is more subtle than vendor-customer relations yet less formal than the rights of ownership. These arrangements take on many shapes: joint ventures licensing agreements, R&D consortia or reciprocal marketing deals." (Lorinc, 1990)

Taking a narrower view, Baranson (1990) identifies fundamental differences between traditional joint venture agreements and strategic alliances:

"International joint ventures are legally binding agreements stipulating resource commitments, financial investments, management structures and profit shares. Strategic alliances are more in the nature of 'memoranda of understanding' which both set forth basic business objectives to co-market, co-develop and/or co-produce products and ser-

vices and outline decision making mechanisms on business agendas, resource commitment and distribution of returns."

There are undoubtedly many similarities between strategic alliances and more 'conventional' forms of business collaboration. Strategic alliances are only one of a range of business development routes for firms. But the differences between 'strategic' and 'conventional' partnerships are critical. Traditional linkages are usually 'tactical' in nature. For example, these could be limited linkages between multinationals and local firms primarily to gain market access or to transfer existing technology. Strategic alliances, on the other hand, are longer term commitments among participants in an industry. These commitments can have a significant effect on competitiveness and business practice. Failure of such strategic alliances may have an adverse effect not only on short-run financial performance but may threaten a firm's regional and global competitive position (Hamill & El-Hajjar, 1990). It is suggested we adopt the following working definition, devised by Devlin and Bleackley (1988):

"Strategic alliances take place in the context of a company's long-term strategic plan and seek to improve or dramatically change a company's competitive position."

Strategic Alliance Motivations

Why has it become necessary for businesses to consider strategic alliances as an indispensable operational mode? Why can a company not simply develop in-house the necessary steps in the value-added chain? The following factors have been major contributors:

Globalization

Markets have become increasingly global, stemming in part from advances in transportation and communications systems. Although markets have become larger, growth in size has often been accompanied by proliferation of segmented market demand. Strategic alliances give access to important markets, which if a firm cannot serve by itself leaves it at a major disadvantage vis-a-vis competitors.

Technology

As competition has grown, engineering and design cycles have had to become

more condensed and R&D costs have increased. Shorter product life cycles have continued to accelerate the demand for new technologies. Such demands on capital and human resources have set cost limitations on even the largest companies.

Competition

Intensified competition among companies requires rapid and flexible response to new entries and changing market demands. There is an increasingly limited window of opportunity to develop a new product and access a new market opening.

Even though partners may enter an alliance for a variety of reasons they are likely to seek one or more of the following benefits (Day 1990):

Access Benefits

These are realized when one partner has something the other needs, such as local credibility, channel coverage, capital or technology know-how.

Economies of Scale

Being the low cost producer is critical in providing goods and services. Economies and accelerated learning by experience are gained by combining the manufacturing, development, or marketing activities of the two partners, having a profound effect on its cost structures.

Speed of Entry

Speed of entry involves the swapping of new products and models among firms that have established strong distribution coverage in each major market. In this way the high front-end costs of new products can be recouped quickly.

Sharing of Risk

Companies can forge alliances to share the risks and rewards of very large projects, that are beyond the capacity of any one firm to absorb.

Without doubt the next few years will see a further growth in strategic alliance formation for many of the reasons listed above. Many of these alliances will be formed between high technology companies where costs and risks are particularly high. However, there is a growing number of examples of strategic alliances among low technology and service organizations as the recent Nestle/Walt Disney agreement and KLM/NorthWest Orient collaboration testify. What then about educational institutions? Does it make sense for universities and colleges to

strategically pool resources in order to exploit market opportunities and to face changing market conditions? The remainder of this paper will explore this premise from the perspective of the business school.

Strategic Alliances in Business Schools

Certainly the conditions conducive to alliance formation appear evident in the field of business education. Some recent trends are as follows:

1. Business education has become a global industry. Excellent schools have emerged in Western Europe and South East Asia, offering growing competition to traditional North American institutions, as students at the undergraduate, graduate and/or executive levels increasingly scan all parts of the triad before making a choice.

2. There has been a tremendous expansion in the number of business programs available worldwide. In the United States alone it was estimated that in 1989-90 24% of undergraduate degrees earned were in business and management studies, while in 1991 70,000 MBA degrees were awarded from some 750 different colleges. The danger of market saturation is exacerbated by the presence of a "baby bust" where the number of potential students in the age category 16-29 continues to decline. The U.S. Census Bureau predicts, for example, that the population aged 25-29 will fall from 22 million in 1985 to 17 million in 2001. These trends have resulted in declining enrollments in many colleges with accompanying soul searching on their future strategic direction.

3. At least in North America there has been growing disillusionment with the products of undergraduate and MBA programs. Businessmen are increasingly questioning the relevance of traditional business school training which for decades has concentrated on the acquisition of self-contained, functional skills. Such discontent has adversely impacted recruitment activities, forcing business schools to reevaluate their programs and become more market oriented. Such trends are not as strong in Europe where there are fewer business schools and greater flexibility regarding curriculum development.

These are difficult times for business schools. Competition is intensifying and becoming increasingly international. Improved and updated products are needed, requiring significant investment in underlying "technologies"

(teaching materials; faculty training, etc.,). All of this at a time when resources are shrinking and market demand is becoming more focused and segmented. It would appear that the time is right for business schools to share capabilities as they seek to succeed in a complex and rapidly changing environment.

And yet there is only limited US evidence of the formation of strategic partnerships between business schools. Europeans appear to be ahead of their North American colleagues in the pursuit of competitive collaboration. For example, multi-lingual, multi-country MBA degrees, as illustrated by the joint program development at Cranfield School of Business (UK) and ESC Lyon (France), are gaining in popularity. Why have US schools lagged in the adoption of such trends? First, it is important to note that in the business community at large Japanese and European companies have shown much greater enthusiasm for strategic alliances than have US firms. Here the prevailing business culture has long stressed control and independence, treating with suspicion collaboration and resource sharing. This attitude is slowly changing as leading companies such as Corning, AT&T and General Electric become major players of the alliance game. But there is much ground to be covered.

U.S. business schools mirror their corporate counterparts strong desire for autonomy. This is accentuated by most leading schools being privately owned, success being measured by the response of Boards of Trustees and alumni to the individual institutions "bottom line" performance on revenues, enrollment, placement and rankings. European schools, on the other hand, are largely public and, at least in theory, better able to take an "across institution" perspective of changing educational needs.¹

The design of the business school curriculum in the United States has remained largely unaltered for the last thirty or so years. This inductive model of functional specialization has received much financial and intellectual investment and has become highly resistant to change. Conversely, the better European and Asian schools, without such long operational histories, have shown greater flexibility in adjusting to shifting market requirements.

1. Strong parallels appear to exist with the public/private dichotomy evident in other professions, such as law and medicine.

Finally, it is notoriously difficult to get academics to work together. Fierce independence, ego and the not-invented-here (NIH) syndrome are just some of the barriers that have slowed progress towards inter-institutional collaboration. However, innovative thinking must be employed to overcome these barriers to strategic alliance formation.

Strategic Alliance Alternatives

Lei and Slocum (1991), adopting a broad definition of the concept, identified three types of strategic alliances. These are licensing arrangements, joint ventures, and consortia. It would be illuminating to examine educational cooperation within this same framework.

Licensing

These represent the least sophisticated form of strategic alliance because the partners involved do not take an "equity" position in one another. In the case of service organizations like business schools what is being sold is access to distribution systems. Hence Beaver College uses facilities at London University and similar sites in other major capitals to create the "American Campus Abroad". Northeastern University offers a two-week intensive program in international business at ESC Reims (France) to its MBA students.

Licensing offers a number of benefits:

1. Establishes a fast market presence with relatively little direct investment.
2. Helps schools confront and outflank their domestic rivals through swift reaction to market trends (e.g., growth in internationalization)
3. Permits standardization and control of activities. A distinctive school image can thus be cultivated over time.

There are, however, pitfalls associated with licensing. Tight performance standards must be adhered to by licensees who must share their partners' philosophies and values. More seriously, while licensing expands geographic scope it allows only very limited access to external intellectual capabilities. The program offered, say, in Madrid remains largely the creation of the originating institution. The emphasis is on market rather than product development and must be seen as only the first tentative steps into collaborative venturing.

Joint Ventures

Unlike licensing agreements, joint ventures involve creating a new entity in which the originating partners take active roles in formulating strategy and making decisions. Lei and Slocum (1991) have categorized joint ventures as either specialized ventures or shared value-adding ventures. Although many academic alliances involve a combination of both, the distinction acts as a useful starting point.

Specialization ventures are those to which each partner brings and contributes a distinctive competency in a particular value-adding activity. The major goal is to seek access to a partner's accumulated learning, proprietary knowledge, and market position while shaping the basis for future competition in the industry. The result is a venture characterized by the division of labour. As views on the appropriate composition of a business program have shifted from a functional approach (the largely independent study of finance, marketing, manufacturing etc.,) toward an integrated, topical perspective (e.g., the management of innovation in a global economy) the need for institutional expertise sharing has clearly grown. Some examples show the breadth of possible collaboration.

1. Joint ventures formed inside institutions. This is no easy task as territorial disputes and philosophical differences often keep university departments apart. The Lauder Institute of Management and International Studies at the University of Pennsylvania appears to have overcome such barriers. The School of Arts and Sciences and the Wharton School have come together to build a program that "offers an innovative approach to international management education and includes: internationalized management courses; social science and humanity courses which focus on cultural understanding; advanced language training on the campus and abroad."

2. Joint ventures between academic institutions. The Graduate School of Business at Babson College, a leading US business school, is in the early stage of an agreement with the Lemberg Program in International Economics and Finance at Brandeis University, a highly regarded liberal arts college, to strengthen international business curricula at each of the schools and to enhance the export capabilities of New England's smaller high technology companies. Babson and Brandeis-located minutes apart in the western suburbs of Boston-have strongly complementary fields of expertise: Babson in applied

business education, and Brandeis in academic research in world trade and finance. This project will enable the schools to share resources that neither could afford alone, and to deliver more effective and more visible services to the New England business community. Similarly, Babson is involved in exploratory discussions with a leading engineering school with the aim of forging a joint venture to develop an integrated management/engineering program.

3. Joint ventures between academic institutions and corporations. An increasing number of business schools provide customized educational programs for corporations. Babson College, for instance, has made a long term commitment to Digital and New England Telephone for the development and delivery of company specific training. An extensive example of such collaboration in the UK is at Lancaster University, which has designed a tailored MBA program for British Airways. There is a strong interactive element to these ventures, with each side fully employing the other's core competencies -- business school faculty providing research, consulting and training expertise; corporations offering curriculum and governance guidance, course development materials, and funding. As these relationships deepen, they may change from simple contractual arrangements to bona fide strategic alliances.

In the shared value-adding ventures, partners participate and share in the value-adding activity together (e.g., both design and produce programs jointly). Participative and sharing types of ventures usually result when both parties have strong but related skills in the same value-added activity. European business schools are increasingly joining forces to build strong core MBA programs which are then experienced in two or more countries and/or two or more languages. Students at the Ecole Européenne des Affaires (EAP) must study for at least one semester at three of the following four locations before earning their European Master's in International Business: Oxford, Berlin, Paris, and Milan. A simpler form of collaboration would result from a number of schools pooling their resources to build the best possible international marketing course or graduate internship program. In each of these cases partners need to share and lower the costs of risky, resource intensive development projects and gain economies of scale and scope by spreading value-adding activities on as broad as possible a basis. It must be noted that despite the allure of alliances their track record

has not been exceptional. Day (1990) estimates that as many as seven out of ten commercial joint ventures have been judged to fall short of expectations or been disbanded. The reasons generally quoted for disappointment and frustration are equally evident for academic alliances. Four basic causes are cited.

The first problem is shifting strategic requirements. An alliance is based on shared power and a sensible division of tasks. If these shared relationships have to be continually altered as conditions change, or the market doesn't materialize as expected, the stress may be intolerable. SDA Bocconi, an Italian business school, has constantly changed the nature of its alliances with other business schools as its position shifted from a strong national program to a leading international institution. This has led to much consternation among its often erstwhile partners.

The second pitfall is a lack of clear decision-making responsibility, leading to conflicts over who is in control. Academics are notoriously weak at giving up control or establishing unambiguous areas of authority. Ambivalence quickly erodes trust between partners. Consequently, strategic alliances must be accorded high priority by top administrators who must ensure clarity of objectives and operating procedures.

A third class of problem stems from conflicts in objectives, cultures, and style of making decisions. While these should be dealt with early in the negotiations, they are often deferred. The cross-cultural challenges of working with, say, Finns or Italians are radically different as are the weltanschauung of engineering and business faculty. Conflict and divergent interests are especially likely when two institutions of different size and culture are allied.

Finally, there will be problems if long-term interest and commitment wanes on either side. Top administrators are often to blame, when they devote all their time to setting up the alliance and then devote little energy to monitoring it to be sure the expected benefits are being realized. Schools must be continually prepared to adjust the conditions of their agreements to fit prevailing circumstances.

Consortia

These are the most sophisticated form of strategic alliance. Such structures are designed to maximize all of the

benefits of joint ventures -- risk sharing, cost reduction, economies of scale -- while allowing for industry specialization. Commercial efforts to build such consortia in the United States (e.g., MCC, U.S. Memories) have largely spluttered because of the great difficulties involved in getting the firms to pool their resources into an integrative organizational design.²

Involvement of business schools in consortia remains embryonic although a few interesting examples have emerged of participation in high technology "incubators" (e.g., The Case [Computer Applications & Software Engineering] Center at Syracuse University). Here the business school joins with other academic institutions, research laboratories and industrial sponsors to assess the technical and market potential of innovative new products and accelerate their transfer to the marketplace. Such activities are much more prevalent and developed in parts of Europe and the Far East. For example, Finland runs a government funded venture capital organization (SITRA - the Finnish National Fund for Research and Development) that collaborates with universities and start-up companies to build a strong technical and market presence in select markets. Realistically, business schools will not be the lead players in such consortia as the critical success factor must rest with government encouragement and direction.

Conclusion

Business schools are under tremendous competitive pressures in a rapidly changing and expanding environment. Responding to such challenges requires the assumption of considerable risk and the investment of significant resources. Although the surrender of any autonomy and independence remains anathema to most academics, much more consideration must be given to the role of strategic alliances as a competitive tool that permits risk and cost sharing. The explosive surge in the number and types of strategic alliances formed between multinational corporations across many industries should be studied for their relevance to the field of business education. It is the premise of this paper that

²

This attitude may now be changing following the recent success of Sematech, a collaborative effort between the government and the nation's semiconductor manufacturers, to regain control of the industry from the Japanese.

there are many similarities that should encourage formation of more academic alliances.

One final point. Taucher (1988) states that "alliances should be treated as transitional arrangements, analogous to courtship that ultimately results in either marriage and the procreation of an autonomous entity, or breakup". If alliances have a limited life at best, is merger and acquisition a viable long-term option for business schools? It can be strongly argued that at least in the United States consolidation is urgently required as too many schools chase too few students. Strategic alliances could be one such "stepping stone" in this consolidation process

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MARKETING DIFFERENCES BETWEEN HIGH AND LOW PERFORMING FIRMS

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Abstract

As the pressure to cut costs and thereby increase profitability mounts, all aspects of a business will come under close scrutiny. Marketing managers will need to undertake a thorough analysis of their various activities to determine which to retain, which to reduce, and which to eliminate. In most cases, the activities which are shown to positively impact performance will be the ones which will be continued. This study investigated high and low performing firms in order to determine which marketing variables were associated with higher performance. It was found that market research and product quality were emphasized by high performers. The implications of these findings are discussed.

Introduction

The global recession of the past few years has only served to accelerate the attempts by many companies to improve their performance. As companies prune their overheads, switch to cheaper suppliers, shift production to lower-cost countries, and find other ways to "trim the fat", a careful scrutiny of their marketing programs is inevitable. This drive for a healthy corporate performance in what is an intensively competitive environment will ultimately mean that only those marketing efforts which have a proven positive impact on performance will be supported.

There have been some studies which have indicated that marketing mix variables have an impact on market share and ROI. Findings based on the PIMS data base have shown that investments in product quality and research and development are associated with higher market share and ROI (e.g., Buzzell, Gale, and Sultan 1975; Craig and Douglas 1982; Phillips, Chang, and Buzzell 1983). Others have suggested that there is a relationship between various marketing tactics and performance among U.S. firms (e.g., Buzzell and Wiersema 1981). In their analysis of the impact of marketing strategy on performance in groups of foreign markets, Fraser and Hite (1990) found that the nature of these relationships was different from those found in the U.S. There were also some differences among the foreign markets they studied.

This study seeks to identify the marketing variables which differentiate high performing firms from low performers and the results of this study may add to the body of information currently used by marketing decision-makers as they attempt to identify potentially successful strategies.

This paper begins with a review of some of the major findings regarding the relationship between marketing variables and firm performance. This is followed by a discussion of the specific research questions to be examined by this study. An empirical analysis of these questions is presented and the implications of the findings are discussed. Finally, some directions for future research are suggested.

Prior Research

Strategy and Performance

There has been a substantial body of research on the issue of the impact of strategy on performance. However, some of the results may change based on how performance is defined -- profitability and market share can be conflicting goals in the short-term, for example. Miles and Snow (1978) identified four strategy types (Defender, Prospector, Analyzer, Reactor) and suggested that with the exception of Reactors, none of the other three types was inherently a better performer. This assertion was supported by the findings of Snow and Hrebiniak's (1980) study but Hambrick (1983) found, in a study of Defenders and Prospectors, that there were performance differences between the two types in certain situations. Namiki (1989) investigated the impact of strategy on performance in export operations and found a significant relationship in that firms with a clear and consistent strategy outperformed the inconsistent ones. Aaby and Slater (1989), after reviewing previous studies on the issue, found that firms with an international vision, consistent export goals, and with a willingness to take risks were more likely to enjoy export success.

Porter (1980) distinguished three strategies (cost leadership, differentiation, focus), any of which if firms clearly followed would result in a higher performance than firms which were "stuck-in-the-middle". Some empirical studies (e.g., Dess and Davis 1984) have found support for Porter's contention.

While much of the early work investigating the determinants of performance focused on corporate or business unit strategy and not on functional areas such as marketing, recent work has begun to address the issue of the role of marketing in the implementation of business strategy. Walker and Ruekert (1987), for instance, reviewed the literature on strategy and suggested marketing policies and programs which would be appropriate for a given strategy which would distinguish high performers from less efficient firms. Namiki (1989), among others, has provided empirical support for the role of marketing by pointing out that a firm's export performance was a function of both its competitive strategy and its export marketing activities.

Marketing and Performance

Several studies have revealed the existence of a positive association between higher product quality and market share (Buzzell and Wiersema 1981; Douglas and Craig 1983; Jacobson and Aaker 1987). Jacobson and Aaker (1987) show that perceived product quality leads to higher share and prices, and has a direct impact on ROI. A focus on quality can also reduce costs (Young 1985).

The impact of other marketing variables on performance is more uncertain. Some studies report that R&D expenses are associated with reduced profitability (Craig and Douglas 1982) whereas others report that the relationship changes over the product's life cycle (Holak, Parry, and Song 1991). Koh (1991) found that a high export price (relative to the domestic price) led to a financially better export performance but Craig and Douglas (1982) found that relative prices did not affect

profitability in the U.S. The findings on the impact of sales force expenses on performance are inconsistent, with some studies reporting a positive relationship with domestic market share (Buzzell and Wiersema 1981) and others a neutral or negative relationship (Jacobson and Aaker 1985). Similar uncertainty exists regarding the strength and the direction of the relationship between advertising expenditure and performance with some researchers finding a positive association between advertising and market share (Lambin 1972), and others reporting neutral or negative relationships (Craig and Douglas 1982). Madsen (1989), in a study of Danish exporters found that export marketing policy had the largest impact on export performance.

Research Questions

As stated earlier, the purpose of this study is to add to the existing body of knowledge on the relationship between marketing variables and performance. Understanding this relationship is of particular importance in today's environment -- characterized by a heightened desire for profitable operations and the resulting elimination of all inefficient expenditures. While this study focuses on some of the marketing issues where previous research findings have been inconclusive and others which have not been specifically investigated before (e.g., the effectiveness of trade shows and POP material), it is an initial and exploratory effort.

Based on the preceding discussion, the major question which this research attempts to address is:

What are the marketing areas in which high and low performing firms are different from each other in terms of their emphasis, and in the importance they attach to these activities?

Research Methodology

Sample

A mailing list of approximately 2200 names was obtained from a commercial list broker. These were marketing officers/marketing directors from firms across the U.S. with annual sales over \$10 million. A mail questionnaire was sent to 1000 names on this list at random, along with a self-addressed, reply-paid envelope. This questionnaire was pre-tested on a convenience sample of eight executives in the consumer electronics industry to assess clarity and readability and to ensure that the questionnaire items tapped issues of importance to the firms. A total of 160 responses were received, of which 143 were deemed usable, thus providing a usable response rate of 14.3% which was comparable with similar efforts.

Constructs and Measures

Performance has been defined and measured in many different ways in previous studies. Given the fact that it is indeed a multi-dimensional construct, this seems appropriate. This study draws upon the work of Walker and Ruekert (1987) who identified three performance dimensions -- effectiveness, efficiency, and adaptability. For the purposes of this study, two of the dimensions identified by Walker and Ruekert (1987) were used and were measured as suggested in their paper; 1) effectiveness, measured by the percentage change in market share over the previous 3 years, and 2) efficiency, measured by the average percentage return on investment

(ROI) over the previous 3 years.

A firm's marketing activity was measured by items asking respondents to indicate their company's expenses relative to their primary competitor in each of the following areas: advertising, sales training, market research, customer information systems, trade shows, sales force (salaries/expenses), product quality, point-of-purchase material, new product development, and packaging. Each item was measured on a 5-point scale anchored by (1) "substantially less" and (5) "substantially more".

Analytical Techniques

In the absence of any universally accepted cut-off for differentiating between high and low performers in terms of market share growth and ROI, firms in the bottom third of the sample for each performance measure were categorized as low performers and those in the top third as high performers. This categorization resulted in the low performers being defined as firms with a share growth of 3% or less and a ROI of 8% or less, and high performers as firms with a 13% or more share growth and an average ROI of 18% or greater. Discriminant analysis was then used to identify those marketing variables on which the two groups were different.

Results

Tables 1 and 2 provide the means and standard deviations for the marketing variables of interest for the overall sample and for each of the two groups categorized by each performance measure.

TABLE 1
DESCRIPTIVE STATISTICS: OVERALL SAMPLE

Variable	Mean	Standard Deviation
I. Performance Measures		
Market Share Growth	8.76	6.38
Return on Investment	11.66	5.62
II. Marketing Measures		
Advertising	2.69	1.32
Sales Training	3.19	1.15
Market Research	3.06	1.06
Customer Information System	3.28	1.09
Trade Shows	2.70	1.21
Sales Force	3.35	1.07
Product Quality	3.72	1.04
Point-of-Purchase	2.90	.94
New Product Development	3.17	1.16
Packaging	2.99	1.05

TABLE 2
ITEM MEANS: HIGH AND LOW PERFORMERS

Variable	Market Share		ROI	
	High (n=40)	Low (n=51)	High (n=37)	Low (n=54)
Advertising	2.88	2.58	2.95	2.53
Sales Training	3.35	3.00	3.36	3.05
Market Research	3.30	2.84	3.33	2.80
Customer Information System	3.31	3.28	3.21	3.03
Trade Shows	2.88	2.44	2.59	2.68
Sales Force	3.34	3.12	3.31	3.35
Product Quality	3.78	3.44	4.11	3.48
Point-of-Purchase	2.95	2.85	3.19	2.74
New Product Development	3.33	3.09	3.46	2.88
Packaging	3.33	2.93	3.24	2.91

Table 3 presents the results of the discriminant analysis using market share growth as the basis of categorization into high and low performers. From these results, it appears that the two groups are different (Chi-square=17.6, $p < .06$). The magnitude of the standardized discriminant coefficients and the univariate F values indicate that the high performers (in terms of share growth) emphasize market research, product quality, trade shows, and packaging significantly more than the low performers do. The results also indicate that 67.7% of the cases were correctly classified, thereby attesting to the accuracy of the discriminant function.

TABLE 3
VARIABLES DISCRIMINATING BETWEEN
HIGH AND LOW SHARE GROWTH PERFORMERS

Variable	Standardized Coefficient	F	P
Advertising	-.10	2.14	.15
Sales Training	-.09	1.97	.16
Market Research	.81	6.68	.01
Information System	-.76	.09	.76
Trade Shows	.45	4.48	.04
Sales Force	.20	1.36	.25
Product Quality	.51	2.83	.09
Point-of-Purchase	-.21	.44	.51
New Product Development	-.05	.35	.55
Packaging	.33	3.88	.05

Discriminant Function Statistics

Chi-Square: 17.60
d.f. : 10
Significance Level: .06
Canonical Correlation: .42
Cases Correctly Classified: 67.7%

Table 4 presents the results of the discriminant analysis where the sample was categorized as high or low performers based on their average ROI over the previous 3 years. This function has a chi-square of 20.53 ($p < .02$) with a ratio of 70.97% of the cases being correctly classified. The two groups are significantly different (based on the univariate F values) in the importance they attach to four marketing variables: market research, product quality, new product development, and point-of-purchase advertising material. In each case, the high ROI group emphasize these activities more than the low ROI performers.

TABLE 4
VARIABLES DISCRIMINATING BETWEEN
HIGH AND LOW ROI PERFORMERS

Variable	Standardized Coefficient	F	P
Advertising	.07	2.76	.10
Sales Training	-.05	1.79	.18
Market Research	.53	7.32	.01
Customer Information System	-.34	.58	.45
Trade Shows	-.30	.32	.57
Sales Force	-.29	.03	.87
Product Quality	.61	11.69	.00
Point-of-Purchase	.43	5.93	.02
New Product Development	.23	6.12	.02
Packaging	-.07	2.13	.15

Discriminant Function Statistics

Chi-Square: 20.53
d.f. : 10
Significance Level: .02
Canonical Correlation: .46
Cases Correctly Classified: 70.9%

Discussion

From the above analysis it seems quite clear that certain marketing variables are associated with high performance. The results point fairly

strongly to the benefits of higher expenditures (relative to competition) in market research and product quality, areas which were associated with both high share growth and high average ROI. The finding regarding product quality lends support to the findings of other studies based on the PIMS data which have indicated that high product quality is a predictor of high ROI. Proponents of a product differentiation strategy have argued that product quality can lead to perceived product differentiation and, as a result, brand loyalty and market share gains. The market share benefits of market research spending have been well documented but it appears that market research, while an expense, may be a long-term investment since it is also associated with high ROI.

The association between new product development spending and high ROI, if duplicated in future studies, will come as welcome vindication for the proponents of new product development programs. Anecdotal evidence from companies such as Compaq (Business Week, November 2, 1992) suggests that R & D expenses are all too often the target of budgetary cuts by companies seeking to improve their profit performance, probably because they are seen as investments with uncertain future payoffs. If the findings of this study are an indication, the payoff may not be as uncertain as some managers believe. The association between point-of-purchase spending and a high ROI is difficult to explain because it seems like a marketing tactic whose primary impact, if any, would be on market share.

Trade shows are of immense value to firms, particularly industrial marketers, as a means of generating sales leads and demonstrating the product. The presence of such firms in the sample may explain the association between trade show spending and market share growth. Packaging has value, for consumer products particularly, as a means of differentiation and this benefit often results in share gains for some products.

Conclusions

While the results of this exploratory study offer some useful insights for managers interested in assessing the performance impact of certain marketing efforts, the findings need to be interpreted with care. The results only indicate association, not causality. In addition, since the analysis is based on a convenience sample, the results must be regarded as preliminary. Also, future studies will need to control for other, non-marketing, correlates of high share growth and high ROI. For instance, high share growth performers may be larger firms who "buy" market share by out-spending their rivals in marketing expenditure and high ROI can result from cost-cutting and downsizing programs. While this study relied on the respondents' knowledge about their competitors' relative marketing expenditures, the accuracy of this information may need to be validated through other sources. Future studies should also measure the marketing variables of interest using multiple items, thereby improving measurement validity and reliability. However, given the goal of this research of adding to the existing knowledge base regarding the association between marketing efforts and performance, the findings are of value. As managers continue to attempt to isolate the marketing activities which "work", studies such as this will help them make better and more accurate decisions.

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MACROMARKETING

AWAKENING THE SLEEPING GIANT: MARKET ORIENTED
REFORMS IN BRAZIL

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Abstract

The 1990s are seeing a business revolution taking place south of the Rio Grande border (Baker et al. 1992). Latin American countries are making strong efforts to recuperate the ground lost in the 1980s, the "lost decade." The inward economic growth model pursued by these countries show clear signs of exhaustion in the 1980s, with Latin American economies lagging behind South East Asian tigers.

The Initiative for the Americas and the prospect of a North American Free Trade Area (NAFTA) have largely contributed to renewed hopes of Latin American countries that growth and development are again at arm's length. The Initiative for the Americas has also raised expectations among other Latin American countries about a "domino effect," i.e., a free trade area agreement being extended to the remaining Latin American countries (Federal Reserve Bank of Dallas 1991).

These developments have raised increasing interest in market driven solutions to move economies away from economic stagnation. This renewed interest in market-driven forces is exhibited by privatization efforts, trade liberalization policies, and policies aimed at attracting foreign direct investment (Dupas and Suzigan 1991).

Brazil is following this modernization trend by dismantling much of its protectionist apparatus and is embarking on market driven reforms. This paper will discuss the current market driven reforms being implemented in Brazil and prospects for further internationalization of the Brazilian economy.

From ISI to Market Driven Forces

The Brazilian economy has been protected from external competition for several decades. The 1990s impose the challenge of an alternative modus operandi: the insertion of the Brazilian economy in the global economy. Efforts in this direction are taking shape in the early 1990s. Moving the Brazilian economy towards a market economy is shaking the foundations and challenging habits well established in the land of the "sleeping giant."

Strategies and policies aimed at breaking the vicious import-substitution habits are being orchestrated under the umbrella of an industrial policy. After several attempts in the second half of the 1980s to implement an industrial policy, such as COPAG and I/PND/NR (see Braga 1989), the Brazilian government in the early 1990s introduced a new industrial policy: In-

dustrial Policy and Foreign Trade - PICE (DIC 1991a).

The need for a new economic design for the Brazilian economy was the result of a lack of explicit long-term goals for the economy, coupled with strict trade policies, a stabilization crisis, an exhaustion of the import substitution model, a lack of stimulus for private sector investments, and decreased investment in R&D. All these factors led the Brazilian economy to show mediocre growth rates in the 1980s.

The new industrial policy design being promoted by the Industrial Policy and Foreign Trade (DIC 1991a) intends to "promote higher levels of efficiency and commercialization of goods and services, by modernizing and restructuring the economy" (DIC 1991). This proposed technological deepening would promote improvements in the quality of Brazilian products, improvements in productivity, and improvements towards overall industrial modernization. Furthermore, diffusion of technology would promote the establishment of modern structures of production.

These economic reforms are supported by a positive correlation between the growth of productivity and the growth of output, and measures taken towards further economic reforms that encompass trade liberalization strategies. As a result of X-efficiencies, domestic efficiency can be promoted and reduce domestic costs of production. And third, policies that induce the dissemination of technical advances and breakthroughs via importation of imported capital and intermediate goods can also contribute to economic growth and development (Bonelli 1991a).

Removing Business Hurdles

In the 1990s, industrial policies have received a great deal of attention by the developed and the newly industrialized countries. The central focus of attention has been the redesign of the role of the State in the economy, after increased questioning about the role government should play in the economy.

Industrial policy guided by policy-makers with a self-righteous attitude has proved in the Brazilian case to be quite misleading. For instance, the industrial policies pursued by CA-CEX, the trade agency of the Banco do Brasil, have proven very costly to a large segment of the Brazilian economy.

The Collor government has placed a high priority on the modernization of the Brazilian industrial parks and on foreign trade. These two areas are

the basis for the structural changes that the government is pursuing. The understanding that the Brazilian economy is in need of new economic growth paradigms is the major motivation for the structural changes being advocated by the Collor government. Thus, new forms of state intervention, such as financing, technological deepening, efforts in R&D assimilation and diffusion, and efforts to upgrade the quality of Brazilian products are all objectives of these structural changes.

A current analysis of the Brazilian economy points up the current bottlenecks experienced by the Brazilian economy as a direct result of policies implemented in the 1970s and 1980s. High levels of protection to domestic producers, the ever increasing and indiscriminate participation of the Brazilian government in the economy, and high levels of incentives and subsidies, caused losses of productivity experienced by the Brazilian economy in the 1980s.

Thus, according to the general guidelines the new Brazilian Industrial Policy will target two goals:

- a) industrial and commercial modernization, to achieve an increased overall in productivity, following world class quality standards.
- b) implementation of modern production and consumption structures of goods and services, and the diffusion of new technological standards.

The implementation of the Brazilian Industrial Policy and Foreign Trade Policies demand a new institutional framework quite different from the one which existed until recently (Rattner 1990). In order to achieve these objectives, the Brazilian government has devised, as mentioned by Erber (1991), the carrot and stick policy, i.e., a combination on one hand of instruments of pressure leading to higher levels of competitiveness and on the other hand the creation of a favorable domestic environment which will allow Brazilian firms to be more competitive and productive.

With these goals in mind the following strategies have been devised and are being implemented:

- a) tariff reform and the elimination of subsidies and incentives;
- b) competitive restructuring of the industry, through credit lines and an upgrade of the Brazilian technological infrastructure;
- c) development of new sectors and strengthening of those sectors which show internationally competitive potential;
- d) planned exposure of the Brazilian economy to international competition, progressive improvement of the quality of goods and services, and an increase in competition in these segments of the industry that show a high degree of oligopolization;

- e) improvements in the technological capacity of Brazilian firms where technological capacity is being understood as the ability to select, absorb, improve or develop know-why. Selective tariff protection of the high-tech segments of the Brazilian economy will be used towards this purpose.

Moving Towards a Market Economy

The Brazilian Industrial Policy reforms are being designed on two fronts: domestic and external.

On the domestic side the structural reforms involved in the Industrial Policy assign a much lower level of intervention by the Brazilian State. Among several measures that reaffirm the increasing role of markets in the Brazilian economy, the privatization program is the most noticeable one.

(a) Privatization

The Brazilian privatization program has been designed to redefine the role of the state in the Brazilian economy, divorcing the state from its role as entrepreneur, instead emphasizing the state's role as an inducer of development and as a rule maker. As stated by the National Development Bank (BNDES 1992): 'Making it [the state] lighter, more dynamic, and to give priority to typical government activities in areas such as health, education and housing.'

BNDES itself is the target of major changes in this new economic design. BNDES no longer sets rules for the economy, and does not intervene as it did in the past.

As of May of 1992 the Brazilian privatization program has been effective in reducing the Brazilian internal and external debt by US\$ 3 billion or 0.75% of the Brazilian GDP. In addition, 25,000 direct jobs and 125,000 indirect jobs have been transferred from the government to the private sector. Between 1991 and 1992, nine companies were sold. It is expected that by August 1992 four more will have been auctioned. Another eight SOEs have had their technical appraisal completed by May 1992. In all, eleven SOEs will have been privatized by the end of 1992: Enasa, CST, Alcalis, Nitriflex, Fosfertil, PPH, Polisul, Acesita, Ultrafertil, Petroquimica Uniao, and Arafertil.

In 1992, the Brazilian privatization program also introduced changes in the level of participation of foreign capital in privatization projects. The participation of foreign capital is limited to 40% of voting capital, but is without limit for non-voting capital. Other changes include a reduction in the amount of time that capital must stay in Brazil from 12 years to 6 years. The restrictions on sales of shares

after two years were eliminated as well as restrictions on the remittance of profits and dividends after only two years (BNDES 1992).

(b) Trade Liberalization

On the external side a number of reforms have been devised, such as: trade liberalization, modifications in the law of informatics, changes in the legislation concerning foreign direct investment (FDI), and a new Industrial and Property Law.

The need for trade reforms became undeniably apparent in the early 1990s. Protectionist measures implemented in the 1970s and 1980s, like the law of similars, compromised Brazilian products' external competitiveness. In this vein, it is important to open the economy in order to benefit from new technologies to keep segments of the Brazilian industry competitive in the world markets. In addition, it became readily apparent to Brazilian policy-makers in the late 1980s that the gap between the Brazilian economy and the South East Asian economies had widened considerably in the 1980s. Moreover, the Brazilian economy was also experiencing lower levels of insertion in the global economy (Valls Pereira 1992). These perceptions led the Collor government to implement a number of trade reforms in 1992.

Several measures were taken by the current administration to facilitate imports and exports. On February 18, 1992, the Collor government introduced a number of modifications in Brazilian trade regimes and policies aimed at facilitating and expediting foreign trade transactions.

A) Tariff Reduction: the government chose to reschedule the tariff reduction from January 1, 1993, to October 1, 1992. The reduction will cover 13,000 items, which will have an average reduction in tariffs from 21.2% to 17.3%. Further reductions to 14.2% are also anticipated to July 1993. Some sectors like informatics and microelectronics, however, will face maximum tariffs of 35% by January 1, 1994, the highest observed in 1994.

B) SISCOMEX: One important component of these measures is the SISCOMEX (Sistema Integrado de Comercio Exterior), that will integrate, via computers, the several agencies that are involved in foreign trade operations: Coordenadoria Tecnica de Intercambio Comercial (CTIC), Decex, Bacen and DRF. The "Alice" system is in the process of being enlarged to include information on the Merconsul (Ferrari 1992).

C) Trading Companies (TC): In May 1992, the Government introduced changes allowing trading companies to engage in drawback operations such as the verde-amarelo. According to the old

legislation, only the manufacturing sector could operate drawback transactions. This was a five year demand by the Brazilian trading companies. This measure will invigorate the role played by TCs in expanding trade (Carvalho 1992).

(c) Informatics

Several modifications have been made in the law of informatics (Evans 1986; Tigre 1991). Up to October 1992, 42 products will still need previous approval by the Technology & Science Secretariat. After October 1992, tariffs will be the only import barriers. The 8.248 Law also provides a number of incentives for the industry. For instance, firms in the informatics industry will be allowed to deduct up to 50% of income taxes of the value spent on R&D. And in a recent development, joint-ventures between Brazilian and foreign firms are also taking place, such as Digital with Microtec and IBM with Villares.

The new software law eliminates the restrictions on foreign firms to market and distribute foreign software in Brazil. The new software law also proposes the elimination of the exam of similarity.

(d) Foreign Direct Investment

Foreign investment will be an important element in helping to reestablish historic rates of investment, to increase Brazilian trade, and to facilitate access to technology. In this respect, the Brazilian government will promote a higher degree of involvement of foreign capital in R&D activities in Brazil. The Program to Upgrade the Technological Capacity of the Industry (PACTI) mentions that transnational companies (TNCs) would be stimulated to do research and development (R&D) in Brazil, possible with the collaboration of Brazilian universities and technological center (DIC 1991b, p. 12). The Program for Industrial Competitiveness (DIC 1991c) stipulates that modifications in the treatment of foreign capital will be proposed by a working group on foreign investment, coordinated by the National Secretariat of Economics.

TNCs from the first time in 40 years will also be allowed to benefit from the financial operations of the National Development Bank (PIC, p.11). BNDES has already approved 14 projects out of 30 submitted by TNCs. The resources available to finance TNCs' projects will come from lines of credit supplied by international organizations such as the IDB and IRDB. As of January 1992, BNDES had US\$ 330 million available to finance such projects. According to Erber (1991, p. 309), there are proposals to eliminate the distinctions between Brazilian and foreign firms that favor the former in terms of government procurement policies and in terms of industrial policies and technological projects and programs.

(e) Patents and Trademarks

For foreign direct investment to increase, changes in the laws regarding patents and trademarks is imperative to protect all investment. Therefore the New Industrial Property Law is an important component in the external design of the Brazilian Industrial Policy. According to Law No. 5772 of 1971, copies of products and processes are not currently considered piracy by the Brazilian government. The New Industrial Law will reverse this approach, securing protection for processes and products in the pharmaceutical industry.

According to Lopes (1992), the main focus and polemic of this law is to define what can or cannot be patented. Thus, processes and products that are now not protected by patents in the Brazilian economy, such as chemicals and pharmaceuticals, could be under this new law. This is treated in Article 18 of the Industrial Property Law.

The new law has provisions for the protection of trademarks as well. According to Article 124: "A mark registered in Brazil and regarded as a well known mark will be assured special protection in all marketing segments to prevent the registration of another mark reproducing or imitating it, in whole or in part..." And Article 132 states that: "The owner of a widely known mark that is registered abroad will be entitled to precedence in registration."

Technological Bottlenecks

In the early 1990s, several segments of Brazilian industry have been showing signs of technological backwardness resulting in low levels of quality and productivity in the Brazilian private sector due mainly to high levels of protection.

The FIESP (1990) survey, Manufatura de Classe Mundial no Brasil, comments on the state of the art of Brazilian industry. The results of the survey are grim. According to this survey, only 10% of Brazilian firms are operating at levels compatible with world class manufacturing. For example, the results of the survey point out that on average, Brazilian firms show 25,700 defective parts per million, while the world class standard is 200 parts per million.

Another important dimension of the survey is an analysis of the state of manufacturing techniques and methods being used by Brazilian industry. According to the survey, only 3% of Brazilian firms use the Taguchi methods, 6% use CAD (Computer Aided Design), 4% use CAE (Computer Aided Engineering) methods, 5% use CAPP (Computer Aided Process Planning), 8% use WCDP (Work Cell Device Programming), 2% use some form of robot technology, and only 7% use Programmable Logic Controllers. The survey also states that

few Brazilian firms are establishing the technological foundations necessary to compete in the year 2000 (Haguenaer 1991).

Future Challenges

The Brazilian economy, like most other Latin American economies, is at a turning point in the early 1990s. There is a widely recognized need to leave old habits behind and move towards a market economy paradigm. In spite of the recent implemented changes, the Brazilian economy still faces a number of uncertainties. The nature of these uncertainties is twofold: external and internal.

On the external side, the liberalization policies implemented by Brazilian policy-makers are based on expectations that the Brazilian economy will be able to insert itself in the global economy. In other words, that there will not be a resurgence of protectionism in the world markets. Second, that the Initiative for the Americas will not only be rhetorical but rather a firm commitment to liberalize and induce Latin American economies to further modernize their economies. In this sense, the "domino effect," i.e., an extension of the NAFTA to other Latin American economies, will have a decisive impact in securing a stable transition to market driven economies.

On the internal side, there are also many challenges facing the current reforms. First, one of the challenges of this new paradigm is the reassessment of the role of the Brazilian state, i.e., what role the Brazilian state should play in the 1990s. The PICE assigns a demand role to the Brazilian state, where the State uses procurement policies to pursue industrial policy goals. This is a major departure from the past, when the State was primarily a supplier of inputs and services. So far, one can still find contradictions in the guidelines of this paradigm leading one to believe that not all segments of the State apparatus have been convinced that the new approach is the one that offers the most feasible approach to solve Brazilian business environment bottlenecks.

Second, there are also contradictions as to what type of growth model should be pursued. On one hand, increasing specialization of the Brazilian economy is being proposed; on the other hand, establishment of new industries is also being proposed. How can we reconcile both models? The industrial policy calls for the establishment of dynamic industries such as biotechnology and microelectronics. These dynamic industries would boost the competitiveness of currently competitive industries. In this way, this model assumes that these Brazilian industries will remain competitive in the long-run. Moreover, most of the industries that are currently competitive internationally derived most of their competitive advantage from natural resources,

cheap labor and export promotion policies. This "competitive tripod" is a very unstable competitive mix in the 1990s.

Fine chemicals is also one of the high-tech industries targeted by the industrial policy. The feasibility of this proposal faces, however, a number of constraints. For instance, first the R&D efforts by the Brazilian pharmaceutical industry are largely restricted to chemical analysis: research aimed at finding suitable products that can be copied, and research to evaluate the feasibility of utilizing medicinal plants. Brazilian firms in the sector lack the economic might to follow the path of MNCs in the industry. And second, the Brazilian pharmaceutical industry suffers a lack of alternatives of growth and development to circumvent the high costs of developing new products and processes. The development of a new product technology costs on average US\$ 230 million in a period of ten years. The largest Brazilian laboratory made in total sales US\$ 120 million, the second largest US\$ 26 million (Moura 1992).

This state of affairs is further aggravated by a constant reduction on research funds. The National Council for Research and Development (CNPq) and Financing Agency for Research and Projects (FINEP) have faced constant reductions in their budgets for the past fifteen years. For instance, the National Fund for Scientific Development has been reduced by 88% in the past fifteen years, from US\$ 250 million in 1975 to US\$ 30 million in 1990. Moreover, the lack of trained personnel to advise Brazilian firms how to upgrade the quality of their goods is also imposing further obstacles.

In sum, the Brazilian industrial policy is rich in contradictions between its strategies and policies. The top-bottom approach, where the State picks winners, restructures industries, and decides for the private sector the best course to be taken, may prove to be extremely costly for Brazilian society. The surveys covered in the section on technological bottlenecks point to less emphasis on incentives and structural guidance, rather proposing ways of improving Brazilian production and productivity levels. Along these lines expenditures on education have also been extremely limited, further aggravating the state of affairs of the Brazilian strategy.

Final Comments

In the early 1990s Latin American countries are undertaking major structural changes in their economies. The economic liberalization policies implemented will open numerous opportunities for U.S. companies. Brazil is following the trend of removing business barriers that have been isolating the Brazilian economy from the global economy. The conjunctural and structural changes being implemented by the Collor government will have dramatic impacts on the way Brazil

competes in the world economy. As a result of these recent changes in the business environment, Brazil may be able to repeat in the 1990s the high growth rates experienced in the early 1970s.

It is important to remember, however, that economic liberalization in Latin American countries will be largely influenced by the external business environment these countries are facing. During the transition period they will need assurances from economies like the U.S. that these reforms will be followed by reciprocal movements. The Initiative for the Americas, thus, will play a vital role in keeping the flame of economic liberalization alive in Latin America. Latin American countries, like Brazil, more than ever need the economic leadership that the U.S. economy can provide.

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Research in Progress

WASTES EXCHANGES: MARKETING INTERMEDIARIES BRIDGING THE GAP BETWEEN ECONOMIC DEVELOPMENT AND THE NATURAL ENVIRONMENT

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A two-pronged problem faced by developing economies, particularly those of Central and Eastern European, is building an economic infrastructure based on free-market principles to rejuvenate their fractured economies while simultaneously upgrading many of their practices in mining, agriculture, manufacturing, forestry, energy generation and transportation to reverse the rate of degradation of their natural environments.

Material/technology exchanges (known as waste exchanges today) are investigated in regard to their potential as intermediaries enhancing economic development while also playing a vital role in attaining and maintaining a delicate balance with the natural environment. Economic development without a sustainable biosphere is not possible.

Material/technology exchanges (MTEs) in the U.S. and Western Europe are used primarily as passive information catalysts between waste generators and purchasers of raw materials. There's potential for a much broader range of activities for WTEs in developing economies as they build their economic infrastructures. Their greatest potential is in regions with diverse, high density, industrial operations. The functions of any particular WTE depends on the character of local economic waste streams and natural environment conditions.

WTEs will evolve overtime paralleling development of their economies; beginning as simple brokers they will add a variety bases connected to national and even global waste networks and professional education and training as rules and regulations regarding waste become evermore stringent. For small quantity generators they also have the potential of aggregating, classifying, and assorting materials for further processing and distribution.

WTEs are viewed as an institution that can aid in achieving the goal of sustainable development.

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THE PRICE OF PEACE:

Adjustment Strategies for Reductions in Defense Spending in the United States

by

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I. INTRODUCTION

All wars command a great many people and resources, affecting the nature and structure of the economies of the countries involved. The conclusions of wars free these quantities of people and resources for other uses, again affecting the nature, structure and growth of the economies of their countries. Such was the case after World War II and such has been the case in the aftermath of the Cold War.

It is by now widely accepted that the Cold War was won by the U.S. in 1989. In eastern Europe, this bewildering and tumultuous ending has been followed by an equally historic process of economic and political democratization, which might take a few decades to fully materialize. This change has been so rapid and unexpected that it has caught many policy makers and analysts, wedded to more than forty years of cold war ideology, by surprise. Others see this change as the beginning of a "new spring of nations," a "new world concert," or even "the end of history" (see Fukuyama 1992 and Shama 1992a).

In the United States, the end of the Cold War has brought about planned and actual reductions in the defense budget, as well as concern about the overall effects of such reductions and their implications for employment and economic well-being in the different regions and states of the Union. For example, the Administration's 1992-1997 budget reflects a total of 19.9 percent real reduction in the defense budget over these five years. As a result, by 1997 defense spending is projected to constitute 3.6 percent of the gross national product, compared to 6.4 percent a decade earlier -- a reduction of 43 percent! (See *Budget of the United States, FY93-FY97*).

Reductions in the defense budget mean unemployment and reduced economic growth, affecting different parts of the country differently. A recent study by the Congressional Budget Office (CBO), *The Economic Effects of Reduced Defense Spending* (February 1992), suggests that while cutting the defense budget will reduce the U.S. GNP by only 0.7 percent by the mid-1990's, the gross state product (GSP) of eight states and the district of Columbia will shrink by up to 2.6%. While these figures may seem small, they translate into large sums of money and many jobs. For example, a 0.7 percent reduction of the U.S. GNP translates into a M\$326.389 decline in GNP and 822,400 lost jobs.

Other analyses of the unemployment effects of cuts in defense spending portray a similar picture. The Defense Budget Project estimates that between FY92 and FY97, a total of 900 thousand jobs will be cut as a result of projected reductions in the defense budget. According to Meckstroth (1992), "Over the four year period 1990 to 1994, the private economy is expected to lose a total of 650,000 jobs" as well as an annual reduction of 119,000 in the defense work force (active duty military plus DOD civilians).

An even more serious picture emerges when the effects of the defense budget reductions on industry are measured. The CBO study estimates that curtailed defense orders will reduce the tank and tank components industry by 17 percent, the shipbuilding and repair industry by 6 percent, the communications equipment industry by 3 percent, and the aircraft industry by 1 percent. A more focused industry-by-industry study (Meckstroth, 1992) reports that the sectors of metals, nonelectrical machinery, and electrical machinery, as well as transportation equipment catering to defense, will lose proportionately more jobs than will the sectors of chemicals, rubber and plastic. Again, while these numbers may seem small, they translate into reduced sales ranging from 5 percent to 50

percent in the industries most affected. Furthermore, when the impact of cuts in the defense budget is examined by region and industry combined, some locations pay a heavy price for peace. For example, a recent study of the impact of the defense budget suggests that the cost of peace to Los Angeles may be as high as 420,000 jobs and \$84.6 billion in reduced personal income by 1995.

Finally, if one assumes progressively larger reductions in the defense budget, as some policymakers seem to wish, the ensuing impact becomes progressively more serious. The goals of this paper are to answer the following questions:

- 1) How many jobs and how much income will each state lose when the Administration's plan is implemented?
- 2) How many jobs, and how much, will be lost if the Administration's plan is roughly doubled if DOE defense expenditures shrink by a total of 14.39% by 1997?
- 3) What strategies can the U.S., the states, and affected industries use to exploit their new realities?

II. METHODOLOGY

To address these questions, I pursued two scenarios:

Budget Item	Administration cuts FY93-FY97 in %s	"Doubling" Administration cuts, FY93-97 in %s
Military Personnel	- 19.22	-40.00
Operations and Maintenance	- 18.58	-40.00
Procurement	- 29.38	-50.00
RDT&E	- 14.39	-30.00
DOE Defense Programs	+ 4.89	-14.39

Baseline data on the size of the economy in each of the fifty states and the District of Columbia, and on the importance of defense spending on payroll, operations and maintenance, procurement, research development testing and evaluation by state, were gathered from the U.S. Department of Commerce, from the DOD Atlas/Data Abstract for the U.S., and from the Department of Energy (DOE). It should be noted here that the only DOE items included in this study are those regarded by DOE as defense spending.

To analyze the economic impact of the Bush Administration's proposed FY93-FY97 defense cuts by employment and also state gross product and state personal income, which are not reported here, baseline data were projected to the proposed budget of the United States FY93-FY97.

The rationale for using the "Administration Plan" and "Double the Administration Plan", is that the Administration plan is likely to reflect the minimum acceptable cuts in defense spending, while doubling the cuts of the Administration plan reflects very aggressive reductions in defense spending. More specifically, while presidential candidate and present President George Bush plans to cut the defense budget by 19.96 percent by 1997, presidential candidate Bill Clinton plans to cut it by 30 percent during the same period, and many senators and representatives advocate reducing it by as much as 50 percent over the same time. Whether the future will conform with the Administration plan, twice the Administration plan, or something in between, the findings of this study give the reader information about what might happen to the economy of the United States and to the economy of each of the fifty states and the District of Columbia as a result of such reductions in defense spending. Finally, I doubled the number of jobs lost in defense to reflect their ripple effects.

III. FINDINGS

So, what is the price of peace? Peace will cost the United States up to 4.38 million jobs and \$261.394 billion in lost income by 1997. This represents a 50% increase in today's unemployment, driving the number of unemployed from 9.5 to 13.93 million Americans, and reducing the U.S. standard of living significantly.

THE PRICE OF PEACE

	Jobs lost	Income lost in \$billions
<i>The Administration plan</i>		
Direct cost	1,044,026	61.148
Total cost (direct cost x 2)	2,088,052	122.296
<i>"Doubling" the Administration plan</i>		
Direct cost	2,188,051	130.697
Total cost (direct x 2)	4,376,102	261.394

However, the planned reductions in defense spending will not affect all states and industries equally. The ten states expected to lose the most jobs are California, Texas, Virginia, Florida, New York, Pennsylvania, Georgia, North Carolina, Maryland and Ohio. The ten states expected to lose the fewest jobs are Vermont, Wyoming, Idaho, New Hampshire, Montana, Delaware, South Dakota, Nevada, West Virginia and Rhode Island. Tables A and B show detailed state-by-state direct and total job losses under the two scenarios. At the same time, when cuts in defense spending are measured in relation to the size of the economy of a state, the ten most affected states are Virginia, Colorado, Missouri, New Mexico, Arizona, Hawaii, Massachusetts, Maryland the District of Columbia, and Mississippi.

IV. ADJUSTMENT STRATEGIES

The high cost of peace may be avoided if the U.S. and affected states and industries treat the post-cold-war era as an opportunity for growth and rejuvenation, and capitalize on such an opportunity by developing and implementing strategies in a businesslike manner.

Basic to all national, state and industry strategies to adapt to and exploit this new situation is the realization that the end of the Cold War has drastically changed both the environment and the game played.

On the national level, the mission to remove the communist threat of the former Eastern Bloc countries has been accomplished. A new mission must now be carefully developed and implemented in the decade ahead. Two diametrically opposed alternatives are:

- **Invest in deficit reductions**, i.e., use the reductions in the defense budget to reduce the approximately \$400 billion deficit in the national budget.
- **Invest in national economic competitiveness**, i.e., invest defense budget reductions in social and economic growth programs geared to increasing the economic competitiveness of the U.S.

As might be expected, these options have different short and long-term effects. In the short term, investing savings from defense spending in reducing the deficit will increase unemployment and reduce the GNP; in the long term, such action will increase national savings and investment and stimulate economic growth. On the other hand, in the short term, investing savings from defense spending in national competitiveness will not reduce the deficit but will reduce unemployment and increase the GNP; in the longer term it may result in greater economic growth and in a stronger U.S. position on the global economic map. Choosing between the two options requires a careful identification and match of global opportunities with the national goals sought by this country's leaders. For example, it has been suggested that the U.S. should develop a more competitive economic posture and use the national laboratories as the champions of its industrial policy. However, a conversion from guns to butter may be a tall order for the national laboratories. Conscious choice of a national mission and implementation strategies, based on a careful and systematic analysis, must be made or action will be dictated by the circumstances of the moment.

Indeed, if politics is the authoritative allocation of resources, how to reallocate savings from defense spending is politics in the making.

On the state level, affected states have two complementary strategies available to adapt to the new situation:

- **Diversify**, i.e., look at reductions in defense spending as an opportunity to change a state's employment mix and to widen its economic base. Helping existing companies within the state grow, and recruiting out-of-state companies are the two main modes of this strategy.
- **Increase market share**, i.e., develop a persuasive strategy to get a larger share of shrinking defense spending, by becoming a niching and/or low cost producer, while developing a reputation for quality and experience unmatched by other states. For example, a military installation or a national laboratory already known for a certain specialty, can position itself as the only viable quality and relatively low-cost leader for that specialty. And given the cost structure of many of the national laboratories, meaningful cost cutting of 10-20% can be easily accomplished to realize this strategy. In line with this, Kentucky has passed a law creating a military affairs commission charged with procuring more business from the military.

On the industry level, affected industries are those dependent on selling their products and services to the defense programs of DOD and DOE, e.g., McDonnell Douglas, General Dynamics, Raytheon and Lockheed.

Such companies can now exploit the new economic agenda and adjust in other profitable ways. First, they are uniquely positioned to shape the evolving economic policy of the new Clinton administration to their own advantage. They can help define the strategies that the U.S. will take from guns to butter in their areas of expertise and relative advantage. For example, they can call for a large investment in infrastructure, and end up bidding on projects to build and upgrade roads, bridges, sewer systems, and so on.

Second, they can take the following strategic measures to adjust to the declining defense market in the U.S. (see Exhibit 1):

1. **Downsize to meet demand**, i.e. stick to areas of core competence and shed everything else. General Dynamics is a company using this strategy, following its chairman, William A. Andres', strong belief that "If we have cash General Dynamics can't invest in good, attractive core defense programs with decent return, rather than add diversified volume just to look bigger, I believe we should return excess cash to shareholders."
2. **Diversify into related specialties**. An example is that of Science and Engineering Associates, Inc. (SEA), a small defense consulting firm in Albuquerque. When, in the fall of 1989, SEA realized that defense business would be shrinking, its management began analyzing its business and looking for stable profitable areas. As Gilbert L. Ziegler, SEA's senior scientific engineer, explains, "We had two choices. We could exhibit the desert spider syndrome, staying in our hole and reacting to muffled changes coming to our hole, or stick our head out, make sense of the changes we see, and take a beneficial course of action. Ziegler's group was successful in specializing in the regulatory aspects of the same design services it previously provided for DOD."
3. **Commercialize**. Raytheon's decision to continue to produce guns and a lot more butter fits this strategy as described in the five-year plan of Dennis J. Picard, Raytheon's chairman. Other examples include ARO Corporation, which capitalized on its technology to market a product that tests the strength of seals on plastic packages for sterilized medical tools; the defense group of

Westinghouse Electric, which adapted its military aircraft sensor for air traffic control and for speed sorting of mail; and the electronic systems sector of Harris Corporation, which drew on its military high-frequency radio equipment to sell air traffic control systems to the Federal Aviation Administration. Some other companies using the commercialization strategy are Frisby Airborne Hydraulics, Reidville Tool and Manufacturing, and Fail-Safe Technology Corporation.

4. Export: use some of the production capacity idled by DOD to produce and sell abroad. Loral is a good example of a company which has increased its export of arms to 22% of sales and intends to raise this figure to 28%. Recent customers include Sweden and Canada. Sweden is buying a \$40 million combat flight simulator to train its pilots, and Canada is buying a \$3 million gunnery simulator.
5. Joint venture. As a fitting end to the cold war era, Lockheed Corp. recently formed a joint venture with the Russian aerospace firm Khronichev Enterprise to market the Russian-built Proton rocket for commercial satellite launches. And because of the relatively low cost of the Proton rocket, the joint venture is expected to have a competitive advantage in the marketplace. Rockwell International Corp. followed a similar strategy and formed a joint venture with Russia's NPO Energia.
6. Be a leader in a declining market. For example, Martin Marietta's purchase of G.E.'s aerospace business for \$1.8 billion is a perfect example of the use of this strategy. If it wins federal antitrust clearance, the deal will make Martin Marietta a much stronger competitor in the aerospace industry.
7. Get export assistance from the government. For example, ailing McDonnell Douglas is expecting federal approval to sell 72 F-15s to Saudi Arabia for \$8 billion, and Kaman will sell 12 anti-submarine helicopters to Taiwan for \$161 million. Such sales can become easier in the future if complex federal export rules are streamlined to help U.S. companies compete in foreign markets.
8. Lobby for smaller, more gradual cuts in the defense budget while implementing the above strategies. Such military contractors as General Dynamics, McDonnell Douglas, Boeing, Northrop, Raytheon and United Technologies employ a significant number of people. If they were to cut their labor forces rapidly, the potential for high unemployment rates in some states, such as California, New York, Virginia and Florida, could be dangerous and socially and economically undesirable, a situation which provides a rationale for buying time. An example is McDonnell Douglas, which was supported by the State of Texas in getting approval from the federal government for the sale of F-15s to Saudi Arabia.

Again, a choice among these strategies or a mix of strategies involves a systematic analysis of external factors such as changes in customer needs and wants, demand, market size, competition, and economic, technical and political conditions, and of internal factors such as the company's financial health, market share, areas of distinctive competence, etc. These external and internal analyses might result in a new mission statement and lead to the development and implementation of new goals, objectives and strategies.

Exhibit 1. Strategic options for defense contractors	
OPTION	EXAMPLE
Downsizing	General Dynamics
Diversifying	Rockwell, Science Engineering Associates
Commercializing	ARO, Harris, Frisby Airborne Hydraulic, Reidville Tool Manufacturing
Exporting	Loral
Joint venturing	Lockheed, Rockwell International
Lead in declining market	Some national laboratories
Obtain federal help	McDonnell Douglas, Kaman
Lobby federal government	Boeing, Raytheon, United Technologies
Form alliance with states	McDonnell Douglas
Set national economic agenda	None

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A COMPARISON OF MARKETING PROFILES BETWEEN PROFITABLE AND UNPROFITABLE GREEK MANUFACTURING FIRMS

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Abstract

This paper examines how the attitude towards marketing, the organization of marketing and the practice of marketing differ between profitable and unprofitable companies. The data were collected by means of personal interviews with the Marketing Director of 40 profitable and 30 unprofitable Greek manufacturing companies. The findings show that profitable companies differ from unprofitable ones in all three aspects of Marketing that were examined.¹

Introduction

Given its widely acknowledged importance during the last forty years, one might imagine that the concept of marketing orientation would have a clear, straight forward, meaning to the practitioners of the business community as a whole. However, little empirical data exist that could provide a sound back-up of this expectation (Kohli and Jaworski, 1990).

In addition, it is only recently that researchers have attempted to raise the issue and put together empirical evidence which provides support to the notion that market orientation leads to greater performance levels (Chaganti and Chaganti 1983, Hooley, Lynch and Shepherd, 1990, Narver and Slater 1990).

This paper presents some relevant evidence from the Greek manufacturing sector. It examines the potential association between company performance and the possession of specific attitudinal, organisational and practical marketing characteristics. The data for this paper are derived from field research that falls in the context of the "International Marketing Effectiveness Project" initiated by professor G. Hooley of the Aston Business School and in which the authors of this paper participate. This program, which is based on a wide international network of marketing and economic scholars, seeks to compare and contrast marketing attitudes, organisation and practices in many diverse countries and cultures.

BACKGROUND AND HYPOTHESES

Company Approach Towards Marketing

Despite the lack of a single definition of marketing, it is generally perceived as a distinctive company philosophy. This philosophy renders the customer the pivot around whom all business activity develops (Druker 1954, Baker 1989, Witcher 1990) and promotes the

notion that the company should be driven towards increasing its level of closeness-to-the-market. When this has been accomplished, the company is capable of understanding better both the expressed and the dormant needs of its customers (Houston 1986). Then, the entire effort centers around moving the organisation, as a whole, towards offering specific outputs that satisfy these needs in a profitable way (Barksdale and Darden, 1971).

In the work of Hooley, Lynch and Shepherd (1990) four different types of companies were identified. One of these types was named "Marketing Philosophers" based on their attitude towards marketing. These companies were found to approach marketing as a company-wide endeavour of creating products that satisfy specific customer demands. This approach manifests acceptance of the basic elements that compile the definition of the marketing concept as a business philosophy and was associated with the best performance in the market.

The above discussion leads to the development of the following hypothesis:

H1: The diffusion of marketing philosophy within the organisation is associated with profitable companies.

Marketing Organisation

Since Marketing has been granted a philosophical foundation regarding the way a company perceives the environment and responds to the stimuli it receives, it is only natural to expect that the espousal of such philosophy will have an impact on the organisational design the company elaborates for structuring its marketing activities.

Davis, Morris and Allen (1991) for instance showed that in cases where increased emphasis was given to marketing, structure was correspondingly adapted to promote this enhanced importance of marketing through the adoption of more marketing oriented designs. In the work of Hooley, Lynch and Shepherd (1990), the "Marketing Philosophers", who are the top performing companies, are characterised by greater levels of significance attached to Marketing in their organisational designs. Based on the previous discussion we hypothesize:

H2: The profitable companies tend to attach greater significance to Marketing in their organisational structure than do the unprofitable ones.

Practice of Marketing

With the proper state of mind developed and the organisational structure reflecting it, the practice of marketing is facilitated, with the collection of market information being the starting point.

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Intelligence gathering, processing and dissemination to every functional area, as well as the company's ability to respond to this information, are of such a paramount importance when explaining marketing philosophy (Shapiro, 1988), that the construct of marketing philosophy has been explicated on the grounds of these pillars (Kohli and Jaworski, 1990).

In that framework, it is no surprise that better performing companies are reported to maintain and use an ongoing marketing intelligence gathering system (Brooksbank, 1990). They are found to be far more competitor-focused and much more committed in doing so when compared to the non-profitable ones. Evidence also exists that specifically relate the execution of formal market research to company performance (Schlegelmilch, Boyle and Therivel, 1985). Hence, we propose:

H3: Greater commitment to intelligence collection is associated with profitable companies.

A direct consequence of the possession of the kind of information described in the previous paragraphs, is that the company is able to break down the demand of the market in smaller, more meaningful segments. Thus, the company is capable of better matching its products to the requirements of individual segments of the market (Dickson and Ginter, 1987). In other words, the company is in position to carry out market segmentation and apply differentiated marketing according to the characteristics of its target market.

Successful companies, in the USA (Peters and Waterman, 1982) and in the UK (Chaganti and Chaganti, 1983), use market segmentation and targeting in creative and meaningful ways. Also, research in the UK has shown that profitable companies tend to serve specific segments while at the same time avoid head-on competition (Modiano and Nichionna, 1986).

On the basis of the above discussion we hypothesize:

H4: The implementation of market segmentation strategies is associated with profitable companies.

Market segmentation is usually linked with a commitment to new product development. Despite the large number of studies that have been undertaken during the last 20 years regarding the new product development problems, the percentages of new product failures is still high. Studies focusing on product failures and what separates in general a "successful" product from a "washout", have showed that a better understanding of (a) the customer's needs and behaviour, (b) the competitive situation and (c) the market in general (size, growth etc.) is a basic attribute characterizing successful new product development (Cooper, Kleinshmidt, 1991). On these grounds, we hypothesize:

H5: The use of criteria, that communicate a market orientation adoption, for evaluating potential new products during the new product development process is associated with profitable companies.

Once the information of the market needs and customers' wants has been put together into the form of a new product, its availability has to be communicated to the target market. Thus the company gets involved in a

communication process with advertising being one of the most frequently used tools for doing so.

Recent studies show that, although simplistic techniques are still in use, a shift towards more sophisticated ways for deciding on the advertising budget e.g. the objective-and-task method, is observed (Lynch and Hooley 1989). This shift in the methods used for setting the advertising budgets is reasonable to assume that will first occur among those companies that are willing to try and experiment with novel techniques and business practices as a study by Cavanagh and Clifford (1986) has shown. On these grounds, we hypothesize:

H6: The use of more sophisticated methods for setting the advertising budget, in which the market situation and the objectives of the product are considered, is associated with profitable companies.

However, the time and the financial resources that are necessary to carry out the activities included in new product development and its communication to the target market, render them a time and money consuming effort that calls for long term perspective in marketing. Thus, long-term planning becomes a mandatory requirement for effective new product development and launching.

Indeed, it has been shown that successful companies exhibit a long-term approach in planning. A study focusing on the practices of the most successful companies in the UK (Saunders and Wong, 1985) showed that, on the whole, a greater orientation towards long-term planning was evident in these companies. Also, Hooley and Jobber (1986) showed that their "top performing" companies were much more proactive in behaviour using scenario-planning techniques in an attempt to "mould" the future themselves. On these bases we hypothesize:

H7: A longer-term perspective in marketing planning is associated with profitable companies.

METHODOLOGY

Sample

A purposive sample was drawn from population of 200 companies consisting of the 100 most profitable and the 100 most unprofitable companies of the Greek manufacturing sector for the period between 1985 and 1989, listed in the ICAP directories. From each group, a quota sample of 50 companies was selected so that both industrial and consumer companies would be included as well as a crosssection of various sizes. Overall, 40 profitable and 30 unprofitable companies responded and participated in the study.

The data of the study were secured by means of personal interviews with the Marketing Director of the selected companies.

Variables and Their Measures

Marketing Philosophy: The extent to which marketing philosophy is diffused at a company-wide level was measured by asking the respondents to indicate using a 3-point scale (1="Not at all", 2="Partly" and 3="Precisely") the degree to which "marketing philosophy

pervades the entire organisation and all employees regardless of their functional position".

Significance Attached to Marketing: Two items were used to assess the significance attached to Marketing: the participation of Marketing in the company's planning process and the number of activities that fall in Marketing's domain.

Participation of Marketing in the Company's Planning Process: The respondents were asked to indicate on a 3-point scale (1="Limited", 2="Adequate", 3="Extensive") the role that Marketing played in their planning process.

Activities that Fall in Marketing's Domain: The respondents were given a list of 12 marketing activities (eg. advertising, market research, sales promotion etc.) and were asked to indicate ("Yes"-1, "No"-0) which of these activities were the responsibility of Marketing. The "Yes" answers were summed up for each case in the sample and a new variable was created consisting of two categories: the companies whose sum of marketing activities was above the sample average were placed in one category while those whose sum of marketing activities was below the sample average were placed in the other category.

Commitment to Intelligence Collection: Two variables were used to assess the commitment exhibited by the respondents to intelligence collection: a) the comprehensiveness of their Marketing Management Information System (MMIS) and b) the extent to which they carry-out up-to-date marketing research.

MMIS Comprehensiveness: Using a 3-point scale (1="Limited", 2="Adequate", 3="Extensive") we asked the respondents to indicate their knowledge on a list of topics that included: suppliers related issues, market segments' sales potentiality, return on investment-investment-profits, customers' needs, order size per customer, customers' buying habits, issues concerning the members of the distribution system, alternative distribution systems, competitors' distribution systems, relationships between main competitors' and the members of their distribution system, competitors' marketing strategies, size of total market, trends on their basic market, barriers to entry or exit, prices, technological issues and economic figures influencing their markets. The responses were added and averaged for each company in the sample (Cronbach's Alpha=.9074). Then, a new variable was created which consisted of two categories: the companies which scored above the sample average in the additive scale were placed in one category and those that scored below the sample average in the additive scale were placed in the other category.

Up-to-Date Marketing Research: The respondents were asked to state the year that they had conducted their latest formal market research. Their answers were then coded from 1 to 5 (1="Never of Before 1988", 5="1991").

Market Segmentation: The extent to which the respondents attempt to segment their markets was measured through a 3-point scale ranging from 1 to 3 (1="We address the total Market", 2="We address the total Market with some minor modifications" and 3="We significantly differentiate our marketing plans depending on the segments we address").

Criteria Employed During the New Product Development Process: The respondents were asked to name the criteria they use to evaluate an idea for a new product during the development process and particularly in the stages of idea screening and business analysis. Their answers were recorded and all the criteria that were mentioned were put together. Then, each criterion was treated as a dichotomous variable (0/1) and if it was mentioned it was coded as '1', otherwise it was coded as "0".

Advertising Budgeting Methods: The respondents were asked to name the factors that they consider when setting the advertising budget. Their answers were recorded and all the factors that were mentioned were put together. Then, each factor was treated as a dichotomous variable (0/1) and if it was mentioned it was coded as '1', otherwise it was coded as "0".

Time Span of Marketing Plans: The respondents were asked to state the nature of their marketing plans using the following scale: 1="Limited", 2="A Simple Budget", 3="Annual Plans", 4="Annual and Long-Term Planning".

DATA ANALYSIS

Approach Towards Marketing - Diffusion of Marketing Philosophy

As **Table 1** shows, the rate of diffusion of marketing philosophy within the organisation was found to be much higher among the profitable companies. In fact, 60% of the profitable companies claimed that the marketing philosophy is partly adopted by all company employees and another 25% conceded that the marketing philosophy was indeed a

TABLE 1
DIFFUSION OF MARKETING PHILOSOPHY

	PROFITABLE n=40 YES (%)	UNPROFITABLE n=30 YES (%)	CHI- SQUARE	D.F.	SIGN.
"Marketing Philosophy pervades the entire organisation and all employees, regardless of their functional position".			24.21717	2	.0000
• Not at all	15.0	70.0			
• Partly	60.0	30.0			
• Precisely	25.0	0.0			

concept accepted by all their employees. On the other hand, the vast majority of the unprofitable companies (70%) stated that the philosophy of marketing was not sound among all their employees and certainly not among the non-marketing ones. This evidence supports H1.

Marketing Organisation - Significance Attached to Marketing

With regard to the significance attached to Marketing, the evidence suggests that profitable companies, as it was hypothesized, tend to attach greater significance to Marketing than do the unprofitable ones. As **Table 2** shows, profitable companies, in comparison with the unprofitable ones, (a) exhibit a greater participation of Marketing in the

company's planning process and, (b) are involved in a larger number of activities that fall in Marketing's domain. Thus, H2 of the study is also supported by the data.

TABLE 2
SIGNIFICANCE ATTACHED TO MARKETING

	PROFITABLE	UNPROFITABLE	CHI- SQUARE	D.F.	SIGN.
	n=40 YES (%)	n=30 YES (%)			
PARTICIPATION IN COMPANY'S PLANNING			25.95679	2	.0000
• Limited/Excluded	12.5	66.6			
• Adequate	25.0	26.6			
• Extensive	62.5	6.6			
ACTIVITIES THAT FALL IN MARKETING'S DOMAIN					
• Above the sample average	80.00	23.3	20.07289	1	.0000
• Below the sample average	20.0	76.7			

Marketing Practice

Our initial hypothesis that profitable companies, when compared to the unprofitable ones, would demonstrate a greater commitment to intelligence collection, was also supported by the data. More specifically, as Table 3 shows, the vast majority of the profitable companies are well informed on a large number of marketing issues, since 70% of them scored above the sample average in the pertinent scale. Also, profitable companies are involved to a larger extent in up-to-date marketing

TABLE 3
COMMITMENT TO INTELLIGENCE COLLECTION

	PROFITABLE	UNPROFITABLE	CHI- SQUARE	D.F.	SIGN.
	n=40 YES (%)	n=30 YES (%)			
MMS COMPREHENSIVENESS			18.61639	1	.0000
• Above the sample average	75.0	20.0			
• Below the sample average	25.0	80.0			
UP-TO-DATA MARKET RESEARCH					
• 1988 or never	20.0	63.3	16.33850	3	.0010
• 1989	2.5	3.3			
• 1990	30.0	23.3			
• 1991	47.5	10.0			

research. Indeed, 47.5% of them had carried out a formal market research in 1991 (the year when the data were collected) a much larger proportion when compared to the 10% of the unprofitable companies. On these grounds we accept H3.

When examining the segmentation practices of the sample, it was revealed that the profitable companies are more keen in the use of segmentation strategies. Specifically, as Table 4 shows, only a tiny minority of the profitable companies is not involved in segmentation, while most of them stated that they tend to "significantly differentiate their marketing plans depending on the segments they address". On the other hand, only a small proportion of the unprofitable

companies gets intensively involved in market segmentation, while most companies in that group address the total market with some minor modification of their plans. On these grounds, we accept H4.

TABLE 4
USE OF SEGMENTATION STRATEGIES

	PROFITABLE	UNPROFITABLE	CHI- SQUARE	D.F.	SIGN.
	n=40 YES (%)	n=30 YES (%)			
• "We address the total market"	12.5	30.0	21.64240	2	.0000
• "We address the total market with some minor modifications"	15.0	53.3			
• "We significantly differentiate our marketing plans depending on the segment we address"	72.5	16.6			

When examining the criteria under which ideas for new products are evaluated during the stages of idea screening and business analysis, it was divulged that profitable companies employ criteria which reflect the adoption of market orientation.

TABLE 5
CRITERIA EMPLOYED FOR THE EVALUATION OF IDEAS FOR NEW PRODUCTS

	PROFITABLE		UNPROFITABLE		CHI- SQUARE	D.F.	SIGN.
	n=37# YES (%)	NO (%)	n=20# YES (%)	NO (%)			
IDEA SCREENING							
• Product's strategic objective	51.3	48.7	10.0	90.0	7.84598	1	.0051
• Customers' needs	62.1	37.9	30.0	70.0	4.16347	1	.0413
• Product's concept	40.5	59.5	00.0	100.0	9.01244	1	.0027
BUSINESS ANALYSIS							
• Market potential	51.3	48.7	15.0	85.0	5.78606	1	.0162
• Forecasted Sales Volume	29.7	70.3	00.0	100.0	5.58252	1	.0181
• Technical characteristics of the product	29.7	70.3	00.0	100.0	5.58252	1	.0181

Number of companies that had developed a new product during the last 10 years.

In fact, as Table 5 shows, it appears that profitable companies appreciate the significance of examining in detail the ideas for new products before the latter enter the development phase. In doing so, they evaluate the new product ideas with such criteria as the new product's strategic objectives, its ability to satisfy specific customer needs, the market's potential and the like, all of which reflect adoption of market orientation. Contrary to the practice of the profitable companies, the unprofitable ones appear to ignore the stages of idea screening and business analysis of the new product development process. On these grounds, we accept H5.

With respect to the factors considered for setting the advertising budget, it was

revealed that the use of more sophisticated factors in doing so, e.g. competitive situation, stage of the PLC, strategic objectives etc., is associated with the profitable companies.

TABLE 6
FACTORS CONSIDERED WHEN SETTING
THE ADVERTISING BUDGET

	PROFITABLE n=40		UNPROFITABLE n=30		CHI- SQUARE	D.F.	SIGN.
	YES (%)	NO (%)	YES (%)	NO (%)			
• Competitive situation and stage of the P.L.C.	50.0	50.0	16.6	83.4	6.90796	1	.0086
• Strategic objectives of the product in the market	57.5	42.5	13.3	86.7	12.31105	1	.0005
• Previous experience	10.0	90.0	43.3	56.7	8.62537	1	.0033
• Technical characteristics of the product	00.0	100.0	13.3	86.73	.45249	1	.0632

The unprofitable companies on the other hand, base the setting of their advertising budget mainly on their previous experience (see Table 6). On these grounds we accept H6.

Finally, examination of the marketing planning approaches indicated that a long-term perspective is adopted by the profitable group of companies. Specifically, as Table 7 exhibits, 67.5% of the profitable companies designed long-term marketing plans whereas only a small proportion (13%) of the unprofitable companies followed a similar pattern. Thus, we accept H7.

TABLE 7
TIME HORIZON OF THE MARKETING PLANS

	PROFITABLE n=40		UNPROFITABLE n=30		CHI- SQUARE	D.F.	SIGN.
	YES (%)	NO (%)	YES (%)	NO (%)			
• Limited	5.0	46.6	29.7	1608	3	.0000	
• Simply a Budget	0.0	13.3					
• Annual plans	27.5	26.6					
• Annual and long-term planning	67.5	13.3					

CONCLUSIONS AND IMPLICATIONS

As the evidence of the study suggests, profitable companies, when compared to the unprofitable ones, have a clearer understanding of marketing and exhibit a marketing approach that signalizes adoption of market orientation. Thus a more positive attitude towards marketing is evident among profitable companies which is spread throughout the company as the guiding culture that directs all company activities.

As far as the practical implications of this study are concerned, probably the most important one is the importance of developing a marketing culture before marketing orientation can flourish. Having said this, for those companies that already exhibit such a culture, the efforts should be directed

towards sustaining, and possibly "fine-tuning", the signals that are communicated to, both the management and the company employees by the Top Management, so that any distortion of the marketing culture is deterred.

As far as those companies that have not yet developed a marketing culture are concerned, the gravity of their efforts should be on reshaping the existing system of beliefs that characterises them. The burden of this effort will unavoidable bear upon the shoulders of the Top Management team as its importance is mountainous when it comes to cultural transformations. Changing the management style is a first, and certainly a painful, step to be taken. In addition, internal marketing and the importance of viewing other employees as "internal customers", if the company's customers are to receive the best service, should be accentuated. Seminars directed towards all the employees by marketing promoting Institutes and/or external consultants can help in this direction. Also, marketing audits could be frequently conducted so that it is secured that (a) the attitude towards marketing is being built, (b) the existing organisation of the marketing activities facilitates the exercise of the practical aspects of marketing and (c) the actual practices of the company do indeed communicate its commitment to developing a market orientation.

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SPECTATORS AS CONSUMERS - THE MOTIVATING FORCES

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Abstract

This paper attempts to understand sport spectators as buyers of a product in traditional marketing terms. Research on spectators and their behaviour patterns has been neglected by marketers, but has been extensively researched by sociologists and psychologists. The findings in this paper are based on a survey of 493 spectators. Information was collected on their attendance record at games and their loyalty to the product.

Introduction

The development of marketing thought has been marked by an expanding domain within which the application of marketing principles is deemed appropriate. This broadening scope for marketing, which generated considerable contentious debate (Luck 1969), moved from a very narrow view, which regarded marketing as properly applicable only to goods (Nystrom 1954), to the "goods and services" view which existed until the meta-marketing schism heralded by Kotler and Levy in 1969. The eventual acceptance of this position officially sanctioned the diffusion of marketing technology to exchange situations previously ignored by theoreticians. Such developments, however, merely served to recognise current practice "on the ground" in that practitioners outside the official domain of marketing had been utilising marketing technology, even if in a somewhat disjointed and sporadic fashion. This paper which examines the phenomenon of sports spectatorship draws its theoretical sustenance from meta-marketing, which licences research in the area of sports.

A second major feature of the development of marketing has been the evolving schools of explanation central to which is the buyer behaviour school which seeks to provide explanations for the thoughts and actions of the consuming public. The buyer behaviour school of marketing questions "why" customers behave the way they do in the market place. Consumer products such as packaged goods and consumer durables have been overwhelmingly the focus of the "why" question. This emphasis had led to a somewhat narrow focus of the consumer. This paper attempts to look at the consumer in a broader context. Too often the consumer is considered in such narrow purchasing terms, in particular some professionals refer to their consumers as patients or clients. In the world of sport, consumers are likewise narrowly defined as spectators and are often not considered as consumers, as understood in marketing terms.

The Sports Market

While the origins of the sports product are probably lost in time, it is evident that the consumption of this product has long generated a mass consuming public. Greek civilisation, regarded as "the cradle of enlightened sports spectatorship" (Zillman and Paulus 1993) gave us the oldest and most venerable sports/spectator institution, the Olympic Games, which continued from 776 BC to 393 AD. Greek reverence for artistic grace and participation were replaced by the Roman desire

for "blood sports" and a "must win" orientation. The Coliseum, the centre piece of Roman sports spectatorship, accommodated more than 40,000 sports spectators while Rome's largest racetrack drew crowds to chariot races of approximately 250,000 sports consumers (Harris 1972).

In more recent times large numbers of sports spectators were to be observed at soccer matches in the industrialised nations of Europe. In 1901 some 110,000 soccer fans attended the Cup Final between Tottenham Hotspur and Sheffield United (Midwinter 1986). More recently the communications/transportation revolution has elevated the sports product to a global level, with the result that the sports product is more likely to be delivered to the consuming public via broadcasting developments. For example the 1986 World Cup in soccer was seen in 166 different countries with a gross cumulative audience of 13 billion consumers (ISL Marketing 1988) while the 1992 Barcelona Olympics was seen by a cumulative audience of 1.26 billion viewers in Japan alone (Sports Marketing Surveys 1992). Worldwide the appeal of sports as a product is evidenced by the ever increasing percentage of total broadcast hours dedicated to sports programming.

Sports As A Product

While the marketing discipline recognises the product in both functional and symbolic attributes, the sports product in terms of what it is that the sports consumers buys, is largely concerned with the symbolic aspects of purchase. To date research in the marketing tradition has paid scant attention to the business of sport and it is therefore necessary to go outside this tradition to provide the necessary contextual backdrop to this paper.

Concepts developed in other disciplines, especially psychology and sociology are particularly useful to apply in sports marketing. These traditions have written about the symbolic aspects of sports and about the various emotional and social functions it serves in modern society (Dunning 1971; Elias 1971; Guttman 1978; Sloan 1979). However, relatively little research focuses directly on spectators (sports fans) and that which does concentrates on manifestations of violence.

The existing empirical research on spectators (sports fans) focuses on both emotional reactions and cognitive distortions. Cialdini, Borden, Thorne, Walker, Freeman, and Sloan (1976) studied the phenomenon of "basking in reflected glory", showing the differential use of "we" and "they" among fans. Sloan (1979) showed the effects of winning and losing on fans' moods and emotional reactions. Goldstein and Arms (1971) examined the effects of winning and losing on fans' hostility. Zillman et al. (1979) analysed fans' satisfaction and disappointment in reaction to specific plays in a game. Mann (1974) wrote "on being a sore loser" - how fans react to their team's failure by distorted judgements which serve to rationalise and reduce the bitterness of defeat.

Various insights are provided by both the sociology and psychology disciplines into the purchasing of the sports product. Inevitably in such a complex area of buyer behaviour a variety of overlapping views of what it is the sports consumer buys are now presented.

Vicarious Combat

Spectator sports represent a particular kind of "playful" experience, vicarious combat, which can satisfy the needs of the spectators (Spinrad 1981). The most obvious is that spectator sports allow an immersion in vigorous physical contest in which one is never personally hurt. The delight in physical destruction may be a dominant part of the appeal, as in automobile "demolition derby's", and personal annihilation may be an ever present danger, as in the case of auto racing.

The spectators at most sports possess neither the desire for bloodletting of the gladiatorial enthusiast nor the fascination with death of the bull fighting audience. They want to see the opponent bested. This may involve some physical violence, but maiming for its own sake is not the typical objective. Home team fans will applaud when an injury to an opposing player turns out to be minor.

These comments capture the uniqueness of spectating. Unlike what is typical of many other rivalries, one wants the opponent to be as capable as possible in order for victory to be meaningful. The spectator is indeed vicariously involved in a public drama, but one without a precise script and, thus, one with an element of genuine suspense. It is, in this sense, more akin to the real world than any prewritten drama.

Product Involvement

Although the contest is so vicarious, removed and peripheral, the fan is personally involved in many other ways. He **participates** through his identification with specific heroes and particular teams, his assumption of expertise in folklore and a multiplicity of statistics, his experiences in mock rational arguments and his efforts at mock administration (Spinrad 1981).

Hero Identification

Much of the popularity of spectator sports is obviously based on psychological gratification derived from identifying with sports heroes as well as with particular teams. One widespread interpretation emphasises the common objects of identification for many - the "super star" who is a folk hero, frequently extolling the person from a humble background who achieves widespread fame (Andreano 1965).

This does not explain the heroes of the genuine "fan", whose personal heroes may not even be celebrities under any definition. The fan's choice of heroes is actually quite personal, even idiosyncratic. The supposed basis is achievement, which, as a presumed expert the fan is supposed to know something about. Hero identification is specific rather than diffuse. It is, in most instances, completely situational. The hero is not a model for anything apart from the contest itself, and the vicarious empathy is usually limited to his supposed achievements.

One generic basis of personal hero identification does exist; the ethnic factor. It can perhaps be considered a special manifestation of the humble background theme. The psychic gratification that comes from having a similar background to the great performer is very widespread. That professional athletics often offer one of the most available methods of upward social mobility for a relatively deprived group has been sufficiently noted. Boxing champion Joe Louis was probably the most important symbol for many young American Blacks in his day.

A variation on the hero identification theme is that of "basking in the reflected glory" which proposes that spectators/fans affiliate themselves with particular performers/teams to satisfy motives of self-presentation and image management. More specifically it is argued that persons in need of enhancing their public image may accomplish their goal by associating themselves with other successful persons, in this case, sports performers and teams (Cialdini et al 1976).

Participation in Folklore

The fan participates in a special sub-cultural folklore, which is media induced and reinforced by personal conversations.

This includes an acute awareness of particular contests, particular players and teams, the organisation of the sports themselves throughout their histories and vast numbers of statistical details.

A serious mistake about time factors is a mark of incompetence in fandom. An important feature of history is the list of legends, about a season, a game, a series of game or a particular moment. The contest itself contains its intrinsic lore - the rules, the rituals and the inside details. The fan participates, or feels he participates, in all of this.

The Comprehensive Lore of Statistics

Without the complex and varied set of statistics, a sport does not possess a sufficient hold for genuine fandom. The rest of the folklore is insufficient. The basis for conversation and argument is reduced. Media discussion is limited. Efforts at mock rational appraisals become more difficult.

Statistics describe the individual game, the player, the team, the season and the long range trend. Furthermore, each statistic is more than an entity unto itself. It becomes part of the historical lore of players and teams and provides the legitimization of mock rational arguments. Some statistics however, assume a transcendental aura because they become a "record", i.e. a mathematical expression for some all-time achievement.

Mock Rational Argumentation

Statistics supply the objective rational justifications for sentimental choices of players and teams. No matter who your favourite is you can find the appropriate statistics.

Arguments include more than mere affirmations of faith or personal idiosyncrasy. They assume the character of rational dialogues, conducted with playful fervour but typically without any sense of genuine ego involvement in the outcome. Some rational justification is always available. If the statistics seem to bolster the other side's position one can always find some less measurable but seemingly rational argument.

Playing at Mock Administration

The fan participates in one other mock experience. He plays at being an administrator. He simulates running the team, tries to design the appropriate strategy of the game or moment, decides which players should be playing, who should be dropped or transferred for whom. A more elaborate form of mock administration is the selection of "all star" teams, permitting the realisation of the functions of both mock administration and mock rational argumentation.

Spectator's Activities at Games

March, Rosser and Harre, categorised significant roles in organised fan activity. These categories are helpful in understanding the fine balance between supporters and disorderly behaviour. The fan roles are categorised as the "aggro" leaders, the "hard" men, the "chant enthusiast", and the "comedian".

One feature of the above situation which is worth attention (Sports Council UK, 1978) is the virtual absence of adults, who might restrain the worst excesses of violence from the "Ends". Not only do the young now form a larger part of the crowd, they congregate in certain areas and enjoy a sense of their own control of those areas.

It may never have been common for fathers to take their sons to football, but it is certainly rare today (and more likely in the stands than on the terraces).

The only adults in the "Ends" are either the "hard men" who are looking for trouble, or the police whose presence may be regarded as provocation.

Another obvious feature of the crowd, according to the Sports Council UK, is the relative absence of women on the terraces; an element whose presence elsewhere in working class company is usually a marked restraint on bad language. The girls who are in the fan group in the "Ends" tend to be immature and deviant, and swear as freely as the boys. Their presence is more likely to be an incitement to exhibitionism than a restraint.

Spectator Research

Spectatorship i.e. the attendance at particular sports events represents a key element in the on-going sports fan's relationship with the product. While the behaviour of the sports fan is driven by a complex interplay of socio-psychological factors, the fact of attendance at particular games represents an opportunity to provide a tangible and public manifestation of fan loyalty.

Some of the most important agents in providing an initial experience of sport and spectating are amateur sport clubs. Such clubs have several advantages in sports promotion, being close to their actual and potential membership both physically and socially, for such reasons, clubs are often popular with sportsmen and women as an organisational focus of their activities (Boothby and Tungatt 1977).

As expected research into the motivation for attendance at particular sports events is virtually non-existent in the marketing tradition. Sociological research into the motivation for spectatorship has been undertaken at several levels of analysis, i.e. all sport, particular codes of sport and demand for attendance at the games of individual performers/teams (Hansen and Gauthier, 1989).

The Research Study

The current research study was concerned with identifying the motives for attendance at the All-Ireland semi-finals games in Gaelic Football and Hurling in Ireland. At the level of the sports code Gaelic Games represent the dominant sport product in Ireland. These Games pervade all corners of the island of Ireland with 32 county teams involved in a Championship in both Hurling and Gaelic Football. Winning teams from each of four provinces meet in an All-Ireland semi-final to decide eventual finalists.

In order to examine the motives for attendance at the semi-stage games a prepared questionnaire based on issues generated in informal research, was administered at each provincial final, with a questionnaire allocated to Provincial match attendees. The total number of returned questionnaires was 493, giving a response rate of 27%.

Findings

Profile of Respondents

The majority of respondents are male, aged between 35-50 and are married. Membership of the GAA is high and a large number of respondents are past or present players of GAA games.

**EXHIBIT 1
PROFILE OF RESPONDENTS**

Sex	Male	Female		
	86%	13%		
Age	U21	21-35	36-50	51+
	8%	31%	41%	17%
Marital Status	Single	Married		
	32%	66%		
Membership of GAA	Yes	No		
	70%	28%		
Past/Present Player	Yes	No		
	86%	13%		

The overall high level of attendance is shown in Exhibit 2.

**EXHIBIT 2
LEVEL OF ATTENDANCE**

		Attendance
At Croke Park (National Stadium)		98%
At Semi-final in last 5 years		95%
With whom most often attended	Family	49%
	Friends	43%
Accompanied by children in last 5 years		50%
Average number of Semi-finals in last 5 years	Football	3.2
	Hurling	1.7

Spectators as Consumer Groups

While it is possible to examine the motivating structure of the individual spectator it was decided to examine the motivating forces of spectators as buyers by looking at spectators as groups, i.e. groups of consumers. The research analysis constructed three groups of consumers. This was achieved by clustering a number of loyalty variables together and then categorising the spectators into groups based on their responses to these loyalty variables. The loyalty variables are shown in Exhibit 3.

**EXHIBIT 3
CONSUMER GROUPS**

Loyalty Variables	
1.	Membership of GAA Club
2.	Past/Present Player
3.	Ever attended Croke Park
4.	Ever attended Semi-final
5/6	Number of inter-county games attended in football and hurling

A profile of the Consumer groups is shown in Exhibit 4

**EXHIBIT 4
CONSUMER GROUPS DEGREE OF LOYALTY BY GENDER**

Consumer Loyalty	Total	Gender	
	%	M%	F%
Low	29.1	23.2	68.4
Medium	28.7	29.0	26.3
High	42.4	47.8	5.3

Just over 42% of the spectators are consumers with high product loyalty and this is predominately a male characteristic. The age of the consumers is not related to their degree of loyalty.

Motivating factors for Attendance and Non Attendance

The main conclusions are as follows. The "game itself" and "County Team Support" are the prime motivating factors for attendance and the "County team not playing" is the major motivating force for non attendance.

**EXHIBIT 5
REASONS FOR ATTENDANCE BY CONSUMER LOYALTY**

Reason	Percentage*			
	Total	Loyalty		
		Low	Medium	High
Game itself	89.0	82.6	89.8	91.7**
County team support	79.4	82.1	78.2	78.6
Entertainment	31.1	28.4	35.2	30.1
A day out	13.7	20.5	11.5	10.8

* Percentage of respondents who ranked item 1st or 2nd
 ** Significant at the 10% level

The relative importance of the various reasons for attendance at games is very similar for both the medium and high loyalty groups, with the "game itself" being, by far, the most important motivating force. Despite the evident similarities across the three groups, respondents in the low loyalty group are twice as likely to consider "a day out" as an important reason for attendance.

**EXHIBIT 6
REASONS FOR NON ATTENDANCE BY CONSUMER LOYALTY**

Reason	Total	Percentage* Loyalty		
		Low	Medium	High
County team not playing	48.6	62.3	51.4	33.9**
Holidays coincidence	34.5	34.0	43.2	29.3
Working	31.2	21.6	21.6	47.2**
Too costly	28.9	29.4	29.7	27.8
Live TV coverage	28.4	26.0	32.4	27.8
Predictability of result	16.3	10.0	10.8	25.9**
Lack of interest	12.5	19.6	8.1	8.9
Poor facilities	5.8	4.0	8.1	5.8

* Percentage of respondents who ranked item 1st or 2nd
 ** Significant at the 5% level (chi square statistic)

The most important reason for non attendance at games is "County team not playing" and the least significant is "poor facilities". The analysis of reasons for non attendance by degree of product loyalty show great similarity and some diversity. Consumers with low and medium degrees of brand loyalty are more likely not to attend because "their team was not playing" and "holiday coincidence". Consumers exhibiting high levels of loyalty are more likely not to attend a semi-final game because "they were working" and the "predictability of result".

The consumer groups with different degrees of loyalty are significantly different in their attendance at other sports codes such as soccer and rugby internationals.

**EXHIBIT 7
ATTENDANCE AT SOCCER AND RUGBY INTERNATIONALS BY CONSUMER LOYALTY**

Games	Total	Percentage Yes Loyalty		
		Low	Medium	High
Soccer	44.7	39.1	47.2	47.0
Rugby	44.0	40.9	40.0	48.9

Consumers with low product loyalty are less likely to attend soccer internationals and consumers with high product loyalty are more likely to attend rugby internationals. In summary, consumers with high levels of loyalty to the GAA are also very likely to have a high degree of interest in spectator sports in general.

**EXHIBIT 8
RESPONDENTS COMPANY WHEN ATTENDING GAMES BY DEGREE OF LOYALTY**

Companions	%			
	Total	Loyalty		
		Low	Medium	High
Family	49.0	53.3	53.6	43.5
Friends	43.2	39.0	36.8	50.0
Alone	7.7	7.7	9.6	6.5

Exhibit 8 shows that consumers with high levels of product loyalty are more likely to attend games with their friends whereas consumers with low and medium levels of loyalty are more likely to attend games with their family.

Conclusions

Sports as a product represents a much neglected area of marketing inquiry, with explanation for the behaviour of sports fans being of necessity imported from outside the marketing tradition. Spectatorship represents a key manifestation of sports fan behaviour with a complex interplay of motives being responsible for actual behaviour. This paper has sought to highlight the importance of the sports market as a consumption phenomenon, and the dearth of marketing attention to the phenomena occurring therein. More particularly it contains the results of a large scale consumer survey of spectators and their motivation for attendance at particular games.

The findings from this research shows that spectators are a diverse group of consumers in relation to their level of loyalty to the GAA product. Overall the evidence shows that depending on their level of loyalty the motivating forces differed, in relation to consumers their reasons for attendance and non-attendance, their choice of company at games and involvement in sport spectatorship in general.

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REGIONAL ECONOMIC DEVELOPMENT: THE STRUCTURE OF THE PUBLIC AND PRIVATE CONTRIBUTIONS

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As McKee established in his article on Area Economic Development (1989), the marketing of geographic areas to industry is in the domain of macromarketing, in that such marketing involves marketing systems, and the interaction of such marketing systems with society. In stating this he follows Hunt (1983). Accordingly, we approach this subject as one akin to business-to-business service marketing, and not economics or planning or geography of a regional persuasion.

In her article upon State Economic Development Programs (1987), Goeke observes that such programs tend to be dominated by political considerations, and not the private sector behavior which we associate with the building and implementation of a marketing plan. Nason, Dholakia and McLeavey (1987) speak to the need for studies of Regional Development Agencies, to compare their politics, marketing skills and effectiveness. This research project offers such a study.

San Bernardino and Riverside Counties, with a combined population of about 2.3 million, lie just east of the coastal California counties of Los Angeles and Orange, with their estimated total population of 12 million. The former political subdivisions in many ways serve as "feeders" to the latter, in providing bedroom communities, logistical support, and recreation. As Los Angeles and Orange Counties suffered defense-related job losses at the conclusion of the Cold War, so also did the two inland counties—directly and otherwise. Directly, both employees and suppliers were squeezed. Indirectly, subsequent expenditures to others were greatly diminished.

In January of 1993 two public-private partnerships, one for each of the inland counties, joined forces as the Inland Empire Economic Partnership. Both inland counties, a number of their included cities, many local Chambers of Commerce, and nearly 100 businesses are members. The presentation will provide latest information and observations upon the performance of the IEEP. It appears likely, however, that the following will hold, in comparison with other Regional Development Agencies in California: JOINT PUBLIC/PRIVATE RDC's DO MAKE MARKETING SENSE. They draw upon the strengths of each entity.

The private sector must be results-oriented, meaning in this context that jobs must be created by bringing in new business. The public sector too often relies upon words, in part because it fears the reaction of voting and vote-financing blocks when concrete action is taken. However, the private sector needs the public—both the elected and administrative—for supportive action, as well as public relations. A melding of the two sectors can work, as will be detailed. For instance, we will note that full-time private employment within such RDC's provides the private-sector "oomph", when under the watchful eyes of a Board of Directors containing important local political and business figures.

The concept of "competitive advantage" (Porter 1990) has drawn much interest in the social and business sciences. While Porter speaks of nations, the concept appears applicable in a regional setting. First, regions are now competing against one another for business and employment. Second, Porter allows for literally any human or material element to provide an advantage (or, implicitly, a disadvantage). He notes that "Differences in national economic structures, values, cultures, institutions, and histories contribute profoundly to competitive success" (p. 19). Elsewhere he includes geography, climate, and elaborations upon the traditional economic factors of land-labor-capital, among other considerations.

With this mind-set, we will note what comparative advantages in our estimation are possessed by the counties of San Bernardino and Riverside. Foremost must be plentiful amounts of inexpensive land IN CLOSE PROXIMITY to Los Angeles and Orange Counties. This land provides for the housing tracts, shopping centers, distribution sites, truck parks, and the recreational mountains and deserts. In time

it may generate back-office support facilities. It already has provided for low-tech fabrication, e.g., container manufacturing and bottling.

A second comparative advantage for firms which wish to locate or relocate in the greater Los Angeles' area, is the plentiful labor supply of the two inland counties. In saying this, we assume employer-acceptable skills, attitudes and compensation rates.

For the United States, interregional contests for additional employment always include consideration of land and labor costs, where for each traditional factor the following are implicitly and/or explicitly examined: attributes/characteristics, quantity, quality, compensation. We will review a number of these in the delivered paper.

The closure of the George and Norton Airbases in San Bernardino County offers further opportunities in this close proximity/cheap land/plentiful labor situation. The public and business leadership around each desire business parks, chiefly for service providers and low-tech fabricators. George—out in the High Desert—seems best cut out for a Federal prison, while Norton—within the boundaries of the county seat, the City of San Bernardino—seeks firms who depend upon a runway and control tower. More will be known by July.

The other "competitive advantage" available to these counties, and their IEEP, is one available to ALL competing regions: neighborly cooperative action. For the sake of brevity, we will term it "NCA". The introduction of NCA into Regional Development Agencies seems to explain in part why Riverside County was more successful than San Bernardino in attracting new business. NCA seems highly relevant in explaining why the New Mexican city of Rio Grande has just attracted a \$1 billion investment from the very high-tech Intel Corp. It is useful in examining the regional economic growth of the Rocky Mountain States of Utah, Colorado, Idaho, Montana and Wyoming. NCA also is appropriate in noting the failure of the State of California, and local jurisdictions such as the City and County of Los Angeles, in mitigating massive business-flight and job-loss. As indicated earlier, the response of political organizations—as opposed to public-private partnerships, operated as private businesses—seems normally to fail.

Thusfar we have examined the benefits of a public/private structure for a Regional Development Agency. Under the rubric of competitive advantage we have spoken of location, land, labor and NCA—neighborly cooperative action. Haider (1992) in an article which summarizes much of what is contained in the forthcoming PLACE WARS, co-authored with Philip Kotler, addresses matters of image and what I would term "value-adding". These issues will be addressed also.

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CONSUMER SENTIMENT TOWARD MARKETING IN
AUSTRIA AND SOME EXPLORATORY CROSS-
NATIONAL COMPARISONS

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Abstract

The paper gives empirical evidence that a widely used scale of consumer sentiment toward marketing could be transferred in another national context without losing its reliability and validity. Based on reactance theory first exploratory cross-national comparisons are made between the USA and Austria as well as Hong Kong and Australia.

Conceptual Framework and Goals

The measurement of general consumer attitudes and sentiment has been of interest to academic and commercial researchers for many years. Gaski & Etzel (1986) developed and validated an index of general consumer sentiment toward marketing practice in the USA. The intention of their study was to provide a measurement instrument which permits monitoring of the basic public perception of and satisfaction with the marketing establishment in a country.

From an international marketing perspective, the instrument seems also suitable for the measurement of consumer sentiment towards marketing in different countries. Information of such type could be used to assess the marketing environment in certain markets abroad, and thus be used in international marketing decision making like country selection, marketing budgeting and advertising planning.

The cross-national application of the consumer sentiment toward marketing could also contribute to theory development and testing in comparative marketing. For instance, a reactance-theory-approach could be used to analyze cross-national differences in the consumer sentiment. The reactance theory is based on the principle that if a person perceives a threat of limitation to his/her freedom, he/she shows a motivation, so-called reactance, which leads to the person railing against the barrier (Brehm 1966). Using this framework, it could be hypothesized that markets with a more competitive environment and therefore higher marketing intensity lead to negative consumer sentiments toward marketing compared to markets with less marketing intensity.

The goal of this paper is twofold:

1) The Gaski & Etzel-Index should be used in the Austrian context to find out wheth-

er it is transferable and meaningful in another marketing environment that shows a typical low marketing intensity situation.

2) Following the reactance-theory-approach, the Austrian findings should be compared in an exploratory way with data from the USA (Gaski & Etzel 1986), Hong Kong (Wee & Chan 1989) and Australia (Chan, Yau & Chan 1990).

Methodology

The original questionnaire of Gaski & Etzel (1986) was translated into German using a parallel forward/backward translation procedure. This helped to provide an instrument that ensured identical meaning but was nonetheless contextually appropriate to the Austrian environment (functional and conceptual equivalence).

In order to control for sample effects the instrument was administered in two waves in 1988 and 1990. Both times a questionnaire drop-in technique was used. Research assistants distributed questionnaires to people in their circles of acquaintance, and collected them, once they had been completed. Quotas were used to ensure that the samples related to the total population in terms of age, sex and level of education. The sample of the first wave contained 323 persons (response rate 81%) and the second 280 persons (response rate 88%). The size of the samples are large enough and the composition corresponds to the structure of the population so that it is possible to draw reliable conclusions for the Austrian population.

The following measures were taken to establish cross-national comparability (Douglas & Craig 1984):

- test of the viability of the construct
- use of a sophisticated translation procedure
- refined sampling procedure to avoid sampling effects
- coordinated seasonal timing in relation to US study.

The subscales of the instrument were purified according to the item-to-total correlation as in the Gaski & Etzel paper (1986). This procedure guarantees for higher cross-national comparability.

Findings

In a first step, the measurement instrument was revalidated in both samples in the Austrian context. Reliability was determined by internal consistency as well as test-retest reliability. To assess the validity of the Index of Consumer Sentiment toward Marketing criterion validity, confirmatory factor analysis and known-group comparisons were used. The measurement quality of the Austrian version of the index turned out to be on the same high level as in the original study (Gaski & Etzel 1986).

As no opposite indication was identified, it can be assumed that the cross-national comparison with the Austrian data is permitted. Therefore, we compared our findings to results in the USA (Gaski & Etzel 1986), Hong Kong (Wee & Chan 1989) and Australia (Chan, Yau & Chan 1990). Using the reactance theory framework, the countries under investigation were ranked according to the marketing intensity, using per capita advertising expenditures and per capita expenditures for market research as indicators.

The exploratory cross-national comparison showed the following main findings:

1. There is a strong negative correlation between the Index of Consumer Sentiment towards Marketing and the marketing intensity in the markets under investigation. This result supports the underlying reactance-theory based assumption that higher marketing pressure leads to less positive sentiment towards marketing.

2. In contradiction to the basic hypothesis there is a strong positive correlation between the national consumer sentiment towards advertising and the national marketing intensity, i.e. people hold a more positive attitude toward advertising as a part of marketing in countries with higher per capita advertising expenditures. Obviously, the scores in the advertising subscale are influenced by other ideosyncratic national factors.

Conclusions

It was demonstrated that the Index of Consumer Sentiment toward Marketing (Gaski & Etzel 1986) is a measurement instrument which could be transferred into another national context with very different marketing environment without losing its reliability and validity. This guarantees a sound basis for drawing cross-national comparisons.

There are two main implications for marketing practitioners:

1. The index provides additional information for international and export marketing decisions, especially for market selection.

2. The index offers descriptive feedback on public perceptions of marketing and the differences of these perceptions among the marketing instruments. Thus it might be used as a monitoring device on an international scale.

From a theoretical, macromarketing perspective it is viable that the construct of consumer sentiment toward marketing could be used for theory development. Our exploratory cross-national findings indicate that reactance theory might be a useful framework to explain the effects of marketing practices on society across countries.

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MARKETING RESEARCH

**REDUCING QUESTIONNAIRE LENGTH BY INCIDENCE SAMPLING:
BALANCED INCOMPLETE BLOCK DESIGNS VERSUS
RANDOM SAMPLING OF QUESTIONS**

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Abstract

The length of a questionnaire is sometimes a major source of concern for marketing researchers because long questionnaires may affect the rate of response to a survey, prevent the researchers from using a quicker or less costly interview method such as a telephone interview, and generate noisy data due to respondent fatigue and boredom. Incidence sampling, that is, sampling of the questions as well as the respondents, has been suggested as a way of dealing with these potential problems. The researcher simply partitions the original questionnaire by selecting samples of a set of questions and then administers each partition to a sample of respondents.

Various incidence sampling plans are possible for the selection of the questions depending on the number of partitions of the questionnaire, number of questions per partition, and whether the sampling plan is with replacement. Balanced incomplete block (BIB) designs have been suggested in the literature as a sampling plan because these designs ensure that each pair of questions is sampled an equal number of times, and therefore, the covariance of every pair of questions (variables) can be estimated. Potentially, all plans of sampling from a finite population with replacement can be considered as long as the plan selects each pair of questions a sufficient number of times to permit the estimation of the related covariances.

Despite the theoretical appeal of the BIB designs, there are reasons to consider random sampling of questions as a rival sampling plan. Given v questions k of which can be included in a partition, an important disadvantage of incomplete block designs is that sampling plans are possible only for certain combinations of k and v because of combinatorial

constraints. However, the random incidence sampling plans are very flexible in this regard. For example, in a computer assisted telephone interview, various combinations of v and k are possible.

This study proposes the EM algorithm as an estimation method for some practically relevant incidence sampling problems, and compares, by simulation, the effects of random sampling of questions versus sampling plans based on balanced incomplete block designs.

The Monte Carlo experiment to be reported involves a $(2 \times 3 \times 2 \times 3 \times 4 \times 2)$ full factorial design with six experimental factors and five replications per cell. The first three factors and their levels are the sampling plan for question selection (BIB versus random sampling), the number of questions per partition, k , (10, 6, 4), and (k/v) , the relative length of each partition (0.50, 0.55, 0.60-0.67). The fourth experimental factor which will manipulate the strength of the covariance structure has three levels: multiple factors, two factors, and no factor pattern. The last two factors of the simulation manipulates the absolute and relative sample sizes of incidence and respondent sampling. The sample size for the traditional respondent sampling will be either 120 or 240 to examine the small sample behaviour of the estimators. The last factor regarding the relative size of the incidence sample is included in the experiment to examine how the estimators are affected as the sample size for the incidence sample is reduced in comparison to the respondent sample.

The dependent variable of the experiment is based on the root mean square deviation of the estimates from the corresponding, known population parameters. Analysis of variance (ANOVA) results of the accumulated statistics will be discussed.

PURCHASING MANAGEMENT

NEGOTIATION STYLES AMONG AMERICAN PURCHASING MANAGERS: AN EMPIRICAL STUDY

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Abstract

This study explored the negotiation styles among American purchasing managers to determine the most dominant one. Further, the study examined relationships between purchasing manager's negotiation styles and selected personal and organizational characteristics that affect negotiation process. The results of study revealed that the collaborative style is the most dominant one. It was also found that there are significant relationships between purchasing managers' negotiation styles and certain personal and organizational characteristics.

Introduction

In the context of a business relationship, negotiation is the process of reviewing, planning, and analyzing used by two parties to reach acceptable agreements or compromises (Rubin and Carter, 1990). An example of the most common style of negotiation experienced by purchasing personnel is the contract negotiation. Requirements of contract negotiation are the art of reaching at a common understanding through bargaining on the essentials of a contract, such as delivery, specifications, prices, terms, and so on (Bloom, 1966). Apparently, such negotiation is an important component of the purchasing function. In this type of contract negotiation, traditional wisdom has recommended that the buyer and supplier assume the posture of adversaries, or quasi-adversaries, when dealing with the exchange of sensitive or confidential information, such as cost data. Like all adversarial relationships, such a posture mandates secrecy. Such thinking permeated the negotiation process of the 1970's. Negotiations was performed on a win-lose basis and was viewed by both parties as a battleground. (Rubin and Carter, 1990)

In recent years, relationships between businesses have been changing from a traditional adversarial relationships to more cooperative ones (Adkins and Diller, 1983); Beck and Long, 1985; Dwyer, Schurr and Oh, 1987). This new stance is viewed by some as that of partnership. In this stance, two firms position themselves as partners. The growing competitive pressure placed on the American domestic manufacturers by foreign competitors (e.g. the Japanese) has led to much of the impetus for this evolution (Bartholomew, 1984). Buyers have realized that apart from a joint interest in averting losses is an optional possibility of mutual benefit (Fisher and Ury, 1981). The picture of being losers and winners, for the sellers and the buyers has been modified. A mutual definition of a situation can serve as a rationale for a buyer and supplier to modify their positions, and eventually to accept an agreement that maximizes joint benefit, rather than maximizing either party's individual benefit (Lewicki and Litterer, 1985).

Such change in buyers-sellers relationships has been in the works for several years. As early as 1983, Dun's Business Month recognized that a quiet or silent revolution in the aforementioned relationships was taking place in the American industry (Adkins and Diller, 1983). Across a broad spectrum, buying firms, companies, or corporations, seem to be discarding their traditional adversarial negotiations with their selling counterparts in favor of relationships built on mutual benefits (Flanagan, 1986).

The question as to which viewpoint of industrial market negotiation is valid is important to industrial salesforce managers for a number of reasons. The cost of industrial sales coverage is high and getting higher. Working with a buyer who is collaborative is a very different task than dealing with a trade partner who can be expected to be exploitive. The two negotiation settings require different approaches to the selection, training, and compensation of salespersons (Dion and Banting, 1988).

Due to the increase in cooperative types of buyer-seller relationships, the collaborative negotiation style is expected to be the predominant one among purchasing managers today.

Background

Partnership

Most reported buyers-sellers relationships can be characterized in one of two ways. One way is that concessions are being made by sellers to accommodate buyer's needs, especially with regard to the scheduling of delivery. Another way is that the assistance provided by the purchasers to the sellers for the purpose of improving quality, cost, or speed of delivery of the goods or services in question. In such situations, the bulk of cost reductions attributable to the partnership arrangement ultimately pass through to the buyers. In some cases, the sellers benefit by applying the same changes to transactions with other buyers. In other cases, the major benefits to the sellers are simply the retention of the customers' business (Reich, 1987).

The traditional buyer-seller relationships have been characterized by short-term contracts (Spekman, 1988). Firms are shifting now from traditional competitive style to a collaborative one. The new trend has been viewed as a broadening of the buyer-seller relationships which have been termed by Dwyer, Schurr, and Oh (1987) as partnering.

The partnership concept rests on the notion that performance can be significantly improved through joint, mutually dependent action. Hays and Maidique (1984)

conducted a study using the value-added partnerships as a competitive strategy by Italian firms. Results of these author's study showed how these firms achieved superior performance by working closely together to manage the flow of goods and services along the entire value chain of an industry. Similarly, the concept of building partnerships between buyers and sellers is an effective strategy in manufacturing firms.

Other researchers noted a distinction between a transactional style of relationship and a partnership style of relationship. The former is an arm's length relationship in which the rules of the game are well specified and the failure on commitments by either party can be resolved through litigation. In contrast, the requirements of a partner-style relationship include: risk taking, the need to view the relationship as a series of exchanges without a definite endpoint, and the need to establish a range of mechanisms to control and execute the operations of the partnership (Reich, 1987). Based on this research efforts, Henderson (1990) developed a model to explore two dimensions of partnership-style relationships. They are partnership in context and into action. Partnership in context is the degree to which the partners believe that the partnership will be sustained. This dimension looks at the key factors that establish the purchasing managers' belief in the longevity, stability, and interdependence of the relationship. This dimension also includes mutual benefits, commitment, and predisposition. Partnership in action is the degree to which the ability of partners to influence policies and decisions that affect the operational performance of the relationship. This dimension looks at the key factors that create the day-to-day working relationships. This dimension also includes shared knowledge, distinctive competency, resources, and organizational linkage. This research model could also be used in building partnerships between buyers and sellers.

Spekman (1988) demonstrated that it has been obvious to many manufacturers that their ability to become world class competition is based to a great degree on their ability to establish high levels of trust and cooperation with their suppliers. Setting up collaborative relationships with a select number of suppliers is not without risk. But those who subscribe to the partnership approach to vendor management argue that the gains far exceed the potential risks. Those who advocate a partnership approach to purchasing warn that companies must select partners wisely and encourage trust and commitment. Blind trust with an arbitrary subset of existing suppliers is not the answer. The buyer must believe in the process and educate his or her suppliers about the mutual benefits of closer ties.

Negotiation Styles

There is a wide consensus that negotiation is an important part of industrial buyer-seller relationships. Most salesforce management texts deal with buyer-seller negotiation. Mitchell and Dickinson (1986) attested to the substantial role of negotiation in both domestic industrial and international markets. Chonko (1982) demonstrated that bargaining ability is an important constituent of purchasing

performance. What is not clear is what kind of negotiation the industrial salesperson can expect to engage in with the buyer.

Some researchers indicated that buyer-seller interactions or negotiations can be modeled along two major dimensions: distributive and integrative interactions (Anglemar and Stern, 1978; Clopton, 1984). Distributive interactions are characterized by competitive behavior directed toward self-gain at the expense of the other party (Walton and McKersie, 1965). Distributive behavior is less conducive to agreement and more likely to cause conflict. Integrative interactions are characterized by cooperative behavior directed toward finding ways to satisfy the objectives of both the buyer and the seller in a bargaining situation (Pruitt, 1981). Integrative behavior has special relevance to buyer behavior because integrative behavior represents a form of cooperation that is more likely to result in goal achievement by both buyers and sellers, and hence, in more enduring buyer-seller relationships (Schurr and Ozanne, 1985). Other researchers described two similar alternative viewpoints. One view is that buyer-seller negotiation is a competitive division of a pie of fixed size. Other terms for this viewpoint are distributive, or zero-sum bargaining. Colpton (1986) suggested that the obligations of buyers and sellers to their respective organizations foster an intransigence which discourages integrative bargaining. Chonko (1982) investigated Machiavellianism as a personality characteristic of purchasing managers. He found that highly Machiavellian people demonstrated higher performance. Since purchasing managers' performance depends to some extent on the ability and willingness to bargain, it seems reasonable to expect that purchasing managers may possess some Machiavellian tendencies. Christle and Geis (1979) who were the major contributors to what is known about Machiavellianism trait, describe highly Machiavellian people as being opportunistic manipulative, resistant to persuasion, and able to profit by avoiding effective involvement with others in social situations (such as negotiation). Implicit in this reasoning is the adoption of a competitive model of industrial market negotiation.

A second point of view is the integrative or, win-win model in which the size of the pie is increased as an outcome of the bargaining process. Arndt (1979) noted the tendency of organizational exchange to be circumscribed by long-term associations, contractual relations, and joint ownership. Dubbing these phenomena "domesticated markets," he argued that within such ongoing relations transactions are planned and administered instead of being conducted on an ad hoc basis. He emphasized the prominence of exchange relationships in industrial and institutional markets, but the notion of relationship management may also apply to consumer markets. Thus, both business marketing and consumer marketing benefit from attention to conditions that foster relational bonds leading to reliable repeat business.

Schurr and Ozane (1985) examined the influences of trust and tough/soft stances on the buyer-seller bargaining styles. The results of this study indicated that buyers' high trust in sellers was associated with the integrative negotiation style. Low trust was associated with the distributive or competitive negotiation style. It was also found that buyer-seller tough bargaining styles have led to fewer agreements, lengthier negotiations, and deadlock. Such tough bargaining styles also created problems when parties failed to discover terms of agreements, believing that no agreements would be a desirable outcome. However, buyer-seller bargaining styles involved some unilateral concessions. This has been viewed as a broadening of the relationships between buyers and sellers, or as some termed it as collaboration. Perdue, Day, and Michaels (1986) used Thomas' (1976) typology of negotiation style. Thomas identified five styles of negotiation behavior: collaborative, competitive, sharing, avoidant, and accommodative style predominated among purchasing managers. They found Collaborative, Competitive, and Sharing are the only prevalent negotiation styles among purchasing managers.

Prompted by Arndt's (1979) and Manceil's (1980) contrasts of discrete and relation exchange, Dwyer, Schurr, and Oh (1987) developed a framework for developing buyer-seller relationships. They shed the lights on a process of ever-expanding interdependency between buyer and seller. Each party's gratifications from the other's role performance and increasing reliance on role expectations secure the parties in a web of interdependencies. Their conclusion was that in ongoing buyer-seller relationships, there is a need for cooperative, collaborative negotiations.

Spekman (1988) revealed that competition from offshore producers, technological innovations, and shortened product life cycles have changed buyer-seller relationships. Traditional relationships no longer suffice; closer and more collaborative approaches are needed. Standard criteria of quality, price, and delivery are necessary, but not sufficient conditions for consideration. The author added that the traditional buyer-seller relationships involve several activities, including a large number of suppliers who are played off against one another, the allocation of purchasing among these suppliers, and the arm's length posture with only "short-term contracts." In ongoing buyer-seller relationships, understanding "long-term contracts" is required. This cannot be achieved now by traditional relationships (competitive), but by collaborative approaches.

Dion and Banting (1988) examined the industrial supplier-buyer negotiations. Their results reported a strong support to the collaborative view of buyer-seller negotiations. Purchasing agents were shown to be neither exploitive nor intransigent by the findings that buyer Machiavellianism was negatively related to successful purchasing performance. The collaborative emphasis in overall performance is demonstrated by the fact that trade dimensions such as long-term relationships and an awareness of the needs of vendors' organization were found to favor openness and honesty when dealing with vendors.

A recent study by Rubin and Carter (1990) indicated that the negotiation process between supplier and customer in the United States is gradually changing from adversarial to cooperative. The potential benefits of collaborative negotiation typically have been developed only in highly specialized or unique operating situations.

Purpose Of This Study

The purpose of this study was to determine the most dominant negotiation style (collaborative, competitive, sharing, avoidant, and accommodative negotiation styles) among American purchasing managers today. Further, the study examined the relationships between purchasing managers' negotiation styles and certain personal and organizational characteristics.

It seems worthwhile to determine the most determinant negotiation style among purchasing managers in the United States. Such determination could decide the kind of relationship between buyers and sellers. This relationship could be traditional or parenting one. It also seems worthwhile to investigate differences in organizational and personal characteristics that affect negotiation styles of the purchasing managers.

Based on the stated purpose and the review of literature, the following research objectives were formulated.

Objective Number One: to determine the collaborative negotiation style which will be the most dominant among American purchasing managers.

Objective Number Two: to determine the competitive negotiation style which will be the second dominant among American purchasing managers.

Objective Number Three: To determine if relationships between purchasing managers' negotiation styles and certain personal characteristics.

Objective Number Four: To determine if there are relationships between purchasing managers' negotiation styles and certain organizational characteristics.

Research Method and Design

Sample And Data Collection

The research sample consisted of 1000 purchasing managers, employed in manufacturing firms, randomly selected from throughout the United States. There were 426 usable questionnaires, utilized in the final analysis, which represent a respondents rate of 44.6%. These managers were mailed a self administered survey package consisted of a cover letter requesting their participation and cooperation, the questionnaire, and the stamped pre-addressed envelope.

The first part of the questionnaire asked respondents to recall their past negotiations with sales representatives and to indicate their level of agreement with each statement in the inventory of the questionnaire. A seven point Likert type scale, with end points labeled "strongly agree" and "strongly disagree" was used for each statement in the questionnaire. The second part of the questionnaire asked for certain personal and organizational information. The personal information included the purchasing manager's certification, (if he/she is certified), education, experience, age, gender, marital status, and 1991 income. Organizational information included organization age, size, 1991 total sales, and growth in 1991 total sales.

Measurement Of Variables

Negotiation styles were measured by a twenty-eight item inventory developed by Rahim(1983). This instrument was used before to survey purchasing managers. Questionnaire items in this survey instrument are valid and reliable. The items were slightly modified to fit the industrial buyer-seller context. The inventory includes five multi-item measures which assess behaviors consistent with Thomas(1976) classification of negotiation styles in buyer-seller relationships. The five negotiation styles are: (1) Collaborative style (seven items) in which the buyer attempts to fully satisfy both his or her own concerns and the concerns of the seller. (2) Competitive style (five items) in which the buyer attempts to fully satisfy his or her concerns at the expense of the concerns of the seller (3) Sharing style (four items) in which the buyer settles for only the partial satisfaction of both parties' concerns. (4) Accommodative style (six items) in which the buyer tries to fully satisfy the concerns of the seller at his own expense. (5) Avoidant style (six items) in which the buyer is indifferent to the concerns of each party.

Statistical Analysis

The statistical package for Social Sciences (SPSS-X) was used to examine the research objectives in accordance with the conceptual frame work as it has been presented in Figure 1. Factor analysis used to identify a relatively small number of factors that can be used to represent relationships among sets of many inter-related variables (Nurussi 1985). In this study, factor analysis proceeded in two steps: First, the correlation matrix for all responses of the responding purchasing managers was computed. Second, factor extraction (initial and final) and rotation were performed (using the principal components analysis and varimax method, respectively) for all responses to the twenty-eight items of the inventory for these responses. Factor analysis was used to determine negotiation styles.

Frequency analysis was used to determine the most prevalent negotiation styles among purchasing managers. Significance levels for the differences in means could not be determined because the samples are not independent. That is, each respondent had a score for each negotiation style.

Regression analysis is an appropriate statistical tool which is widely used by researchers when investigating relationships of a behavioral and or economic nature. It estimates the relationships of independent variables by explaining the variations in the dependent variables. So, analysis of variance was used for each of the negotiation styles scores on the included personal and organizational characteristics. However, possible problems could be multicollinearity, heteroscedasticity, autocorrelation, and the violation of the classical linear model assumption (Johnson, 1986)

To avoid such suspected problems, the following techniques have been utilized. First, the Pearson Correlation Matrix was used to examine the suspected multicollinearity (Pearson, 1989). Second, the graphic method and Spearman Rank Correlation Matrix were used to examine the suspected heteroscedasticity (Parsons, 1984). Third, the Durbin-watson (DW) test was used to test autocorrelation (Green, 1987). Fourth, the graphic method was used to test the linearity of the models, This test was done by plotting the standardized residuals (Neter and Wasserman, 1985). None of these problems was found.

Results

Of the 1000 questionnaires mailed to purchasing managers, 449(44.9%) were returned; 446(44.6%) were usable. The follow up procedure was used three times to increase the response rate.

Table 1 presents five of seven factors generated by factor analysis utilized in this study. The significant five factors retained in Table 1 explain 89.4 of the variance. The factor loadings were at least .40 for each of the twenty-eight items in the inventory and all were included in the analysis. Chronbach's alpha was .84 for the scale of the negotiation styles. The significant factor loadings for the Twenty-eight items appear under each of the Collaborative, Competitive, Sharing, Avoidant, and Accommodative negotiation styles, respectively. Table 1 reveal that these are the practiced negotiation styles, by American purchasing Managers.

Table 2 shows that the Collaborative negotiation style is the most dominant, as it was indicated, among the surveyed purchasing managers today. Over 70% of the sample (313 respondents) claimed the use of this negotiation style more than the other styles. That is, the collaborative negotiation style was the most identified by the respondents. The table also showed that the competitive negotiation style is the second among purchasing managers today. About 17% (75 respondent) claimed the use of this negotiation style.

The results of Table 3 indicated that there are significant relationships between purchasing managers' negotiation styles, and some personal and organizational characteristics. Those who exhibited most of a collaborative negotiation style were : certified managers, with a college degree, with a long experience, married males and females.

A competitive negotiation style was more evident among those respondents who were uncertified purchasing managers, without a college degree and with a short experience (less than 10 years), who earned more than \$50,000.00 in 1991, those who were married and single, and those who were working into young and small firms (less than 10 years old and less than 500 employees), whose total sales were less than \$150 million and of less than 10% growth in 1991 total sales.

Similar significant relationships were also found between purchasing managers' other negotiation styles (Sharing, Avoiding, and Accommodative) some personal and organizational characteristics.

Discussion and Implications

It appeared that the collaborative negotiation style is the most dominant in this study, as we suggested. Although purchasing managers exhibited a very collaborative negotiation style today, there are some purchasing managers who emphasized the competitive negotiation style. A possible explanation is that although partnership and cooperations are recognized as substantial for buyer-seller relationships, purchasing managers may have not overcome the traditional attitude which one cannot be open with suppliers. Therefore, purchasing manager the use of the traditional negotiation style. This implies that purchasing managers still may use other negotiation styles beside the collaborative. This also implies that purchasing managers use different negotiation styles in different situation. As per due, Day, and Michaels (1986) suggested, this is similar to Weitz's (1981) adaptive behaviors which has been identified among salesmen.

The significant relationships between purchasing manager's collaborative style and some personal characteristics reveal that certified manager require training and course work. This implies that those who have completed the classes have learned a more cooperative style of negotiation. Those who attained more education, experience and stable marriage were more cooperative with salesforce. Organization age also provided experience and maturity to purchasing managers to be cooperative. This implies is whether the purchasing manager is certified or not make difference in terms of cooperation. This also applies on education and experience.

Similarly, the noncertified managers with less experience, education, income in 1991 tend to use the competitive negotiation style, young and single purchasing managers also tend to use the competitive negotiation style. Finally, those who work for old and big organizations of large total sale for 1991 and of high growth in 1991 total sale. This implies that there are purchasing managers who use the competitive negotiation style despite the current trend of partnership between buyers and sellers.

The other use of other negotiation styles such as Sharing, Avoidant, and Accommodative by fear purchasing managers implies that there certain situations require the use of such negotiation styles.

Conclusions

Three major conclusion might be drawn from the results of this study. First, the collaborative negotiation styles does predominate among purchasing managers today. However, other negotiation styles are being used by many purchasing managers based on different situations. Second, the negotiation process between buyers and suppliers in the United States is gradually changing from the traditional competitive style to the collaborative due to more partnering types of agreements. Third, it is evident that there are significant relationships between purchasing managers' negotiation styles and certain personal and organizational characteristics. So, firms have to identify the characteristics that affect purchasing managers' ability to negotiate with buyer into a cooperative style.

Tables and References available upon request.

PUBLIC POLICY AND MARKETING

THE MARKETING ROLES OF THE GOVERNMENT AND THE FIRM IN
THE DEVELOPMENT OF A HIGH-TECHNOLOGY INDUSTRY IN TAIWAN

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Abstract

The stagnant global economy during the 1970s made it difficult for Taiwanese firms to experience growth. Following a similar approach used by Japan, in 1979, the Taiwan government selected the information industry as a "strategic" industry to undertake a structural change in its economy. By 1991, the total output of the information industry reached \$6.9 billion. This achievement would not have happened without extensive marketing efforts from the government and the private sector.

Introduction

Modern economic progress is usually accompanied both by profound structural change and by growth acceleration (Paauw & Fei 1973, p.8-11). As a resource-poor, export-oriented economy, Taiwan underwent a successful transition in the postwar period from an agricultural to an industrial economy. By 1992, Taiwan reached a per capita GNP of \$10,215 and possessed a foreign exchange reserve of more than \$82 billion. This achievement could not have taken place without successful structural changes, which, in turn, would not have happened without extensive marketing efforts from the government and the private sector.

During the economic stagnation of the 1970s, many policy economists felt that structural changes were needed to stimulate economic growth. It was also widely acknowledged that government intervention could help overcome obstacles to such growth. Industrial policies were proposed to increase economic potential, develop technology, foster industrial development, and improve factor mobility and structural adaptations (Adams & Klein 1983, p.3). Many countries focused on high-technology industries, e.g., the Japanese concentrated on computers, while the French developed the Concorde and Airbus projects. In each case, policy-makers chose which so-called "strategic industries" to target, and their developed strategies to reach desired goals.

Taiwan undertook a similar approach by selecting the technology-intensive information industry as a "strategic industry" in 1979. The information industry is defined as a combination of computer, communications, and information processing industries, and includes computer utilization in both government and private sectors. By 1989--within a decade--the total output of Taiwan's information hardware products reached \$5.5 billion (about 3.0% of world market share), ranking it as the sixth largest computer hardware-producing country in the world. In 1991, the total output reached \$6.9 billion. This achievement was due to Taiwan's institutional structure and government support, which encourage local entrepreneurs (small- and medium-sized firms) to seek foreign market niches. In this paper, the author addresses both government and private marketing effort to aid in the development of the information industry.

Government Efforts in Promoting
the Information Industry

The government's efforts in providing institutional structure and support have centered on both marketing planning and marketing research, as well as the product and the promotion elements of marketing mix. To foster growth in the information industry and promote export business, the government has established several institutions and undertaken major programs for promoting computer-related technology, and improving human resource development, technology capability, and a favorable investment environment. To motivate more entrepreneurs to participate in the development of the information industry, the government has continued sponsoring the large-scale exhibition of information products and services since 1980. To promote the development of the information industry, a solid technological base was needed, e.g., mini/micro computer systems and peripherals, to enhance local firms' manufacturing capability and product quality and reliability. In addition, although Taiwan had a sufficient, high-quality, yet cheap potential labor force to achieve its goals, further training and development programs were necessary to increase scientific and technical human resources. And finally, a favorable financing and tax environment was necessary to encourage, induce, and assist industrial development.

Marketing Role and Technology Enhancement
Efforts of Government Agencies

There are seventeen government agencies and research facilities available for promoting the development of the information industry. Among them, two of the most important institutions are the Institute for Information Industry (III) and the Electronics Research and Service Organization (ERSO) of the Industrial Technology Research Institute (ITRI). III's main objective is to help the government to formulate short-term and long-term development plans for the information industry, while ERSO's mission is to enhance the technological capability of the industry. III, on the one hand, conducts marketing functions such as marketing research and marketing planning. ERSO, on the other hand, handles R&D and technology transfer. In addition, III promotes the development of the industry and supports the growth of related industries in the private sector, while ERSO provides the firms with desired technical services.

The market intelligence Center (MIC) of III has played a very important role in conducting marketing research on a broad basis, and has consistently provided local firms with global market information and the global trend of product development. MIC frequently has held various seminars to discuss market- and product-specific issues with local firms, and to disseminate marketing and strategic planning concepts to the industry. In addition to its planning and marketing roles, III also helps local firms to upgrade their manufacturing and design capabilities, helps government agencies and state-owned enterprises to set up computer application systems, and assists the government in the training of information technology human resources.

ERSO has been established for the purpose of enhancing the development of computer systems, VLSI (very large scale integrated circuit), automation, and electronic communication technology. ERSO performs two major functions to promote the technological advancement of the information industry: developing generic technologies and transferring them to industry for commercialization, and providing technical services for the industry. ERSO has concentrated on the development of semiconductors, computers and communications products, industrial automation, and reliability and thin film devices. By 1989, ERSO had successfully developed many products, such as the 1.25 micron CMOS (complementary metal oxide semiconductor). CMOS is an advanced device with improved technology which took over bipolar processes to produce memory chips, such as RAMs, ROMs, etc. A current product of the ERSO is the ERIX System V 3.2/386 (called as ERSO UNIX) for PS/2 and AT/386 micro-computers. It is a multiuser/multitasking operating system based on the UNIX System V 3.2/386 operating system, but with compatibility of access to the XENIX V operating system. All of these products eventually were transferred to the industry for commercialization. Furthermore, ERSO also offers a broad range of services and opportunities for collaborating with the government, industry, universities and the public. These efforts, plus consultation with industry, foster the widest possible diffusion of technologies and cater to the specific needs of the information industry.

Technology Acquisition

Taiwan utilized two approaches to improve its product development capability: conducting its own R&D (as illustrated previously), and acquiring foreign technology. To ensure a systematic and orderly transfer of technology, the government undertook the following actions (III 1990, p.3):

- 1) Strengthening the R&D of computer systems, communications products, management information systems, computer-aided design, and manufacturing (CAD/CAM) projects, and promoting their application.
- 2) Fostering a favorable development environment for the information industry by facilitating coordination among manufacturers and educational/research institutions.
- 3) Arranging budgets for R&D of information products and offering subsidies, loans and/or technical cooperation to encourage manufacturers to strengthen R&D projects.
- 4) Emphasizing R&D of information technologies and market development trends; encouraging local producers to acquire advanced technologies from foreign counterparts.

The Science-based Industrial Park Administration (SIPA) has played a very important role in acquiring information technology. In 1979, the Hsinchu Science-based Industrial Park ("Science Park") was established. Managed by SIPA, its purpose was to encourage investment in knowledge-intensive industries. With incentives to reduce financial and operational risks, Science Park attracted much overseas Chinese investment and acquired a number of important technologies.

Human Resource Development

The "Ten-Year Plan" included a call for 56,000 skilled workers and long-term goals regarding human resource development in the information industry. To meet these projections, the government instituted a nationwide computer education system, with intensive courses and improved educational facilities, and set up centers to expedite on-the-job training of skilled manpower. By 1988, the number of job candidates trained through higher education reached 19,071, up significantly from 1,044 in 1980 (see Table 1). Those who completed intensive courses in higher education or private organizations totalled 150,104 in 1988. However, the supply of manpower fell short because of the information industry's rapid growth. Consequently, many Chinese residents overseas and Chinese graduates from developed countries returned to Taiwan to participate in the industry's development. This inflow of foreign-trained Chinese skilled labor is expected to continue in the 1990s. According to the III (CEPD 1990, p.7), by 2000, manpower needed for the industry will reach 410,000. To meet this projection, the government has launched programs to encourage the establishment of more private training organizations.

Incentive Programs

The establishment of Science Park was intended to enhance profitability and reduce investment risk in four ways: tax exemption, tax ceiling, tax credit for stockholders, and reduction of land rent (Wu 1985, p.41-42). A 5-year income tax holiday was offered to firms based in Science Park, with investors allowed to select any of the first five years as the initial year. Approved Science Park firms would also be exempt from business and commodity taxes, and from import tariffs—completely, if goods were produced for export, or partly, if goods were for domestic markets. In addition, the government declared a 22% income tax ceiling on Science Park firms, versus a 25% maximum rate for other firms. If a Science Park firm reinvested its undistributed earnings, the amount could be credited against the stockholder's consolidated income. SIPA could also reduce, or completely waive, the land rent of a Science Park firm if its technology was especially desirable.

To help potential investors start businesses in Science Park, the government offered original capital without encroaching on private control. At an investor's request, the National Science Council, the government agency overseeing SIPA, together with two government-designated financial institutions, could invest up to 49% of the capital of a Park enterprise. Patents and know-how could count for as much as 25% of total equity. Therefore, the potential investor could establish an enterprise in Science Park with no more than 26% of the total investment. Additionally, low-cost loans were available.

In September 1983, the Ministry of Economic Affairs announced incentive measures intended to encourage the private sector to develop products and improve the industrial structure and competitiveness of Taiwan-made technology in the global market. By the end of June 1989, the government approved 22 cases, with the information industry accounting for 17 at a total of \$17.4 million. Venture capital was established to support new projects in high-tech investments. By June 1989, the Ministry of Finance approved eleven companies, whose total capital reached \$150 million. Capital invested in the information industry was \$46.5 million, representing 86% of the total investment of \$54 million (III 1989, p.45,56).

Industry Response to the Government's Support

As discussed in the previous section, the government has instituted various organizations and launched several incentive programs to promote the information industry. The key question is to what extent have such government's marketing efforts helped these firms? To examine the effects, from February to June 1989, the author interviewed business executives from 54 firms randomly selected by stratified sampling from the top 124 firms in Taiwan's information industry. Selected firms represented 43.5% of 124 local manufacturers of PC systems (19), devices (12), and parts/components (23) with capital higher than NT\$ 5 million (New Taiwan dollars) as of December 1988. The results reflect business executives' viewpoints on the government's role in helping firms acquire technologies, increase R&D investment, ease tax burdens, and recruit skilled technicians.

As shown in Table 2, the government efforts have affected the development of the information industry to some degree. In general, most executives expressed a "neutral" opinion on government roles. Forty-seven percent thought the government could not help them select and acquire necessary technologies, with 20% responding affirmatively. This seems reasonable, as firms need different technologies to improve their competitive

TABLE 1
COMPUTER-RELATED HUMAN RESOURCES THROUGH HIGHER EDUCATIONAL TRAINING

		Ph.D's	Masters	Undergrad.	Professional	Sub-total
1980	Institutions	1	3	12	n.a.	16
	Students	4	60	980	n.a.	1,044
1988	Institutions	16	28	52	134	230
	Students	73	783	4,647	13,568	19,071

Source: The Institute for Information Industry

TABLE 2
INDUSTRY RESPONSE TO GOVERNMENT SUPPORT POLICIES

Government Support	Totally Disagree	Disagree	Neutral	Agree	Totally Agree	%
Technology Acquisition /Transfer	10 (19%)	15 (28%)	18 (33%)	5 (9%)	6 (11%)	100%
R&D Financing	12 (22%)	13 (24%)	17 (31%)	9 (17%)	3 (6%)	100%
Taxation Measures	8 (15%)	12 (22%)	29 (54%)	4 (7%)	1 (2%)	100%
Human Resource Training	8 (15%)	6 (11%)	18 (33%)	17 (32%)	5 (9%)	100%

Source: Survey of This Study

TABLE 3
STRATEGIC GROUPS OF TAIWANESE FIRMS AND THEIR FOCUSES

Strategy Components	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Innovation Synergy		X				
Marketing Approach			X			
Global Channels	X			X		
Regional Focus		X				
Advertising					X	
Pricing	X				X	X
Quality	X				X	
Capital Investment	X		X		X	
# of Firms	5	27	13	5	2	2

Source: Adapted from Chang & Grub (1993)

advantage. The government should focus on areas which are capital-intensive or on relatively basic technologies. Regarding government's role in providing R&D financing, 44% evaluated it negatively, while 23% supported government assistance. An interview with then-director of the Industrial Development Bureau, Mr. Chii-ming Yiin, provided an explanation: many business owners and executives didn't know what incentive programs were available. Consequently, the government had to promote the policies and programs through various channels. As to the taxation measures, 37% responded negatively and 9% affirmatively. It is interesting that 54% expressed a "neutral" viewpoint on this matter, which indicates that those firms must have enjoyed some tax benefits. Human resource training was the only area in which many firms (41%) positively recognized government efforts in enhancing both the quality and the quantity of skilled manpower.

Competitive Edge of Taiwanese Information Technology (IT) Firms

With only government support, Taiwan could not have developed its information industry so well. In promoting such industry, Taiwanese firms have continuously improved their marketing and management competencies, and have tended to emphasize three manageable factors--technology level, financial strength, and marketing mix--to enhance their competitive edge (Chang 1992). Improved competence in these areas then led to the development of adaptive marketing strategies for better penetration in their target markets.

In general, to compete better internationally, Taiwanese computer and telecommunications firms consider technology and marketing mix more important than financial strength. They highly value three proxy variables--new product development, product improvement, and product quality--of the firm's technology level as important factors in adapting to changes in the business environment. New product development is particularly important, as it is the key to generating latent demand for a new product offered at an acceptable price.

The winning strategy of small firms is to perform as market nichers, operating in specialized markets unlikely to attract larger firms. To find a market niche, a firm must develop a relevant marketing mix. The author found that customer service, product line width, brand name, distribution channels, and advertising are perceived as important marketing factors by Taiwanese firms in the competitive global computer and telecommunications industry. They especially consider customer service (e.g., technical assistance, resolving complaints, product variety, spatial convenience, and service backup through distribution channels) more important than other marketing factors.

Capital investment and debt/equity ratio are two major concerns of these firms. To support international expansion activities, they must have either sufficient capital or access to capital. In general, Taiwanese firms consider capital investment fairly crucial to improving competitiveness. However, more capital investment results from a higher level of financial resources. Since not all firms have sufficient capital to expand internationally, firms that want to enhance their adaptive ability tend to consider a higher debt/equity ratio. Consequently, the international expansion of such firms stems from the enhancement of their technology and marketing capabilities which, in turn, have been driven by dynamic changes in the world market.

Competitive Marketing Strategy of Taiwanese IT Firms

The technology convergence trend of the global information industry has led to such characteristics as product

standardization, intensive competition, short product life cycle, and global business operations (Kuwahara 1985, Chang 1990). Since the business opportunities for Taiwanese firms lie in the world market, these characteristics have "pulled" such firms to greater international involvement. According to the author's survey on 54 leading firms in Taiwan's information industry (Chang & Grub 1993), a majority of Taiwanese information technology firms (strategic group #2) primarily stress two strategies to conduct international business expansion: regional focus and innovation synergy. The second largest strategic group #3, however, focuses on marketing approach and capital investment (see Table 3).

These firms' international expansion stems from the enhancement of their technology and marketing capabilities which, in turn, have been driven by dynamic changes in the world market. The trend toward product standardization in the global information industry has intensified the competition. In every market segment (in terms of price levels), the leaders can obtain great success through innovation. The followers, however, have to compete by implementing well-designed marketing programs. Regional focus, therefore, plays a critical role in the marketing of mature products in the global market-place.

Stimulated by the intensive competition in the global marketplace, major Taiwanese information technology firms such as Acer, Mitac, and Microtek have emphasized innovation. By stressing product innovation, they have emerged either as leaders or as early followers in the supply of new computer products, and have grown quickly in terms of their international sales.

Instead of focusing on the United States--the largest market in the world--another group of firms including Copam and Aquarius started their international marketing activities in relatively small European country markets, such as Sweden and Spain, to avoid confrontation with strong competition. Because there was less external competition, these firms have been able to obtain a strong market share in these countries. Their success has become the basis for them to penetrate other markets in Europe. Moreover, Aquarius has established joint venture PC assembly plants in both Germany and the Soviet Union because of the increases in regional demand.

The momentum that Taiwanese firms have generated in the global marketplace can be explained as follows: First, they tended to focus on a specific regional market, such as small EC member states, Scandinavia, or Southeast Asia, for starting their international expansion. Second, they utilized innovation synergy as the business strategy to enhance their competitiveness. The research findings indicate that 27 (50%) firms have stressed both innovation synergy and regional focus as key components of such strategy. This situation has resulted in intensified competition among these firms which, in turn, has forced them to develop competence in manufacturing, R&D, and marketing. As a consequence, the manufacturing competence has induced more OEM business and reinforced their manufacturing capability. The R&D and marketing competencies, on the other hand, have enabled Taiwanese firms to sell their products in the global marketplace.

Conclusion

The overall export performance of Taiwanese IT firms has improved in recent years. This may have resulted from dynamic changes in the global information industry which provided opportunities for Taiwanese firms. From the cases illustrated above, it is appropriate to say that Taiwanese entrepreneurship has contributed greatly to the development and internationalization of this industry. However, government support--as a "push" factor--should not be ignored. To some extent, the Taiwan government's

encouragement of export and its efforts to conduct global marketing research, to disseminate marketing and strategic planning concepts, and to improve human resource training and development, technology enhancement, and the investment environment have contributed to the inter-nationalization of Taiwanese IT firms.

In order to facilitate the structure change in Taiwan's economy, the Taiwan government imposed a "Ten-year Development Plan," and implemented a set of programs to assist in the development of the "strategic" information industry. The government focused on marketing role, technology acquisition, human resource development, and a favorable investment environment. To ensure a systematic and orderly transfer of appropriate information technology, the Taiwan government acted to encourage firms to conduct R&D and to acquire technologies from foreign sources. Several quasi-governmental institutions (e.g., ERSO) helped develop new products or technologies, which were in turn transferred to the private sector for commercialization. To develop human resources, the government instituted a nationwide computer education system, with intensive courses and improved educational facilities. Information technology training centers were set up to increase skilled manpower. To create a favorable investment environment, the government developed a list of strategic products, and offered tax and financing incentives to encourage domestic firms to produce those products and acquire technology needed for such production.

The integrated world economy and the competition-intensified global marketplace present Taiwanese IT firms with a great opportunity, but they also pose a vast set of problems related to planning and decision-making, as well as organizational and functional issues. Without adequate knowledge of marketing practices, the road to internationalization can be rocky. Small firms can reshape their business practices to penetrate foreign markets effectively (Korth 1991). In fact, many small Taiwanese IT firms with entrepreneurial skill have overcome entry barriers by the use of regional focus and innovation synergy strategies. With a regional focus, a firm can quickly accumulate knowledge about local markets. The emphasis on innovation synergy can allow a small firm to enhance its distinctive competence in the areas of R&D, manufacturing, and marketing.

In summary, the government's marketing role centered first on conducting research and planning which provide Taiwanese IT firms with up-to-date marketing information about the demand projection and about the competition and the product development trends of the global market; and second, on developing a good business environment which improves the technology transfer process, strengthens human resource development, and provides favorable incentives to encourage the participation of Taiwanese entrepreneurs. Taiwanese IT firms' marketing role centered on developing their competitive edge in the areas of technology, marketing and finance, and on formulating competitive marketing strategies with a unique focus. Such firms' marketing efforts combined with the government's marketing support led to the successful development of a high-technology industry in Taiwan.

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